



LABHA
INVESTMENT ADVISORS SA

QUARTERLY REPORT

Q2 / 2009

June 2009

Our clients had an excellent quarter as most of the positions taken in Q4 08 continued to rally strongly. At the regional level the overweighting of emerging markets proved to be very profitable, once again. At the sector level the underweighting of the financial and consumer discretionary sectors was not as favourable as it was in the first quarter however the overweighting of the commodity, infrastructure and energy stocks proved to be very profitable. At the stock picking level our clients were able to add additional outperformance with stocks like Larsen & Toubro, Xstrata, TomTom and Fluor. At the currency level - the underweighting of the USD and overweighting of commodity currencies turned out to be a big boost to performance.

Therefore year-to-date our equity clients have performed almost twice as well as the benchmark without taking on extra risk to achieve the result. There has been clear alpha generation at every level.

Now that equity markets have re-rated from a scenario of impending doom to that of stabilisation with some early signs of recovery, further gains will depend on company results. The second quarter earnings season will begin next week and will be the most important determinant of the performance of equity markets through the summer. We expect most companies to beat consensus estimates. This should be the case for most technology and consumer staples companies as well as some energy, metals and industrial names. We expect financials to be a mixed bag and the consumer discretionary sector to continue to struggle. However in general we believe that this remains a stock pickers market and will favour those who are able to find individual companies that will outperform the broad markets. We have been successful with our stock picking and hope that we can build on the outperformance going forward. Our clients have booked some profits in the energy and materials sectors but remain overweight as we believe that these sectors are in a structural sweet spot. They also continue to be underweight the consumer discretionary and financial sectors which we believe are in a structural downturn, despite sporadic rallies. However, they have added to consumer staples, healthcare and telecom weighting as these sectors were undervalued in our opinion. In general we expect US multinationals with substantial earnings from exports, strong brands and stable balance sheets to be the best performers in each sector.

Japan has been one of the best performing developed markets this year and based on valuation and proximity to the fast growing Asian markets, we expect this trend to continue. However, we believe that there are several excellent opportunities in the US and Europe for stock pickers. These companies are profiting from lower input prices and falling payrolls. This will be a big advantage as growth returns even if it is a slow and drawn out process.

Commodities and currencies should continue to be very volatile. Recently the two have been extremely correlated. The summer tends to be a period of high volatility in commodity prices and we do not expect this year to be any different. We believe China will continue to be the biggest influence on commodity prices. They tend to start stockpiling at lower price levels and hold off as prices rise. This leads to a volatile trading range

which should be in place until further signs of economic improvement are seen from the US or Europe. Once Europe and the US start to show a couple of months of positive demand and production figures, commodities should break out of their range and head higher.

This is an environment which demands active portfolio management and we have been able to take advantage of this trend so far. Rebalancing of regional, sector and currency allocation on a regular basis has been essential in order to produce superior results with risk levels at or below that of the broad markets. This could prove to be a trend that defines performance over the next few years.