



LABHA
INVESTMENT ADVISORS SA

QUARTERLY REPORT

Q1 / 2009

March 2009

Our clients had a very good quarter as most of the positions taken in Q4 08 rallied strongly and outperformed their respective benchmarks. This was noticeable on the regional level at which our recommended overweighting of the emerging markets proved to be very profitable. At the sector level the extreme underweighting of the financial and consumer discretionary sectors versus a substantial overweighting of commodity, infrastructure and energy stocks worked well. At the stock picking level we were able to add additional outperformance with stocks like Freeport-MacMoRan, Bunge, Komatsu and Transocean. At the currency level our clients have been underweight the USD and overweight commodity currencies and this has not yet paid off.

This positioning resulted in global equity portfolios advised by us being up 4.3% for the quarter and year-to-date, substantially outperforming the MSCI World Equity Index in CHF including net dividends which was down 0.5% for the quarter. This was despite the fact that the underweighting in the USD and overweight of commodity currencies has cost 1.8% in relative performance. Therefore decisions at the regional, sector and stock picking level have added 6.6% in outperformance.

Chinese PMI has risen from 38.8 in November 2008, to 41.2 in December, 45.3 in January, 49 in February and 52.4 in March 09, confirming an expansion. The difference to previous expansionary periods could be that instead of Industrial Production (IP) capacity growth of 20% /year for export purposes, rails, roads, energy and agriculture will grow 20% and IP will be flat to weed out excess capacity in certain areas.

China has much better investment opportunities in the present environment than the purchase of US treasuries. At today's prices buying commodities and investing in the infrastructure projects that will be completed faster, way under budget and create much needed jobs would be a better use of reserves. They have already started to forge large deals with Rio Tinto, Russia and Petrobras – "Natural Resources For Credit". Politically this is less sensitive than an outright share purchase and they can store future resources in the ground instead of having to warehouse them. They are likely to buy \$300-\$400 billion worth of treasuries but not the \$500 - \$700 billion the U.S. would like them to buy. This should cause treasury yields to rise and the dollar to weaken.

The US would be very comfortable with a weaker dollar for the medium term. This would make exports cheaper, fight deflation, moderate the trade deficit and make debt repayment easier. All of this is to the detriment of those who lent to them and those who will lend to them in the future. The US dollar should weaken but not excessively because the other global reserve currencies have problems of their own and all of them are hoping for relative currency weakness to help support export and fight deflation. However, the biggest winner from the fall in confidence in the leading global currencies has been and should remain gold. Even though we felt Gold was temporarily overbought at USD 1000 and advised clients to book profits at that level, we continue to recommend holding a core position for the long-term. We recommended an increase in

holdings of Norwegian Kroner when it dipped recently, as we believe that it is supported by a strong balance sheet and future earning potential. Our clients have also increased their exposure to the Australian and Canadian dollars on dips.

Commodity prices tend to rise as the dollar falls and /or inflation rises as the demand for real assets to protect purchasing power increases. If emerging markets have to increase domestic spending and all countries are increasing infrastructure projects, we would expect a further boost to commodity demand. At the same time exploration and production projects by mining companies have been postponed indefinitely due to the current crisis. This will cause a considerable delay in supply response when demand normalises.

Therefore, it may be difficult to predict when global markets will bottom and when housing will stabilise or consumers start spending again. However, it is clear to see the trend in government spending globally. Consumers may continue saving for a while in order to re-build their balance sheets. However, governments have reaffirmed once again that they are willing to do anything it takes to stimulate growth. Unlike private households which will not be able to increase leverage and are being forced to save, governments can print money to make the necessary investments to stimulate the economy. Many of them have already shown a propensity to do so.

The market has received the details of Geithner's plan and seems pleased with it. Credit markets have improved substantially but are now plateauing. Better news than expected from some banks and other companies like Oracle and Nestle has led to an improvement in sentiment from very depressed levels at the start of March. Commodity prices have started to stabilise and even rise substantially as is the case with oil and copper. All of this has produced a strong rally in equities. Though news on the macro economic front looks gloomy, several indicators are pointing to a stabilisation or improvement in Q1 09. Unemployment numbers continue to deteriorate, however, this is a lagging indicator and as such not expected to improve till the end of 2009. We believe that volatility will remain at elevated levels. Therefore, we have recommended taking some profits in stocks which have reached our targets and raising some cash in the recent rally.