Asset Management Partners

Investment Outlook for the third quarter of 2011

Global macroeconomic outlook

Weaker economic data and the **debt crisis in Europe** have unexpectedly weighed heavily on the financial markets in recent weeks. Different global macroeconomic starting conditions are likely to shape the economic momentum of individual countries in future. While the **risk of stagflation** is growing in debtor nations (e.g. southern European countries, the United Kingdom), creditor nations (core Europe, emerging markets) are confronted with **positive economic growth rates** and **rising inflation rates**.

On the **foreign exchange front**, the debt crisis has also caused huge **currency fluctuations**. The **current strength of the Swiss franc** against other major currencies is not justified by purchasing power parity. We expect the situation to normalize in the second half of the year.

The **emerging economies**, which account for around 30-35% of world GDP, continue to be the key drivers of global growth (2011E: 6.5%). Rising inflation and signs of overheating demand a more restrictive monetary policy in order to be able to achieve sustainable growth rates.

Traditional investments

- Currencies Anticipated trading range for USD/CHF: 0.85 – 0.95 and for EUR/CHF: 1.21 – 1.28.

- Bonds We prefer corporate bonds to government bonds with short maturities, complementing them with convertible and emerging bonds denominated in local currencies, whereby the anticipated currency appreciation should enhance the return potential. Growing concern about the outlook for growth means that again yields have not risen as expected.

- Equities Macroeconomic and political factors such as the debt crisis in Europe and the second round of quantitative easing (QE2) in the United States have dominated stock markets this year. Despite attractive valuations and expected growth in earnings, positive corporate news (e.g. solid balance sheets and high free cash flow) attracted little attention. As soon as investors turn their focus to corporate numbers, we should see the market recover.

Listed alternative investments

- Private equity Earnings momentum intact due to high operating leverage; further value increases expected.

- Infrastructure Defensive characteristics with intact risk-return profile; inflation-linked tariffs as a positive factor.

- Commodities Price trends in the first half of 2011 largely reflected geopolitical developments.

Market data

GDP Growth %	Country	2010E	2011E	2012E
Industrialized Countries	USA	2.9	2.5	3.1
	JPN	4.0	-0.5	3.2
	EMU	1.7	2.0	1.7
	UK	1.3	1.7	2.2
	Switzerland	2.6	2.2	2.1
Emerging countries	China	10.3	9.3	9.0
	India	8.5	7.7	8.2
	Brazil	7.5	4.0	4.1

Exchange rates	30.06.11	% -1 M	% -3 M	% YTD
USD/CHF	0.840	-1.59	-8.55	-10.14
EUR/CHF	1.219	-0.87	-6.33	-2.55
GBP/CHF	1.349	-3.95	-8.41	-7.58
JPN/CHF	1.043	-0.41	-5.64	-9.46

3 month Libor	30.06.11	-1 M Bp	-3 M Bp	YTD Bp
CHF	0.18	-0.1	-0.5	0.5
USD	0.25	-0.7	-5.7	-5.7
EUR	1.49	10.9	31.1	55.2

Government (10y)	30.06.11	-1 M Bp	-3 M Bp	YTD Bp
CHF	1.70	-4.7	-22.4	-1.9
USD	3.16	9.9	-30.9	-13.3
EUR	3.02	0.4	-32.9	0.6

Stock market	30.06.11	% -1 M	% -3 M	% YTD
SMI	6187.07	-5.61	-2.68	-3.87
S&P 500	1320.64	-1.83	-0.39	5.01
Nikkei	9816.09	0.99	1.11	-4.04
FTSE-100	5945.71	-0.74	0.63	0.78
DJ EURO-STOXX 50	2848.53	-0.47	-2.14	1.99

Commodities	30.06.11	% -1 M	% -3 M	% YTD
Gold oz/USD	1500.35	-2.31	4.75	5.60
Oil (WTI)/USD	95.4	-7.09	-10.59	4.42
Copper (Spot)/USD	9414	2.30	0.01	-2.45
Nickel (Spot)/USD	23395	-0.81	-10.28	-5.31

Sources: Bloomberg M.St, GS, UBS, DB, Barclays, BofAML, JPM, 06/2011

Editorial

The "Greek tragedy" that has seen the financial markets holding their breath for weeks has meanwhile turned into a "European tragedy" with global repercussions. By and large, market developments were thus primarily driven by political factors. The drawn-out process seems to have meanwhile reached a turning point and a low point in sentiment. The era of the single European currency without fiscal policy rules is likely to be consigned to the history books soon.

The financial markets were also worried in the second quarter by weaker economic data, though the long-term trend is still upwards and positive GDP growth is expected for 2011. Investors have shifted their focus back to the present debt burden of many Western nations (e.g. the United States, the United Kingdom), whereby the situation in Greece has now escalated. The debt issue is likely to occupy us for some time to come. The situation remains tense in other countries.

Despite the positive quarterly results and outlook, it was these events that weighed on stocks. On the whole, stock markets remain attractively valued. Current exchange rate fluctuations will affect earnings momentum and burden for example many of the Swiss equities, at least temporarily.

In our special topic section, we look at listed private equity as a proven portfolio complement. You can read more about this on page 4.

Your Asset Management Partners Team

Asset Management Partners

Macroeconomic environment

Continuing upward trend for 2011

The world economy continues to grow at a positive rate. Hopes in some quarters at the beginning of the year that growth would accelerate have, however, meanwhile been dashed. Consensus estimates have now been revised downwards to 4.1% (early 2011E: 4.3%), after having reached 4.9% in 2010. The emerging economies remain the main drivers of growth. These regions, which now account for around 35% of world GDP, are expected to grow by 6.5% in 2011 (2010: 7.7%). The developed economies are forecast to grow by 2.1% in 2011 compared to 2.7% in 2010.

Rate of deceleration in economic growth is likely to be only temporary

The current rate of deceleration in world economic growth should prove to be only temporary; the latest data obscures the picture of intact long-term macroeconomic momentum. The main reasons for this are the slowdown in the emerging economies and global loss of production (supply-chain disruptions) after the earthquake in Japan. In the United States, GDP growth is likely to remain below trend (a "new normal") due to higher unemployment, low consumer confidence (consumption makes up around 70% of GDP) and prolonged debt deleveraging.

Emerging markets: More restrictive monetary policy and the introduction of higher reserve requirements have helped to dampen overheating pressures in many countries. We therefore assume that economic growth in these markets will be somewhat slower in the second half of 2011 than in 2010 and that growth rates will be more sustainable in the long run, which is positive. Overall, we still believe in a "soft landing".

Earthquake in Japan: After the earthquake in Japan, industrial production fell by over 13% in both April and May compared to the previous year and resulted in a corresponding decline in exports. The extent of international integration of production processes – especially in the automobile industry – was widely underestimated. Comments in the latest Beige Book (a report on economic conditions in the United States) to be published indicated some disruptions to production in the United States due to supply shortages. The Bank of Japan (BoJ) expects the real GDP growth rate to fall to 0.6% in 2011 and then to accelerate to 2.9% in 2012.

Debt burden leading to increasing divergence between countries

Following the global economic recovery in 2010, differences in economic development between countries are becoming greater. Debt burden, starting conditions and room for maneuver besides relevant macroeconomic variables such as inflation, unemployment and GDP growth play a decisive role. While the situation in the emerging economies and core Europe (Germany, France, Switzerland, the Netherlands and Scandinavia) is rapidly improving because of low debt levels (inflation and growth), the southern European countries have less favorable starting conditions (stagflation). In the United States, the "new normal", as described above, is strongly linked with debt reduction and likely to dampen consumer sentiment for some time to come and so the risk of stagflation is high. Despite different economic starting conditions, the cyclical trend towards higher or – as is already the case in the emerging markets – high inflation with rising interest rates is likely to prevail globally.

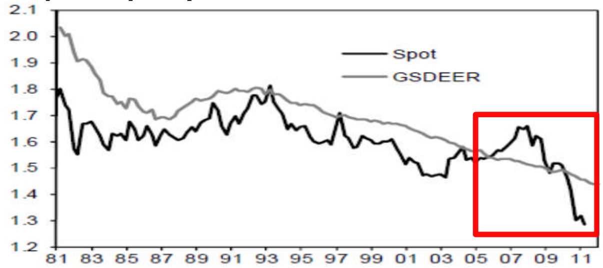
Looking ahead: known "unknowns"

The big "unknowns" in the third quarter are the end of the second round of quantitative easing (QE2) in the United States and important decisions on urgent and necessary fiscal measures in various European countries and the United States. Furthermore, the continuing weakness of the US dollar is likely to lead to its global reserve currency status being increasingly questioned.

Switzerland: Swiss franc strength harbors increased risks

The Swiss franc strengthened further in the second quarter and as exports are being affected the currency's strength remains the Swiss National Bank's (SNB) prime concern. The current divergence of the exchange rate from purchasing power parity is only partially founded and divergence of this degree (see chart below) is likely to be a temporary phenomenon. Given the unfavorable currency situation, we do not expect the SNB to move on interest rates even though key indicators signal a need for action. The European Central Bank's (ECB) stance on interest rates is gaining additional significance. Following a first interest rate hike in April of 0.25% to 1.25%, monetary policy is not expected to be tightened quickly, despite the fact that inflation in the euro area rose to 2.8% in May (inflation target <2.0%). In Switzerland, by contrast, lower import prices led to a core inflation rate of -0.1% in April, while the unemployment rate declined by a further 0.2% to 3.1%. The KOF Swiss Economic Institute is currently forecasting that the Swiss economy will grow by 2.8% in 2011 and 1.9% in 2012.

Exchange rate (EUR-CHF) versus purchasing power parity



Source: Goldman Sachs, May 2011

Conclusions

Under our investment scenario for the third quarter, we expect a more moderate recovery in economic growth in the second half of 2011. The risk that the "Greek Tragedy", tantamount to a national bankruptcy of Greece, could escalate seems to have been averted for the time being. The far greater risk of debt contagion across the southern European countries has also lessened. What is still needed are concrete decisions with politically feasible and effective fiscal measures. This applies particularly also to the United States. The known "unknowns" still have the potential to surprise over the coming months.

Traditional investments

Bonds: Yields not yet risen as expected

The ECB ended its low interest rate policy that it has followed since May 2009 with a first rate hike of 0.25% during the second quarter, signaling the anticipated trend reversal in interest rates. Further rate hikes can be expected in the second half as inflation in the euro zone is running above the target rate of 2.0% (May 2011: 2.8%). The economic divergence within the euro area means, however, that a more restrictive monetary course is likely to be implemented only cautiously. We expect no significant changes in the near term in current interest rate policy despite rising inflation. The yield on 10-year Swiss government bonds ("Eidgenossen") currently stands at 1.70% (52-week low: 1.08%; 52-week high: 2.13%), 10-year US government bonds ("Treasuries") at 3.16% (2.38%; 3.74%) and German government bonds ("German Bund") at 3.02% (2.12%; 3.49%). Economic indicators disappointed, unexpectedly pushing yields lower. We are maintaining our strategy of favoring short maturities. This is complemented by our holding of convertible and emerging market bonds in local currencies, where we anticipate also being able to benefit from currency appreciation.

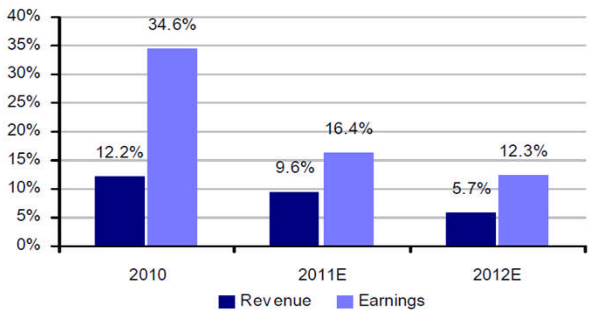
Equities: Earnings momentum intact, debt crisis and policy-making process weighing on market

Geopolitical uncertainties dominate: Following a positive start to the year, global equity markets came under pressure after the natural catastrophe in Japan and from fears that the situation in the Middle East could escalate, sending oil prices higher. Although the conflicts are still ongoing, the focus has shifted back to Europe's debt crisis – in particular the refinancing of Greece – and the high and rising sovereign debt level in the US which requires a raise in its debt ceiling.

Decoupling of emerging from developed markets: Many emerging market central banks have already started to tighten monetary policy in an effort to counter rising inflation. The premium at which emerging market equities were trading at the beginning of the year due to high economic growth rates has been neutralized again. The result of that is that, due to monetary measures taken in 2011, there has been a marked decoupling of market performance between the developed markets and the emerging markets to the benefit of the former.

Growth expectations remain positive: During the reporting period, the good annual results were overshadowed, as subsequently were the first-quarter results, by the events mentioned above.

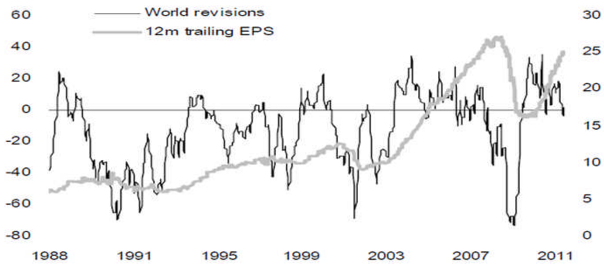
Sales and earnings forecasts for 2011-12



Sources: IBES, UBS, June 2011

Earnings momentum is "neutral": As can be seen in the chart below, earnings momentum is slowing. Many companies managed to boost their earnings in the aftermath of the crisis of 2008/09, but this effect is now tailing off. Global equity markets remain moderately valued (P/E 2011E: 12.5x; P/BV: 1.9x) and US and European markets are still well below long-term average levels.

Earnings revisions 1988-2011 (%)



Source: Credit Suisse, June 2011

Swiss equities: The Swiss franc's current strength is likely to affect the expected earnings growth of some Swiss companies by mid-year, despite a positive operational outlook. We anticipate that blue-chips' earnings will be affected by 6-8% on average and small and medium caps' by 12-14% in the second quarter. If, after reaching all-time highs in the second quarter, the situation on the currency front takes longer to ease, this is likely to lead to diverse companies trading at a significant premium to the European sector.

Listed alternative investments

Listed private equity: See Special Topic on page 4.

Listed private infrastructure: Stable income, attractive dividend yields

Economic uncertainty with rising inflation and generally high earnings predictability should support the asset class. Continued low interest rates and wide use of inflation-linked tariffs are currently providing additional earnings potential in the euro area and Great Britain thanks to higher tariffs.

Commodities: Price trends and volatility shaped by geopolitical events

With the exception of agricultural commodities ("softs"), the prices of all commodity classes are either higher (gold: ca. +8.0%; energy: ca. +5.0%) or unchanged (industrial metals) compared to the beginning of the year. Geopolitical events and economic fears largely shaped commodity prices in the first half of 2011. The crisis in the Middle East and the nuclear catastrophe in Japan led to a sharp rise in energy prices. Economic fears weighed on industrial metals, while gold prices benefited principally from central bank purchases, rising inflationary fears and the debt crisis in Europe. The constructive economic outlook may lead to higher prices again for energy (gas, oil) and industrial metals. Recent price corrections seem then overdone. The price of gold has a political aspect which makes it unpredictable.

Asset Management Partners

Special topic: Listed private equity (LPE), current situation and market outlook

Listed private equity: As a complement to equities in a portfolio

Proven complement in a portfolio

The obvious benefits of private equity investments are, on the one hand, enhanced portfolio diversification and, on the other, the inherently high return potential of the asset class. The latter reflects, among other things, high performance incentives for management and the providers of capital. Although there is naturally a high correlation between equities and listed private equity, a complementary position in this asset class should over time generate a more favorable risk-return profile for the portfolio. In the current environment where NAV improvements are expected, an opportunistic investment strategy that favors highly discounted investments can generate an additional contribution to returns.

In short, listed private equity provides investors

1) with access to the private equity asset class,
2) while maintaining liquidity,
3) requires no minimum investment amount and
4) increases portfolio diversification.

Substantial market recovery since 2009

Following the general share price collapse of the asset class in 2008 and the first quarter of 2009, the LPE index hit a low in March 2009 due to the financial crisis. The market subsequently staged a substantial recovery in tandem with the international financial and credit markets. Share price gains continued throughout 2010, supported by ongoing operational improvements, an increasing number of M&A deals and first successful exits. The strength of the performance, however, suggest that other factors were also in play: the main reasons for the outperformance of listed private equity over equities (MSCI World Stock Market Index) were improved NAVs, along with a narrowing of discounts to NAV, coupled with investors' growing appetite for risk.

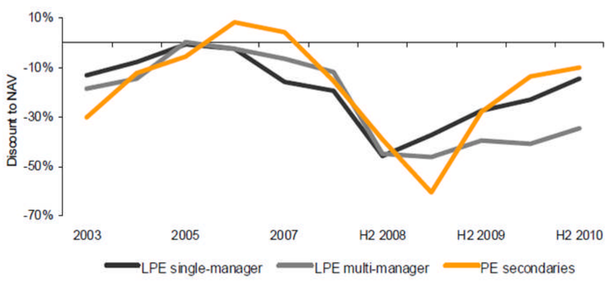
Performance 2011: PG LPE vs. MSCI World Index

Sources: Bloomberg, Partners Group, May 2011

Positive outlook for 2011

Basically, we expect the environment for the asset class to remain constructive. There are several reasons for this: 1.) above-average earnings momentum is likely to continue through 2011 thanks to operational and financial leverage; 2.) the number of exits of mature holdings through mergers and acquisitions (M&As) and initial public offerings (IPOs) should continue to rise; and 3.) the LPE companies' balance sheets are in much better shape than they were, enabling a rising number of new investments to be made, while the discount mentioned above is still attractive at around 25% on average. By contrast, limited partnerships are being traded at a discount of around 10%. This difference should decline further over time.

Private equity discounts to NAV 2003-10



Sources: Thomson Datastream, RBS, 05/2011

Valuation principles for LPE ("fair value")

In the chart above, the net asset value (NAV), i.e. the valuation of the individual investments, is set against the share price. As a rule, this gives a substantial discount. This therefore raises the question as to which valuation principles are used for "pooled" enterprise values in an investment vehicle. These are often based on the International Private Equity and Venture Capital Valuation (IPEV) Guidelines. A number of valuation methodologies exist. Basically, however, sector ratios (market multiples) of listed equities, discounted cash flows (DCFs), sum of net assets (e.g. for real estate), industry benchmarks (relative comparison) or price of recent investments serve as benchmarks.

Conclusions

Private equity investments typically hold considerable upside price potential in a post-recessionary environment. It is important to note, however, that value increases are gradual and lag the stock market as NAV calculations are based on annual and semi-annual reports and therefore only available at a later point in time. We will gain further insight when the semi-annual reports are submitted. Share price performance after 2009-10 can be reasonably expected to remain positive as many growth companies should continue making strong operational progress in the post-crisis environment. Therefore we expect a further NAV appreciation to materialize in the near term.

Baar-Zug, June 2011

The material presented here is solely for purposes of discussion. The information contained herein is in summary form for convenience of presentation. The information may be based in part or entirely on hypothetical assumptions, models and/or other analyses (which are in part contained in this document only) by Asset Management Partners AG or affiliated companies („AMP"). No representation or warranty is made by AMP as to the reasonableness of the assumptions, models and/or other analyses. The information set forth herein was gathered from various sources which AMP believes, but does not guarantee, to be accurate. The information contained herein is confidential and may not be reproduced in whole or in part.

Asset Management Partners AG Zugerstrasse 57, 6341 Baar-Zug/Switzerland

Tel. +41 (0)41 768 83 83, Fax +41 (0)41 768 83 84info@ampch.net, www.assetmanagementpartners.net