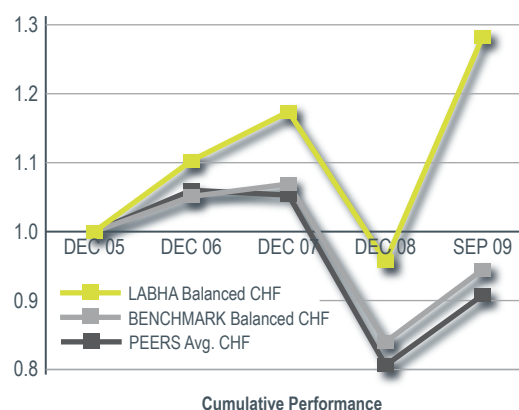
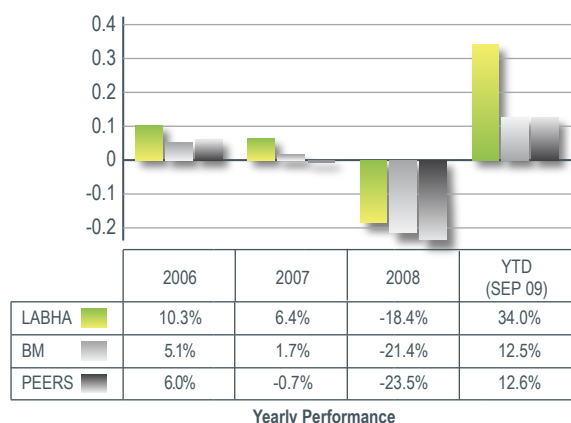


QUARTER REPORT

September 2009

The third quarter of 2009 was one of the best performing quarters ever for equity markets with many markets up 15-20%. As US unemployment figures turned less negative and ISM numbers moved into expansion territory markets gained momentum as many who were waiting for a setback were forced to buy equities. The re-rating of equities from a scenario of impending disaster to that of a tough but improving environment took place in the second quarter. In the third quarter improving earnings drove the markets higher. Commodity markets were choppy, with oil, copper and natural gas experiencing 3-4% fluctuations over 24 hour periods quite regularly. Gold broke through the USD 1000 mark, encouraged by the approaching festive and wedding season in India.

Our clients had a good quarter (+12% for Balanced portfolios) even though regional allocation did not have much impact on performance. **At the stock picking level we were able to add additional outperformance with stocks like ABB, Georg Fischer, Siemens and ThyssenKrupp.** At the currency level - our underweighting of the US Dollar and British Pound was supportive performance.



The performance depicted above is the average of performance achieved for CHF balanced portfolios managed by LABHA. Past performance is not necessarily a guide to future expectations. Benchmark: 50% MSCI World Equity Index in CHF (net) and 50% J.P. Morgan Global Aggregate Bond Index in CHF. Peers: Balanced Strategy Funds quoted in CHF (Data source: Bloomberg).

As noted in our June commentary most companies beat consensus estimates as we expected. However, this increase in earnings was achieved mostly through cost cutting as companies had taken rapid action to minimise costs in the first quarter of 2009 and their worst fears with regard to the economy were not realised. Unlike the first and second quarters, markets are expecting good things in the last quarter of this year. Therefore just as the likelihood of being positively surprised was high in the past two quarters, the probability of disappointment has now risen.

Many market participants have missed one of the biggest rallies in history and are getting increasingly nervous about facing clients as the year end approaches. As a result most 2-3% drops have been bought so far and the race to increase equity allocation continues. Though we are cautious going into the notorious month of October, we are also aware of the fact that cash and treasuries have lost their attraction as yields have dropped and risk aversion moderated. Many investors still have an undesirably high allocation in these two areas. The corporate bond market is now looking fairly priced in most cases and the hunt for yield is leading investors to high yield stocks especially as the dividend paying quarters approach.

Commodities and currencies should continue to be volatile. The inverse relationship between the US dollar and commodity prices looks set to continue. We have gradually reduced our cyclical exposure and have increased our exposure to the more stable cash flow, higher dividend sectors like Telecom and Healthcare. These stocks have performed well over the past month and should do well as we approach the end of the year.

Gillian Hollenstein