
Investment Policy Report - 31st March 2009

Overview

“Go Global” – Contrary to expectations, after their meeting, the members of the elitist G-20-Club presented themselves as a united group, announcing collectively agreed decisions on resolving the current financial and economic crisis. This was a clear vote for globalisation and against protectionism. Having been taken by surprise, equity markets rallied accordingly and added between 2.5 and 6%. It was not financial stimulus packages that were important. We probably have sufficient of those for the time being. Many packages had in any case been announced beforehand or were funds re-allocated from different projects. No, it was the determination to tackle the problems that affected market psychology positively.

One should not forget that when Lehman Bros. was abandoned, the rules of the game were broken and have not been re-defined since. Trust is the key! This is exactly what the decisions of the G-20-Club were aimed at. Quite apart from all the financial aspects, one decision, amongst others, was to not tolerate protectionism. The World Bank has been issued with the mandate to keep a watchful eye open for any infringements and to report on a quarterly basis. Further, it was decided not to abandon any further system-relevant entities. In addition, the war chest of the IMF¹ has been tripled, of which USD 250 billion new money may be created in the form of SDRs². Markets reacted exceedingly positive to this news. In an interview with CNBC billionaire and legendary hedge fund manager George Soros stated that this was the first time since the start of the crisis that the “authorities are actually ahead of the curve”.

Big politics has finally caught on to the fact that any stimulus package is useless without the trust of market participants in financial markets.

In our view, G-20 have taken a decisive step in the right direction at their last meeting. It is for this reason that we have decided to reduce the strongly underweight equity position in clients’ portfolios and will be adding to the US equity weighting in the coming days. In choosing the region, the decisive factor was not so much the

fundamental valuation of equities, but our expectation that, as seen so many times in the past, economic recovery happens first in America. Equally, it is quite clear that steps will have to follow to get the credit cycle back into motion again.

The mounting indebtedness of the United States will give rise to the question of whether the US currency can be supported as the reserve currency in the long-term and whether the zenith of global American predominance has already passed. Equally, the question of the impact on American companies and what the implications will be for their stocks must be answered in the long-term. The process of emancipation from the predominance of the American government, as well as its currency, most probably already began in the year 2001 and it is likely to continue for quite a number of years.

High volatilities in financial markets will be with us for some time to come. Relief will only come once Ted-Spreads³ are back to a “normal” band width. This will be the case once the credit cycle is back in motion and banks begin lending to each other again. Despite all this, we are of the view that we have left the trough of the crisis behind us.

Certainly, cycle-lagging macro indicators such as unemployment rates are likely to worsen for the moment. Last autumn’s shock, immediately followed by a “deleveraging process” in industry, led to a rapid reduction in inventories in the United States. These are at a historical low. Hence, it is quite possible that after industry having slammed the brakes full on, we will soon see a revival in the Purchasing Managers’ Index and in industrial production.

Review

Equities

The first days of the year gave us a rally in equities. Financials registered strong gains until the exchanges suspended the “Short Sale Ban”. During the ban of uncovered short sales in certain stocks, the media’s attention shifted from focussing on the financial crisis to concentrating instead on the imminent decline in the economy. However, by suspending the ban, speculative short sales were given the green light again and with it, the problems of the credit crisis resurfaced. This is not the place for us to go into further detail about the economic nonsense of uncovered short sales. There is nothing to be said against covered shorts, as these may contribute to market

¹ IMF = International Monetary Fund

² SDRs = Special Drawing Rights, its main function is to serve as the unit of account of the IMF and some other international organizations. The SDR is neither a currency, nor a claim on the IMF. Rather, it is a potential claim on the freely usable currencies of IMF members. Holders of SDRs can obtain these currencies in exchange for their SDRs in two ways: first, through the arrangement of voluntary exchanges between members; and second, by the IMF designating members with strong external positions to purchase SDRs from members with weak external positions. (source: www.imf.org)

³ Ted-Spreads: Difference interbank interest rate and 3 month T-bonds

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efficiency. If portfolio managers are willing to lend their shares to somebody, betting against the portfolio manager's equity position in exchange for a couple of basis points, then it's their own fault. On principle, SIM does not enter into equity lending.

After a 60% fall from its peak in October 2007 to the lowest point of March this year, markets are now taking a breather. A number of macroeconomic indicators are pointing towards a slowdown in the contraction of the economy. But it is definitely too early to call it a turnaround.

		<u>Dec 2008</u>	<u>Mar 2009</u>	<u>Change⁴</u>
Asia ex Japan	DJ Pacific Index	268.1	259.2	-3.3%
Germany	DAX	4'810.2	4'084.8	-15.1%
Europe	DJ STOXX 600	198.4	176.5	-11.0%
Japan	TOPIX	859.2	773.7	-10.0%
Switzerland	SPI	4'567.6	4'137.4	-9.4%
USA	S & P 500	903.3	797.9	-11.7%

The products employed by us were unable to evade the general market direction, but managed to fare better than the wider market during the quarter⁵:

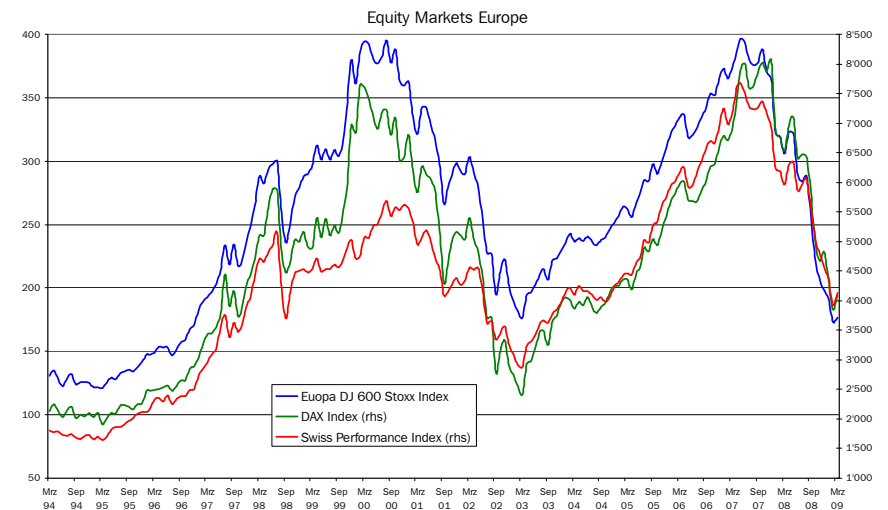
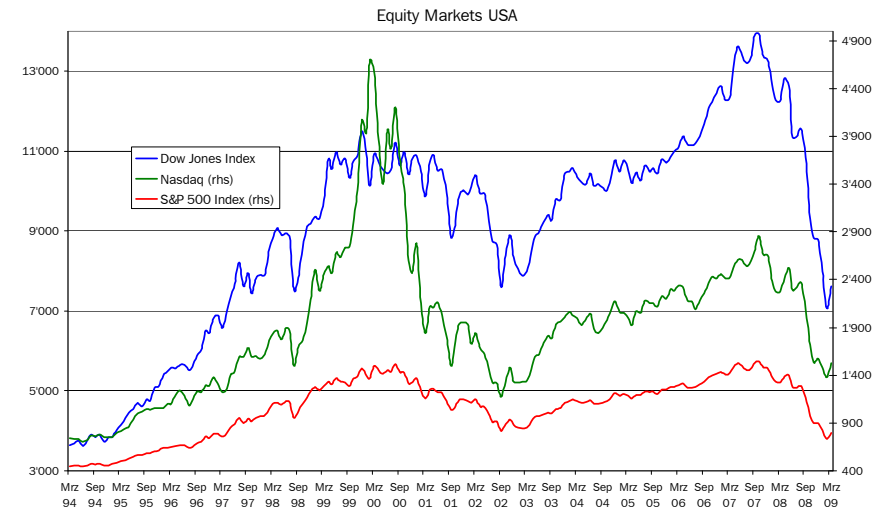
Neuberger Berman US Equity Value (USD)	-11.1%
Performa Fund - Asian Equities (USD)	-6.5%
Performa Fund - European Equities (EUR)	-5.2%
Performa Fund - US Equities (USD)	-9.5%
SIM European Stock Portfolio (EUR)	-4.9%

Bonds, Interest Rates and Currencies

Not quite unexpectedly, after Spain, Standard & Poor's has now also downgraded Ireland to AA+. Mid-February, Moody's expressed its doubts in respect of the UK's and US's AAA-rating. A delicate topic in view of the fact that the US has to finance unheard-of amounts and that China already currently owns US government bonds to the tune of USD 700 billion. The Chinese have already interceded a number of times and would like to see the American currency relieved of its role as the reserve currency.

⁴ Price change in local currency since beginning of the year. Except for DJ STOXX Asia ex Japan Index reported in USD.

⁵ Performance since start of the year in currency of fund



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The measures taken by the US and UK Central Banks to buy their own government bonds temporarily presented markets with strongly declining yields. In particular, fear of deflation led Central Banks to take this step, as did, incidentally, the Swiss, Canadian and Japanese Central Banks. The result was a short-term weaker currency. The ECB⁶ is currently abstaining from such measures but will make a decision at its coming meeting in May.

At its last meeting, the ECB lowered rates by “only” 0.25 percentage points to 1.25%. A cut by 0.5 percentage points had been expected. This surprised markets and led to a short-term rally of the Euro.

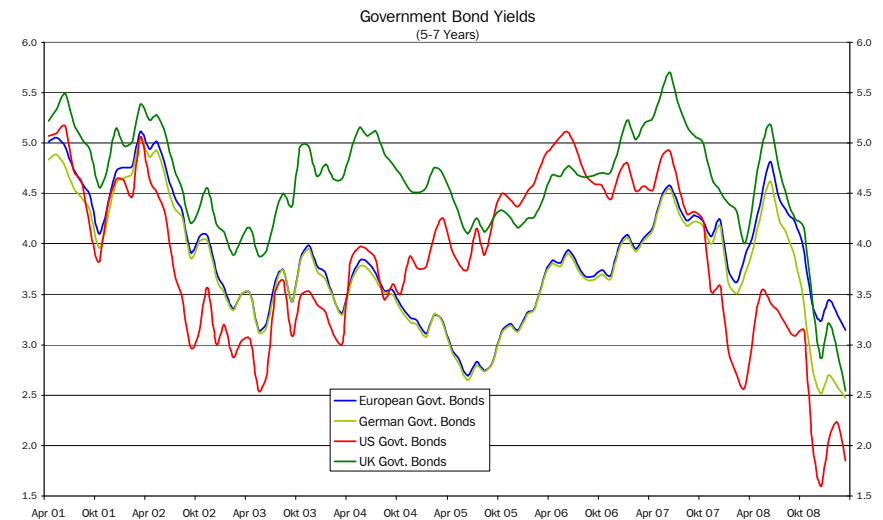
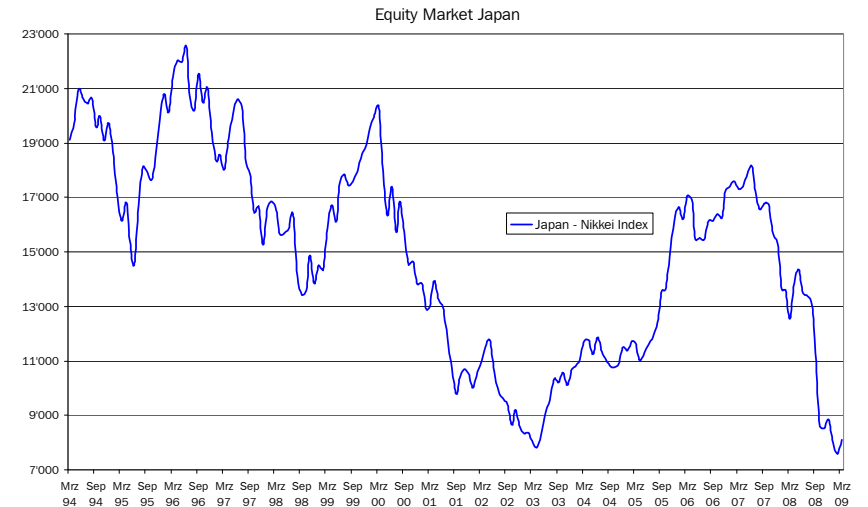
In contrast, the value of the British Pound against the Japanese Yen halved during the past 18 months. This once again highlights how little sense it makes to adopt foreign currency risk in exchange for sometimes only marginally higher bond yields. As a rule, we hold the bond portion of a portfolio in the client’s reference currency.

Over the quarter as a whole, there was little change in 10-year government bond yields:

	<u>Dec 2008</u>	<u>Mar 2009</u>	<u>Yield Change</u>
USA	2.1%	2.7%	0.6%
Europe	2.9%	3.0%	0.1%
Switzerland	2.1%	2.1%	0.0%
United Kingdom	3.1%	3.2%	0.1%
Japan	1.2%	1.4%	0.2%

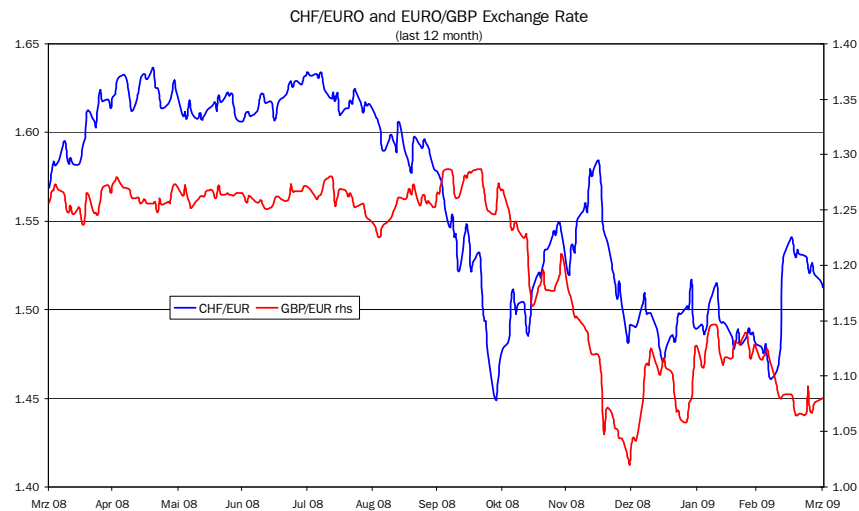
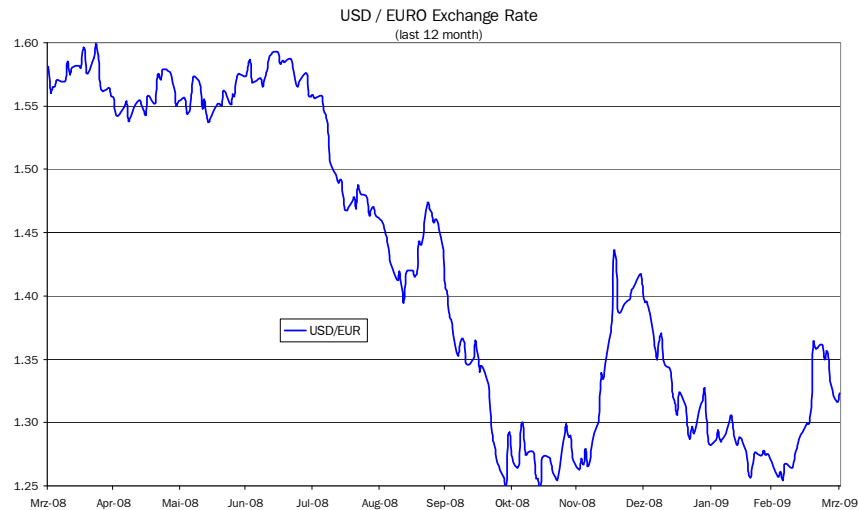
The USD against major currencies:

	<u>over the last 12 months</u>	<u>over the last 24 months</u>
USD/EUR	-16.3%	1.0%
CHF/USD	15.2%	-5.4%
USD/GBP	28.0%	27.4%
Yen/USD	-0.5%	-15.5%



⁶ European Central Bank

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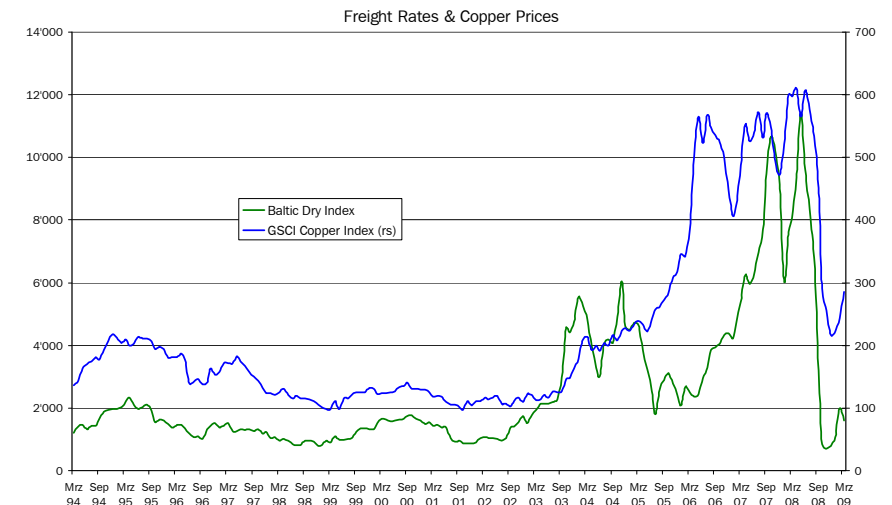
Financial Markets - Outlook

Economy

Just because of a good G-20 meeting, the economic crisis is certainly not off the agenda. Quite the contrary, we are in the midst of a global recession. The OECD anticipates a contraction of the economy of 2.7%. Trade is expected to fall by 13% and unemployment in the G-7 countries is expected to reach 36 million.

Every crisis finds a floor eventually. Below, we have identified a number of leading indicators of importance to us:

- a stabilization of the US housing market,
- a closing of "Ted-Spreads",
- a rising trend in the Purchasing Managers' Index,
- a rising trend in industrial production,
- a rising trend in the Baltic Dry Index⁷ and
- a rising trend in copper prices.



⁷ www.wikipedia.org: The **Baltic Dry Index (BDI)** is a number issued daily by the London-based Baltic Exchange. The index provides "an assessment of the price of moving the major raw materials by sea."

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It goes without saying that this is not a linear process for all the listed key figures; that would be too easy. Some of these factors are already sending out positive signals, even though these are still rather weak.

In spite of all intervention by the Fed, the housing market continues to fall; on average just below 20% during the past 12 months, with peaks of over 30% in some regions.

However, recently reported new home sales rose by 4.7% and mortgage applications by 32.2%. The main reason for the rise in transactions should be the, in the meantime, low prices and historically low mortgage rates (4.6%). A tax credit for first time buyers of USD 8'000 should also have the required effect. The trade associations' index indicates that home ownership has not been as cheap as it is today since 1970.

Equally, the UK reported good figures. According to the Nationwide Building Society, house prices rose marginally for the first time since October 2007.

The "Ted-Spread" has also managed to narrow during the past weeks. However, it has to be said here that to achieve its historical average, it has to halve again. It is clearly visible in CDSs⁸ that the credit markets are still not fully functional and the market's skepticism of the banks is still rather substantial.

US banks seem to continue to be under more pressure than their Old World competitors. Overall, the insurance premiums for both rose during the past quarter.

<u>USA</u>	<u>CDS-Premium'</u>	<u>Mar 2009</u>
Morgan Stanley	354.0 bp	391.8 bp
Goldman Sachs	250.8	294.5
American Express	239.5	627.5
Citigroup	176.5	666.6
Wells Fargo	111.0	312.5
<u>Europe</u>		
UBS	198.2 bp	232.5 bp
Credit Suisse	154.7	190.3
Barclays	130.8	220.0
Deutsche Bank	114.6	135.1
BNP	53.7	112.6

⁸ www.wikipedia.org: A **credit default swap (CDS)** is a swap contract in which the buyer of the CDS makes a series of payments to the seller and, in exchange, receives a payoff if a credit instrument - typically a bond or loan - goes into default (fails to pay).

Two early indicators, copper and the Baltic Dry Index, showed signs of a recovery during the past quarter. Approximately 90% of world trade is shipped by sea and measured by the later index. China is said to have taken the opportunity to stock up on relatively cheap commodities. According to the broker, Harper Peterson (HARPEX), there was a marked increase in activity during the past month. He is expecting confirmation of the trend in April and May. In the past, these were the two most important months for contract renegotiations⁹.

The Purchasing Managers Indices of both the USA and the U.K. reported a small increase over February. It has to be said, however, we are talking about a slowdown in the contraction here. Both indices are markedly below 50, pointing to continued negative growth in the economy. Nevertheless, the recently-published figures were a positive surprise. As mentioned earlier, inventories in the United States have declined to historically low levels. We expect positive impulses from that side in the near future.

In Germany, Italy and Switzerland the Purchasing Manager Indices are lagging behind this development.

Industrial production in all regions continues to point southwards. However, here too, due to the low inventories, we anticipate a recovery soon.

Unemployment rates have already risen. In the USA, it has nearly doubled to 8.1%. Europe's unemployment rate is currently at 8.5%. As this is a lagging indicator, continued increases are to be expected in all regions.

Economists' polled by "The Economist" are now generally looking slightly less optimistic on economic growth for 2009 than prior to the end of the year:

	<u>Real GDP Growth¹⁰</u>		<u>Inflation</u>	
	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>
Germany	-3.2%	0.8%	0.4%	1.1%
Euroland	-2.4%	0.7%	0.6%	1.3%
United Kingdom	-3.1%	0.5%	1.0%	1.7%
Japan	-5.3%	0.5%	-0.8%	-0.2%
Switzerland	-1.6%	0.7%	-0.1%	0.7%
USA	2.2%	1.9%	-0.6%	1.5%

⁹ Finanz und Wirtschaft 1.4.2009: „Die Welt handelt über die Meere“ (The world is trading by sea)

¹⁰ The Economist, last available survey

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Equities

The key question an equity investor is faced with after a correction of about 60% is:

How strong is the likelihood of making profits with equities on a time scale of 7 years?

The answer is: high, very high.

A wide-ranging study by the London Business School of Economics concludes that an investment in US equities from 1900 to today returned a real 6%, including last year's blood-bath. The comparable money market yield was 1% and that of bonds 2.1%. The study further concludes that a large part of the return was not due to rising prices, but to dividends being reinvested¹¹. Wherever possible, SIM employs products which take this effect into account.

Liquidity continues to be stockpiled. The equivalent of about 25% of the US equity market capitalisation is currently parked in money market funds. "Cash is king". As per the end of January, approximately CHF 103.6 billion was invested in such vehicles in Switzerland. Measured by volume, money market funds are currently the largest fund category in Switzerland. In comparison, CHF 90.9 billion was invested in equity funds and CHF 73.5 billion in bond funds. However, returns for clients were hardly achieved with these. Abroad, Swiss investors earned -3% in the best USD money market fund and -33% in the worst GBP money market fund¹². Compared to equities, convertibles and bonds, money market funds are not really an investment alternative!

Despite the collapse in earnings, equities continue to be attractive when compared to other asset classes (using P/E) but are more expensive than at the year end:

	<u>Dec 2008</u>	<u>Mar 2009</u>	<u>change</u>
MSCI World Index	11.6	12.6	+8.6%
DAX Index/DE	10.7	15.9	+48.6%
DJ STOXX 600 Index/EU	9.6	15.9	+65.6%
S & P 500 Index/USA	20.8	11.8	-43.3%
SPI Index/CH	28.1	34.3	+22.1%
TOPIX Index/JPN	13.1	27.1	+97.6%

¹¹ Financial Times, John Authers, 11th February 2009: „The short view“

¹² NZZ, 16 March 2009: „Mini-Renditen bei Geldmarktfonds“ (Mini returns from money market funds)

Price / Book Div. Yield

MSCI Welt Index	1.3	4.3%
DAX Index/DE	1.1	6.2%
DJ STOXX 600 Index/EU	1.2	6.1%
S & P 500 Index/USA	1.8	3.6%
SPI Index/CH	1.6	3.8%
TOPIX Index/JPN	1.0	2.5%

Price/book¹³ and dividend yields are further evaluation criteria for the selection of equities:

	<u>Equity Earnings</u> <u>Yield¹⁴</u>	<u>Bond</u> <u>Yield</u>	<u>Risk</u> <u>Premium¹⁵</u>
Germany	6.3%	2.9%	3.4%
Europe	6.3%	2.9%	3.4%
Japan	3.7%	1.4%	2.3%
Switzerland	2.9%	2.1%	0.8%
USA	8.5%	2.7%	5.8%

The uncertainty of equity investors, as measured by implied volatility¹⁶ of equity markets has somewhat declined. Whereas, for example, the Standard & Poor's Volatility Index¹⁷ was on average 58% during the 4th quarter of the past year, the March reading was down to 45%, trending down. The long-term average is at about 20%. We are quite a bit away from that, but we see a falling trend.

USA

The sudden collapse of the system-relevant Lehman Bros. last autumn and the, to-date, unknown new set of rules of the game have led to the current chaos. In conjunction with the financial, as well as the industrial sector's, deleveraging processes this has brought about an emergency stop in investments as well as production. The cure for the ailing system has to involve the sector at the root of the illness, i.e. the financial sector. After several unsuccessful attempts, the recently-

¹³ The lower the ratio, the more attractive

¹⁴ Bloomberg per quarter end

¹⁵ Average risk premium for American equities lies near 1.5%

¹⁶ An estimate of anticipated price movements of an underlying security. A of 30% implies that the price of a security will fluctuate 30% around its current price in the course of the following 12 months. Source:

www.handelsblatt.com

¹⁷ The Chicago Board Options Exchange SPX Volatility (VIX Index)

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announced PPIF (Public Private Investment Fund) program has been met with interest by institutional investors. Goldman Sachs, JP Morgan Chase and Morgan Stanley are interested in participating actively in this program to land toxic assets at discount prices with government help.

There was also good news regarding the first rescue program TARP¹⁸. The first four banks repaid their TARP loans. Goldman Sachs also announced their repayment of their loan as quickly as possible. Linking the availability of the emergency credits to a USD 500'000 cap in top salaries for management seems to have provided the right incentive.

Nevertheless, medium-term, these programs will lead to lower consumption and higher savings rates in America. Particularly, heavily exports-dependent countries such as China, Japan and Germany will suffer as a result of this.

American stocks are valued attractively and are likely to be the first to benefit from an economic recovery.

Europe

As in all other financial markets, it is not fundamental factors but psychology which is driving markets on the European stock exchanges at present. We do not set much stock by technical analysis, but from time to time we look at 30, 90 and 200-day averages as well as MACD¹⁹ and RSI²⁰ to verify trends or identify turnarounds. However, we are a long way away from a confirmed turnaround. For that, the 200-day average would have to be breached from below. The 30 and 90-day lines, however, have been broken from below for the first time since May last year. The MACD lines, as well as the RSI, are both in positive territory. The same applies to the Japanese as well as the American equity markets.

European equities are trading at a discount in absolute as well as relative terms.

Germany

The unemployment rate in Germany has already increased further and is now at the European average (8.1%). Due to Germany's export dependency, it is likely to continue to increase. This is reflected in the gloomy consumer confidence, which is at its lowest point since records began in 1999. Interestingly enough, German institutions seem to

take a different view. Since December last year, institutions have been expecting a recovery of the German economy.

We are positively disposed towards the German equity markets, on absolute as well as relative terms, German equities are trading at a discount.

Switzerland

The recession has arrived in Switzerland too. During the final quarter of 2008, the Swiss economy declined by 0.6% compared to the previous year's quarter. Exports in particular were unable to keep pace with imports. Officially, the SNB²¹ is expecting a decline of 2.5% to 3% on inflation of 0% for the current year.

Because of its strong export as well as financial sector orientation, rising unemployment is expected in Switzerland. Currently unemployment stands at 3.1%. It is rather astounding that in spite of this, consumer confidence managed a slight improvement, even though from a low level (-20 compared to a long-term average of -13).

Viewed relatively, Swiss equities are trading at a premium, however, on an absolute basis, at fair levels.

Japan

Japan is undergoing the most difficult economic situation since the Second World War. Exports have halved, industrial production declined by 9.4% in February, the unemployment rate is rising continuously. In spite of this, consumer confidence rose slightly on the previous month and the economic outlook is viewed slightly more positively. The latter is presumably because of the hugely reduced inventories. The economics ministry is expecting a marginal recovery in industrial production during the coming months.

Japanese equities are trading at attractive levels both on a relative as well as absolute basis.

Emerging Markets (BRIC)

Regular readers of our report will not be surprised that Russia has been affected above-average by this crisis. With an average crude oil price of USD 45 pbl this year, the World Bank is expecting a contraction of 4.5% in the Russian economy.

¹⁸ Troubled Asset Relief Program

¹⁹ Moving Average Convergence / Divergence

²⁰ Relative Strength Index

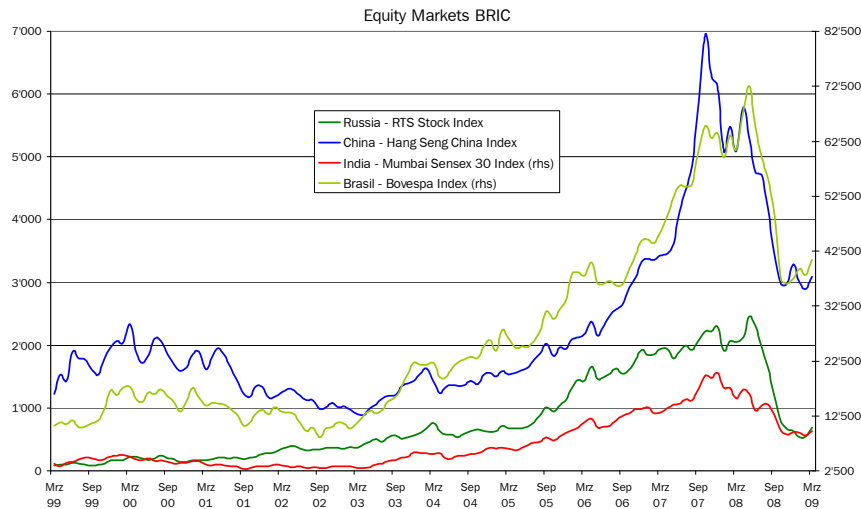
²¹ Swiss National Bank

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The ADB²² had to revise its economic expectations for Asia downwards for this year but is still expecting growth of 3.4%. The estimates for China and India, at 7 and 5% respectively, are likely to be too high. We expect these to be revised downwards.

Brazil is not going to be spared from the recession either. Even though economists expect economic growth in the magnitude of 1 to 2%, exports are likely to disappoint these expectations.

The current situation is much too unstable for SIM clients to become engaged in BRIC countries in any magnitude.



Bonds

In general, a little life has been restored to the bond market. In spite of rising default rates, short-term bonds of good quality names, as well as financials with government guarantees, are sought-after and new issues regularly strongly oversubscribed.

Only recently the rating agency, Moody's, reported 90 defaults on bank loans to the tune of USD 50 billion. The previous year, these figures were 26 on a volume of USD 3.8 billion²³.

This was not able to spoil investors' appetite for new bond issues. In the US, the first quarter saw nearly USD 400 billion investment grade bonds²⁴ being issued. Even high-yield bonds of significantly lower quality found buyers in a magnitude of USD 12.5 billion.

The US and the UK government found it markedly more difficult to place new bonds. This is not going to be an easy endeavour in future either. The question arises as to who will act as banker for these two countries. China already owns 24% of all US government bonds in foreign ownership. The Chinese have often been critical before and do not feel as confident about their investment any more.

As medium to long-term, nobody really has deep enough pockets; the United States will have to start the printing presses. Higher inflation will follow as a consequence. It has to be said however, for a debtor, inflation is not a bad mechanism. Deflation would be worse here. As a consequence, the American currency will be less attractive and will be burdened with a higher risk premium. A downgrading, i.e. a lower credit rating for the United States cannot be ruled out. The markets will align it.

Even though both the Fed²⁵ and the Bank of England are trying to keep interest rates low by means of quantitative easing, the market will demand higher interest rates for government bonds sooner or later.

	Mar 2009	Mar 2008	Diff. AAA – BBB	
			Mar 2009	Mar 2008
AAA Euro	4.63%	4.65%		
BBB Euro	7.61%	6.10%	2.98%	1.45%
AAA GBP	4.32%	5.48%		
BBB GBP	6.50%	6.75%	2.18%	1.27%
AAA USD	5.01%	5.14%		
BBB USD	8.39%	6.64%	3.38%	1.50%

²² Asian Development Bank

²³ NZZ, 30.03.09: „Geld und Anlage“ (Money and Investment)

²⁴ Credit rating BBB and better

²⁵ Federal Reserve Board

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Non traditional assets

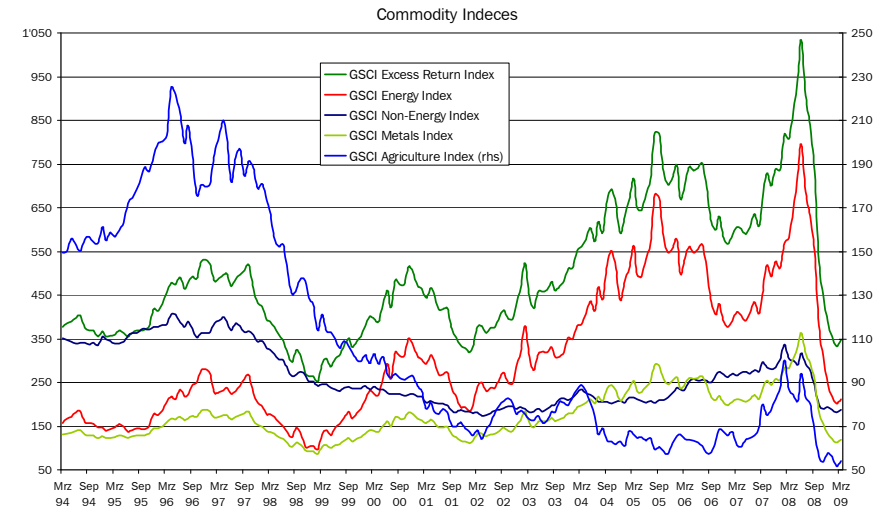
Non traditional investments fared better than traditional markets during the first quarter:

	<u>USD</u> ²⁶	<u>EUR</u>	<u>CHF</u>
<u>Thalmann & Verling</u> Fund of HF Global	-1.3%	-1.0%	-1.4%
<u>Bank Reichmuth & Co.</u> Matterhorn Fund	+0.5%	+0.6%	+0.3%

In spite of this, we had to report on a negative event last February. The flagship product of the Swiss Fund of Hedge Funds industry, the Reichmuth Matterhorn Fund, is to be dissolved. All investments of the fund are to be sold. Reichmuth & Co aims to liquidate and return 50% of the fund's assets to investors by the end of April 2009. Thereafter, quarterly repayments from sales proceeds are scheduled. Reichmuth & Co are expecting repayment to be completed by the end of 2010 at the latest.

Details on how this situation arose can be found in the letter to investors on Reichmuth & Co's webpage (www.reichmuthco.ch). Your consultant at Salmann will be able to help you with any further questions you may have on this investment. We are in regular contact with the fund managers to be able to undertake measures as and when necessary.

In normal circumstances, hedge funds contribute lower risk and increased diversification to portfolios. We continue to view an engagement in such products as sensible.



Commodities

Even though crude oil prices recovered considerably from their mid-February low of USD 39.7 pbl and statistically has further upward potential, the ability to realize this potential is, however, doubtful. Particularly so as low oil prices are having a huge stimulus effect on the economy, much larger than the promised rescue packages. Chris Watling²⁷ calculates the savings on last year at USD 1.72 billion, based on a crude price of USD 42! No stimulus package is to be had at more favorable terms. Oil producers will also see this in the same way, as their interest also lies in a strengthening of the economy.

Notwithstanding all de-/inflationary fears, gold did not manage to set new record highs. Quite the contrary, it could not hold on to the high of USD 1'004.50 per ounce in February. The G-20 mandate to the IMF to sell some of the gold stock in favour of the poorest of the world, acted as a further damper on gold. For more on this subject, please read the attached commentary by Teja von Holzschuher, Head of Salmann Investment Management's Zurich office.

²⁶ Performance from start of year to end February

²⁷ CEO of Longview Economics

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Conclusion

We are in a bear market of such historical dimensions as we have rarely seen before and will ever experience again. Similar opportunities are accordingly few and far between. We are looking to benefit from this anomaly and continue to be on the lookout for opportunities.

High volatilities will be with us for some time but we are of the view that we have left the worst behind us. This is why we are becoming more confident in respect of equities.

Summary of our current asset allocation:

Investment Category

Money Market	slightly underweight
Bonds	overweight / short duration
Equities USA	underweight
Equities Europe	slightly underweight
Equities Switzerland	neutral
Equities Japan	underweight
Equities Emerging Markets	underweight
Non-traditional assets	neutral

Stefan Riesen, CFA
Chief Investment Officer

Vaduz/Zurich, 7th April 2009