Asset Management Partners

Investment Outlook for the second quarter of 2011

• Global macroeconomic outlook

The final weeks of the first quarter of 2011 brought a particular, three-pronged challenge to our view that the economic recovery is on track: the earthquake in Japan and its human and nuclear toll, the unstable situation in the Middle East, and the debt issue in Europe, resulting in a temporary increase in volatility in the financial markets.

In the USA, the economic situation is steadily improving thanks to rising industrial production and improving consumer sentiment. However, household deleveraging is still ongoing and unemployment remains persistently high (the unemployment rate stands at 8.9%). The emerging markets are continuing to grow much faster than the developed world. Rising rates of inflation currently pose the greatest challenge for these regions. With the ratification of the EU Reform Treaty at the end of March, an important step has been taken to resolve the debt crisis in Europe.

World GDP is expected to grow by 4.2% in 2011 (2010: 4.8%); the emerging markets should contribute 6.4% (2010: 7.5%) to global growth, while the developed economies are projected to expand by 2.4% (2010: 2.7%).

• Traditional investments

- Currencies Anticipated trading range for USD/CHF: 0.92 – 0.98 and for EUR/CHF: 1.26 – 1.31.

- Bonds We continue to prefer corporate bonds to government bonds with maturities of max. 2 to 3 years, complementing them with convertible and emerging market bonds denominated in local currencies.

- Equities Historically attractive valuations and continuing earnings momentum; the growing (primarily geopolitical) risks make markets more prone to temporary price setbacks.

• Listed alternative investments

- Private equity As continuing to trade at historically large discounts to net asset value (NAV), the positive price trend is likely to continue.

- Infrastructure Investment arguments in the current environment include an attractive risk-return profile, dividend yields and inflation-linked tariffs in various sectors.

- Commodities With the cyclical upswing still intact and rising rates of inflation, key conditions for a positive price development in the first half of 2011 are given.

- Real estate With interest rates rising, caution is in order; the situation varies widely between regions.

Market data

GDP Growth %	Country	2010E	2011E	2012E
Industrialized Countries	USA	2.8	3.0	3.5
	JPN	3.9	1.5	2.2
	EMU	1.7	1.8	1.9
	UK	1.3	1.7	2.2
	Switzerland	2.6	2.2	2.2
Emerging countries	China	10.3	9.3	9.0
	India	8.7	8.2	8.6
	Brazil	7.5	4.1	4.5

Exchange rates	31.03.11	% -1 M	% -6 M	% YTD
USD/CHF	0.9192	-1.00	-5.94	-1.74
EUR/CHF	1.30118	1.47	-2.87	4.04
GBP/CHF	1.473	-2.46	-4.29	0.91

3 month Libor	31.03.11	-1 M Bp	-6 M Bp	YTD Bp
CHF	0.18	1.0	0.2	1.0
USD	0.30	-0.7	0.1	0.0
EUR	1.18	13.3	33.3	24.1

Government (10y)	31.03.11	-1 M Bp	-6 M Bp	YTD Bp
CHF	1.92	5.1	52.3	20.5
USD	3.47	4.3	96.1	17.7
EUR	3.35	18.3	107.9	39.2

Stock market	31.03.11	% -1 M	% -6 M	% YTD
SMI	6357.55	-2.59	1.17	-1.22
S&P 500	1325.83	1.49	15.67	5.42
Nikkei	9755.1	-8.18	4.12	-4.63
FTSE-100	5908.76	-1.42	5.65	0.15
DJ EURO-STOXX 50	2910.91	-3.39	6.51	4.23

Commodities	31.03.11	% -1 M	% -6 M	% YTD
Gold oz/USD	1432.3	1.47	9.47	0.81
Oil (WTI)	106.72	15.76	33.45	16.79
Copper (Spot)	9413.25	-4.72	17.58	-2.45
Nickel (Spot)	26075	-9.55	11.40	5.53

Quellen: Bloomberg M.St, GS, UBS, DB, Barclays, BofAML, JPM, 03/2011

Editorial

The New Year started promisingly, but then in the middle of March several unexpected events impacted the financial markets hard. The recent bull market came under heavy pressure for a while. There were also concerns about the robustness of the uptrend of market.

The earthquake in Japan and fears that the situation in the Middle East could escalate, which would have consequences for the price of oil, suddenly overshadowed the European debt problem. On the other hand, there were also encouraging signs – steady economic recovery in the USA, a growing belief that China will have a soft landing and concerted G7 foreign exchange intervention to aid Japan.

Besides significant issues that are highly relevant to the financial markets, we would also like to mention here the great human tragedy in the wake of the earthquake and the ongoing armed conflict. For those affected, reconstruction will demand much strength and resilience.

We look at new opportunities and risks in Japan and the energy sector in the aftermath of the events in our special topic section on the last page. Overall, the economic environment remains reasonably positive.

Your Asset Management Partners Team

Macroeconomic environment

The global economy is continuing to grow at a robust pace. All the continents have been growing in sync at a positive rate, though the momentum is slowing somewhat in some emerging markets. Rising rates of inflation currently pose the greatest challenge for these regions. The emerging markets were by and large the first to lift key interest rates, and now rates in the USA and Europe are also slowly moving higher. The European Central Bank (ECB) has indicated that it will very probably move on interest rates still this year. The US and Swiss central banks will very probably follow suit later. This should benefit the euro exchange rate vis-à-vis the US dollar and the Swiss franc.

Unrest in the Middle East and the earthquake in Japan

Neither the natural disaster in Japan nor the unrest in the Middle East could have been foreseen. Both events should have only a temporary negative effect on global economic growth. In the medium term, from an economics perspective, the positive effects should dominate potential negatives.

Reconstruction in Japan should lead to high GDP growth in the second half of 2011, after the huge setback in March. Damage to the Japanese economy is likely to be minor, with a lack of certain Japanese goods causing just some specialized production processes to be temporarily affected. By contrast, the popular uprisings in the Middle East have resulted in higher oil prices, triggering fears that GDP growth rates for 2011 will have to be revised. Overcoming or adapting the existing political structures in this region would be advantageous, but is of no economic relevance in the short term.

USA with positive growth momentum

We believe that the economic recovery in the USA is on track. The outlook for GDP growth was revised upwards at the beginning of 2011 from 2.6% to 3.0%. Optimists are even forecasting GDP growth of 3.4% for 2011. The reported increase in industrial production (ISM 02/2011: 61.4, the highest reading since May 2004) and ongoing household deleveraging support the positive outlook.

We still expect less dynamic growth in the medium term, with growth below the long-term trend rate. The main reason for this will be the persistent and significantly higher unemployment rate. Reducing state and household debt will also take much longer than originally expected. In the USA, these characteristics are captured under the term "new normal".

There are doubts in some quarters as to whether when the second round of quantitative easing measures (QE2) comes to an end the US economy will have picked up strength by the middle of the year as hoped without further economic intervention. A follow-on third quantitative easing program (QE3) would mean that the dollar would remain weak and a rate rise a more distant prospect. We see QE3 as a less likely scenario.

A two-speed Europe

There will likely continue to be wide differences in economic development between northern and southern Europe. In the prosperous countries, especially Germany, key leading indicators suggest industrial output is rising, which should also have an increasingly positive effect on domestic consumption. While the Fed is continuing to pursue an expansionary monetary policy for the time being, the ECB has indicated that, given current inflation expectations, it may raise interest rates in 2011. This could see the euro put its recent lows against the Swiss franc behind it and, for the time being, maintain its strength against the US dollar. Following the extension of the European Financial Stability Facility (to a EUR 700 billion capital base, consisting of EUR 80 billion of paid-in capital and EUR 620 billion of callable capital), which was announced at the end of March, we expect the situation to ease over the coming weeks and this should be reflected in the normalization of credit spreads for the countries affected.

Inflation rates rising in the emerging countries

Overall, the situation in the emerging economies remains promising. The ongoing cyclical upswing, together with political tensions in the Middle East, has shown that in periods of rising commodity prices countries in emerging markets that are rich in natural resources (oil, ores, etc.) are well placed to benefit. This natural resource advantage was mirrored in stock market performance as of the end of March 2011 (e.g. India, Sensex: -5.2%; Russia, MICEX: 7.4%). Rising inflation and interest rates are also affecting these regions very differently. Hence, many have already adopted restrictive monetary and fiscal policies. While China, for instance, is already extremely advanced in this particular interest rate cycle, India and various ASEAN countries (e.g. Korea and Indonesia) have still to move substantially on interest rates.

Swiss economy continuing to grow

The Swiss economy is gaining further momentum this year (2011: 1.9%; previously: 1.2% - source: CS). Inflationary pressure stems primarily from higher energy prices. The Swiss National Bank (SNB) is intent on countering inflation. The easing of geopolitical risks and the stabilizing of the economic situation in the USA are key conditions for the desired weakening of the Swiss franc.

Conclusions for the second quarter of 2011

Under our investment scenario, we assume that political tensions in the Middle East will ease. The recent, widely discussed fears of a double-dip recession are likely to finally recede and be replaced by the problems of rising inflation and interest rates. While this is already the case in the emerging economies, the western nations are only just waking up to this new reality. Wide regional economic disparities are likely to make it increasingly necessary to go over to a targeted country allocation.

Traditional investments

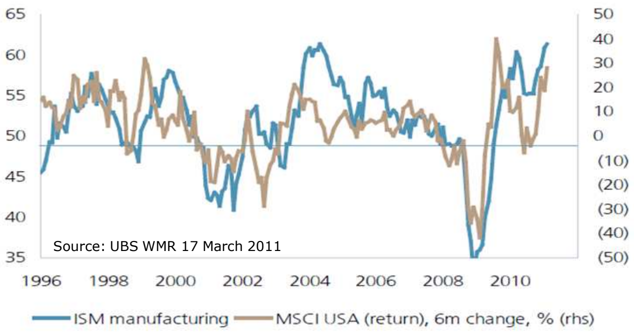
Bonds: Yields expected to rise further

It is clear from inflation fears and the fact that the ECB has signaled strongly that it will probably move on interest rates in the second half of 2011 that the central banks have reached a turning point and the period of loose monetary policy is coming to an end. Overall, the risk that interest rates will rise is increasing. Besides the ECB, rising inflation reported in the United Kingdom provides further evidence. Good corporate results and continued positive economic data have led to a narrowing of credit spreads. For subordinated bonds and non-investment grade issues in particular, this has resulted in positive returns. However, for top-rated issues with longer maturities conditions were unfavorable. The yield on 10-year Swiss government bonds currently stands at 1.89% (52-week low: 1.05%) and on 10-year US Treasuries at 3.44% (2.38%). We therefore continue to favor short maturities for our portfolios. This is complemented by our holding of convertible and emerging market bonds in local currencies, whereby we anticipate additional return potential from expected currency appreciation.

Equities: Good corporate results underpinning potential extension of current upwards trend

When results for the fourth quarter of 2010 were announced, most companies had exceeded expectations. We were positively surprised by the strength of the results: 70% of S&P 500 companies had exceeded earnings estimates by 5.0% on average, while European companies' earnings had only marginally exceeded estimates. This is reflected with surprising accuracy in the stock market performance figures for the year to date (S&P 500: 5.4%; Euro Stoxx: 4.2%).

US business sentiment versus MSCI US (%)



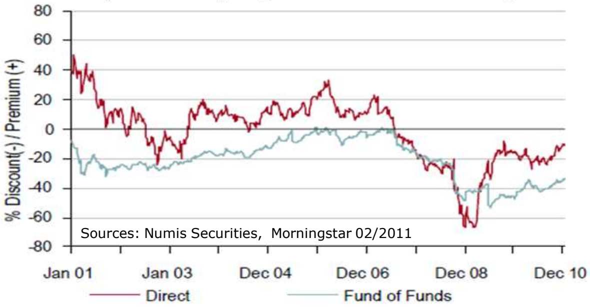
Following the recent market correction, the outlook for equities remains favorable: intact growth and moderate valuations coupled with low interest rates (despite expectations of first interest rate hikes) bode well for positive share price development. In the emerging markets, inflationary pressures and further rate hikes are likely to limit the potential of the market for the time being. In recent months, the cyclical upswing has favored countries that are rich in natural resources (e.g. Russia and Brazil) over commodity-importing countries, and tensions in the Middle East have accentuated this trend. With countries at different stages of the interest rate cycle and inflation, the markets are likely to fare differently.

Listed alternative investments

Listed private equity: Positive market development likely to continue in 2011

We stated at the end of 2010 that we were sanguine about private equity investments, and we continue to hold that view. Our positive expectations were largely confirmed when the annual results were announced. This is likely to be the case again this next quarter. Good operating results should lead to further exits. With listed private equity funds continuing to trade at large discounts to the NAV of around 30%, compared to the long-term average of around 13%, we remain optimistic about the sector's prospects.

Listed private equity discounts 2001-12/2010



Listed private infrastructure: Relative stability during phases of increased market volatility

Concerns about inflation in the emerging countries sent share prices temporarily lower; shares in infrastructure companies in these regions were also affected. The income of these companies is highly regulated and as such provides protection against inflation, which is why in these conditions we view share price falls in the regulated sectors as an opportunity to buy. High dividend yields add to the attractiveness of the asset class. Utility operators (e.g. power companies) and sectors that because of the high oil price can improve their relative competitiveness or growth opportunities (e.g. railway operators) are looking increasingly interesting, as does the high growth of the data transfer sector (satellites).

Commodities: Uptrend intact

We are sticking to our positive outlook for commodities. The asset class is supported not only by the cyclical upswing, which is causing increased demand for industrial metals (e.g. investments in infrastructure) and energy, but also by rising inflation. Certain buzzwords such as Europe's debt crisis and popular uprisings in the Middle East are likely to cause the price of precious metals and oil, in particular, to temporarily overshoot. We expect a period of consolidation for soft commodities, with the favorable structural trend remaining intact.

Real estate: Increasing risk of rate increase

There is still excess supply in the US real estate market and this is having a negative impact on the demand for new building permits. There are increasing signs that interest rates will be lifted in the second half of 2011 and this will increase the risk of real estate shares heading lower, and for this reason we do not intend to invest in this sector at the current time.

Special topic: **Assessment and investment opportunities in the wake of the many unexpected events**

Short-term market dislocation with great long-term significance

Considerable number of shocks

March 2011 will be remembered as one of the most eventful months in recent history: popular uprisings in the Middle East, escalation of the situation in Libya, oil prices rising on fears of destabilization in Saudi Arabia, the earthquake and tsunami in Japan, which was followed by a nuclear disaster and then the establishment of an exclusion zone around the power plant, caused turmoil in global equity markets. The situation at the damaged power plant will remain critical for some time to come; however, there is not enough information on the situation at this time. Reconstruction work should start as soon as the clean-up operation has been completed and should contribute to above-average GDP growth in Japan in the second half of the year. In Europe, these events overshadowed the ratification of the EU Reform Treaty, in relation to the debt problem, in which the capital base of the bailout fund was formally extended from EUR 400 billion to EUR 700 billion, despite being of huge importance to the financial markets. Southern European countries are likely to be affected by economic developments for still some time to come.

Stock markets weathered catastrophic events

With hindsight, the accumulation of unfavorable events has provided us with important insights into the financial markets. With the exception of Japan, equities weathered the storm without any major damage, signaling market participants' belief that the positive economic trends are sustainable. US markets in particular reacted surprisingly calmly. Based on the central banks' continued loose monetary policy stance and the positive trends in key economic indicators, it seems that the upside potential of the stock market will remain intact for the time being.

Consequences for our investment strategy

The events mentioned provide interesting investment opportunities. We see opportunities arising in three areas, from: 1.) reconstruction in Japan and the attractive valuation of the Nikkei in general; 2.) the high attractiveness of companies that provide energy efficiency enhancing technologies; 3.) the expectation that important energy sources (oil, gas, electricity) will become increasingly scarcer, though energy consumption patterns are unlikely to change much in the short term.

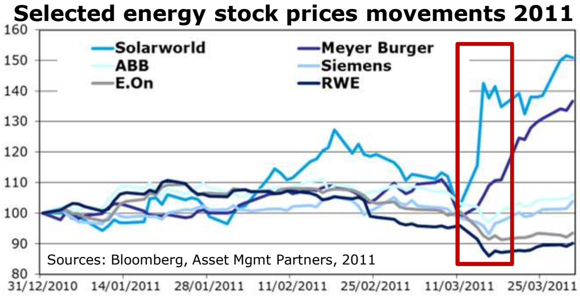
1. Japan: Cyclical stock market with opportunities

The Topix index fell sharply after the earthquake and is now moderately priced (P/E 2011E: 14.7x). With odd exceptions (building materials, utilities and real estate), the market made little differentiation between sectors and reacted by sending stocks across the board lower. Reconstruction in Japan and the sustained global economic recovery provide a positive basis for many Japanese companies. However limited production losses can be expected in the automotive sector due to its global production base.

2. Investment opportunities in energy efficiency

For various reasons, the energy market is more sluggish than the share prices of the companies shown would suggest. We see interesting long-term investment opportunities in technology companies (e.g. Siemens, Schneider-Electric, ABB, etc.) that provide innovative energy efficiency enhancing solutions and not in energy utilities. We also consider providers of innovative building materials and solutions interesting.

Selected energy stock prices movements 2011



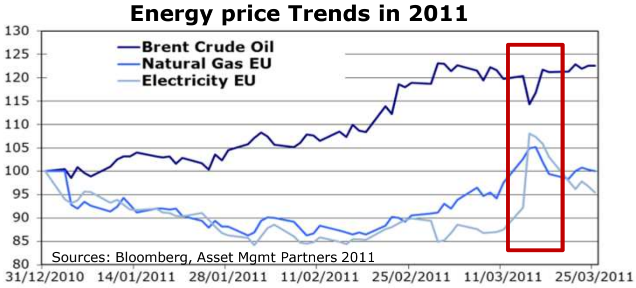
We are avoiding exposure to subsidized power-generating companies (e.g. guaranteed feed-in tariffs) as the share price gains over the past few days are purely a reaction to current short-term market sentiment. As long as the price of electricity for end-users has a large political component and the price per kWh for households receives little attention (as is the situation in Switzerland), important preconditions for market-oriented price-setting are lacking. Ultimately, however, price is perhaps the most effective way to control demand. Based on various scenarios, there is likely to be an energy supply shortage in Europe by 2014/15, unless more energy savings potential is quickly realized or production capacity is increased.

[Note: Sources of energy used in Switzerland in 2009: approx. 67% fossil fuels; approx. 24% electricity (thereof approx. 40% nuclear – including imported electricity); and 9 - 10% various sources, including green power].

3. Energy prices – oil with high risk premium

Oil prices came only temporarily under pressure amid concerns about the Japanese economy, but served to show the importance of energy consumption in Japan. Even though estimates of energy prices are generally of limited use due to an informational deficiency on the supply side, we currently consider a position here interesting (inflation fears, cyclical recovery on track and shortage of natural resources).

Energy price Trends in 2011



Baar-Zug, April 2011

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