

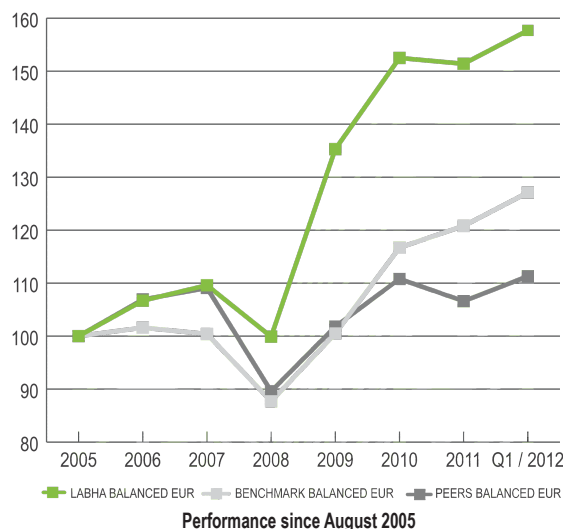
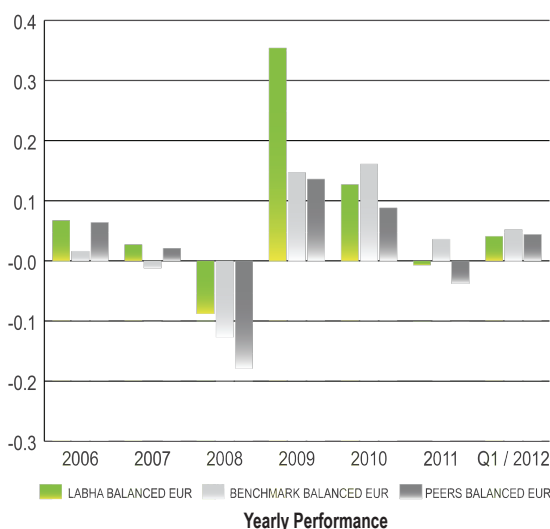
Quarter Report EUR

Q1 / 2012

MARKET ANALYSIS

The strong start to 2012 was a big surprise to most investors who did not participate in the best part of the rally in January. We mentioned in our previous report that markets were expecting the worst and even small items of good news would tend to result in major rallies. Therefore, we had increased equity exposure gradually in the third and fourth quarter of 2011 and were well placed for the rise in equity markets. Now that the equity markets have performed so well, several of the most pessimistic experts have changed strategy and are more positive. We, having increased our equity exposure before the rally started, have chosen to book profits especially in the US and Europe and await better re-entry levels.

The average performance of the Euro Balanced portfolios for the quarter was 4.1%, in line with the 4.4% of our peers. Those clients who have read the various finance articles comparing the performances of banks and wealth managers across Europe may have noticed that, once again in 2011, we were as good as the best in difficult times and we have performed well in this good quarter for the markets. Most banks or wealth managers who did well in the negative markets last year did not do well in this very positive quarter. Those who did well this quarter, had large negative performances last year. We managed to be at the top of the list of best performers in both market situations. While we cannot guarantee that this will always be the case and recognise that there is an element of luck in all success in life, we believe that our disciplined approach has been a major contributor to our consistent outperformance since we started LABHA.



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).

Now that the US and European markets have rallied strongly, we are reluctant to make any major purchases. Most market participants have turned from being very positive on the emerging markets in 2009-2010 to a very negative stance in 2011 and 2012. They are now convinced that US growth is on track after being very uncertain about US GDP just two quarters ago. This position is evident when we look at the various reports and studies available on the topic. However, we should remember that America was struggling to grow in 2009 and 2010 while it was evident that the emerging markets were growing strongly. The fear at the time was that the gap in growth between the developed and emerging world was getting too stretched. The US therefore, launched a massive money printing campaign which resulted in an increase in US export competitiveness through US dollar weakness. However, the side effect was commodity inflation which forced China, India and other emerging markets to step on the brakes in order to bring domestic inflation under control. China and India spent most of last year fighting inflation and raised interest rates as well as reserve ratios several times to achieve their goal. As a result, growth in both countries has slowed from about 9% to about 7%. So far China seems to have succeeded better than India in controlling

inflation. However, both countries now have the scope to reduce interest rates and boost growth at a moment when it appears that the US is adopting a "sustain global growth" policy rather than purely concentrating on US competitiveness as was the case during 2009 and 2010. If China and India ease, their stock and bond markets should rally. Emerging markets sold off dramatically in the second half of last year and, though they did well in the first two months of this year, sentiment is still negative. We have booked profits in the US and Europe and initiated positions in the Emerging Markets. We intend to add to these positions on further weakness.

A large part of the equity rally this year was based on the fact that many investors and speculators were caught short and had to cover their positions or raise equity exposure as the debt situation in Europe progressed more calmly than expected, economic headlines were better than consensus, and the first quarter earnings season provided support to individual stocks. However, though we believe we are in the process of a trend change from equity underperformance to equity outperformance, transition periods are usually more volatile and drag on for longer than expected. There are elections in France and Greece to contend with in the current quarter. There is also negative news potential related to the governments of Italy and Spain and their struggle to get austerity measures implemented. All of this could result in market turmoil which could temporarily raise equity market volatility from its current low levels. However just as was the case last year, we believe that such periods of volatility offer opportunities to increase equity exposure.

To summarise, we are underweight equities, though less so than in the middle of 2011. Our bond exposure is underweight in developed markets and overweight in the emerging markets. However, we are using market volatility to build positions in individual stocks or bonds which we believe offer value at present levels. We currently retain our gold position and intend to add to it on dips.

Gillian Hollenstein

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