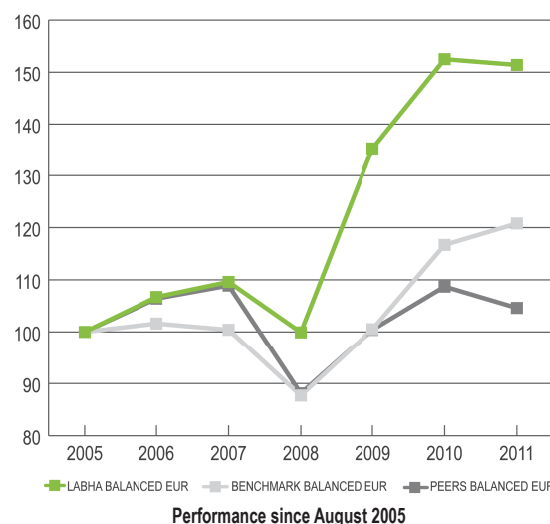
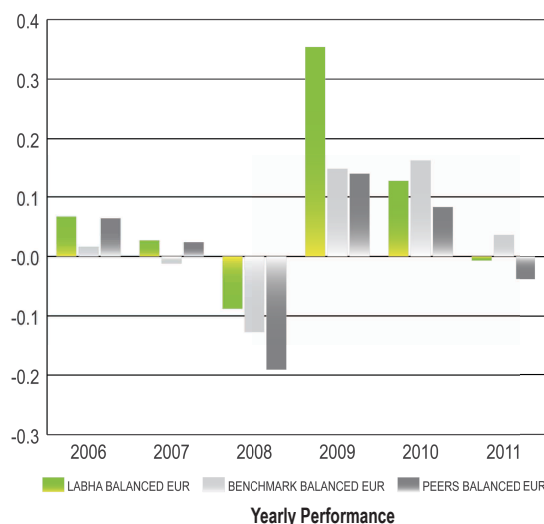


Quarter Report EUR

Q4 / 2011

The debt situation in Europe and the fear of a hard landing in China continued to weigh on investor sentiment through the fourth quarter of 2011. However, the quarter turned out to be positive for our clients as we used dips to add to positions we believe offer value and these did very well in the rally of the past five weeks. We maintained a defensive position in portfolios but used phases of market panic to buy back cyclical positions we had sold earlier in the year.

Though we could not completely avoid the negative influence of the European stock markets, the average performance of the Euro Balanced portfolios for the year was -0.7%, this compares very favourably with the -3.7% from our peers. This less negative performance in very difficult markets was driven to a large extent by our more defensive position as well as stock picking, e.g. Unilever, Royal Dutch, Roche and Procter & Gamble. We were also able to add value by choosing bonds with durations which have done better than the average bond market. We booked profits in gold during August and bought back what we had sold in December at a price which was 15% lower.



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

During the first half of last year when investor's sentiment was more positive and most market participants were focusing on the cyclical stocks, we were increasing holdings in defensive consumer staples and healthcare companies like Unilever, Procter & Gamble and Roche. These stocks have performed very well and though they could continue to rise we do not see exceptional value in them at current levels. The more cyclical stocks which were much loved by investors in the first half of 2011 were rapidly abandoned in the fourth quarter of 2011. Markets dropped sharply in early October and November and we used the opportunity to start positions in stocks like ABB, and Siemens. We started to build positions in these companies as we saw excellent value in many of them in early October and November. Investors were expecting the worst from the Eurozone sovereign debt situation and negative economic news from the US and China. In fact December brought more moderate and improving news from the Eurozone and several positive surprises on the economic front from the US, China and Germany. Investor sentiment was at very low levels and even small bits of good news caused a very strong rally in December, as most market participants were very underexposed to equities.

To summarise, we are underweight equities, though less so than in the middle of 2011. Our bond exposure remains underweight and we have temporarily raised cash levels. We have rebuilt the gold positions sold in August and intend to add to positions on any further weakness.

We believe that the first couple of quarters of 2012 will probably remain very volatile as positive news on the economic front is likely to be negated with Eurozone debt crisis issues. In 2011 we were able to protect our clients from the worst of the crisis and have produced a much better result than most of our competitors. We achieved this result by rebalancing portfolios regularly. We booked profits when the markets looked like they were ignoring risks and bought back positions when we felt fear had taken the upper hand. We applied this discipline across asset classes, regions and sectors and believe that regular rebalancing will be necessary in 2012 as well.

Over the past decades studies have shown that equity markets usually do better when current earnings are lower than the previous year or quarter. As long as earnings are not falling off a cliff, market participants tend to anticipate earnings improvement. Also, if markets are not expecting too much, even small positive surprises can produce strong rallies. Markets do not perform so well when current earnings are high as most of it is already priced in and it is more likely that company results will disappoint the very high expectations. Therefore, just as we have done in the past, we continue to follow the discipline of adding to positions when we feel that markets are good value. We tend to book profits when markets have rallied substantially and investors are getting complacent. Though this has been positive for our client portfolios, the fact that we buy when the consensus is panicking and sell when the consensus is euphoric is not always easy for clients to accept on the day that these actions are taken. Investors are attempting to time the market and avoid volatility completely. We are of the opinion that in order to attain good returns over the medium term, the ability to tolerate some volatility in the short term is essential.

We are pleased that our clients have provided us with very positive feedback regarding our approach to these difficult markets and look forward to a successful 2012. We wish you and your families all the very best of health, happiness and prosperity for the New Year.

Gillian Hollenstein

Important Disclosures

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