LABHA
INVESTMENT ADVISORS SA

QUARTERLY REPORT **Q2 / 2007**

June 2007

Though we expect the second half of the year to be more volatile than the first, we believe that markets will end the year higher than their present levels. The second half of the year should therefore prove to be more challenging and the rise in indices more contained in comparison to the first half. Moderate valuations coupled with good profitability, M&A activity and emerging market central bank funds investing in global equity markets should provide support. However, inflation remains a concern and if central banks continue to raise rates in quick succession in order to preempt a rise in inflation, growth may be affected to a larger extent six months down the road when the real effects of those rate hikes are felt. For now it appears that while inflation is being closely monitored, central banks in the developed markets are either on hold or close to the end of their tightening cycle. The second source of concern remains the sub-prime mortgages in the United States and the effect that the fall in related instruments is having on hedge funds which hold these securities. The balance between the factors outlined above will probably dictate the way equity markets perform for the remainder of the year.

Large cap stocks have performed well on an absolute and relative basis this year. We expect continued strength in large caps based on growth supported by international exposure, attractive valuation and purchasing from emerging market central bank funds. We expect the importance of fundamentally based stock selection as a driver of performance to continue to rise as liquidity driven momentum buying slows due to the increase in the cost of borrowing and a moderation in the propensity to take risk.

Seefeldstr. 301, 8008 Zurich, Switzerland, Tel +41 43 497 2688, Fax +41 43 497 2686, Email info@labha.com