LABHA
INVESTMENT ADVISORS SA

QUARTERLY REPORT **Q4 / 2008**

December 2008

Having taken a more defensive stance for most of this year our clients outperformed the market almost every time there was a drop. However, our advise to buy into the longer term structural themes recently was proven to be too early as these were the holdings that hedge funds were forced to liquidate to meet redemptions. In the past two to three weeks however, markets have been responding well to bad economic news and it appears that a measure of rationality has re-emerged. As a result all of the positions which were underperformers in the previous two months have outperformed and the dollar has fallen benefiting our client positions. Announcements of massive infrastructure spending packages from the US to China also boosted the emerging market and infrastructure positions we advised clients to build in Q3 and Q4. This resulted in relatively good month of December for our clients.

Though news on the macro economic front continued to worsen in December, equity markets have been more resilient than consensus expectations and this trend could continue into the New Year. This pattern has been noted in previous recessions. Equity markets have usually fallen before the worst of the macro economic news and then attempted to rally in advance of a potential recovery. Of course this cycle has seen so many exceptional movements that historical comparisons have often proven futile.

We believe that though deflation is the primary concern now, the measures being taken to fight it will probably result in the return of inflation concerns in the not too distant future. In July 2008 inflation was the main focus of most central banks and this has been replaced with an anxiety about deflation in a period of just four months. Therefore, considering the structural worries about medium term energy, basic material and food supplies, it will probably not take long for inflation to resurface once the global economy shows signs of stabilising. The situation will be aggravated further by the delay in projects for mine expansion and energy exploration and production due to the present concerns about their economic viability.

We have seen signs of the return of stock-picking and differentiation between individual stock performance based on valuation and balance sheet quality. This differentiation was non-existent during the fourth quarter of 2008 as many high quality stocks dropped due to forced liquidation by hedge funds and general deleveraging. We have continued to recommend an increase of positions in stocks we believe meet the above mentioned criteria and our clients should benefit if the current trend continues.

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