

Lucerne, December 13, 2008 RC/CR

Client Information

## **Bernard L. Madoff arrested by the FBI – Reichmuth Matterhorn affected**

Dear Investors,

According to press releases Bernard L. Madoff was arrested by the FBI over an alleged USD 50 billion fraud on Thursday and was released after posting a USD 10 million bond.

Madoff, a former chairman of the Nasdaq stock exchange, is best known as the founder of Bernard L. Madoff Investment Securities LLC, the closely-held market-making firm regulated by the SEC. According to the press, Madoff allegedly said "it is basically, a giant Ponzi scheme." Further information is currently not available.

Reichmuth Matterhorn, a fund of hedge funds, has exposure to several hedge funds which could be affected by this event. Provided the mentioned hedge funds will have to face a total loss, the performance impact on Reichmuth Matterhorn would amount to about 8.6%.

Taking the potential total loss of the exposed hedge funds into account the pro forma USD performance of Reichmuth Matterhorn would be -9.6% as of November 2008. This results in a YTD performance of -18.4%. In comparison, the HFR Fund of Fund Index is down 19.1% as of the end of November (without consideration of a potential loss of Madoff) whilst the MSCI world index posted a negative performance of -42.5%, i.e. a loss that is more than twice as large.

Given this potential loss, Reichmuth Matterhorn would have to give back the 2007 performance of +20.6%. Since inception in 1997 the performance would stand at +7.4% per annum, slightly below our target of 8-10% per annum with a volatility of about 5.4%.

This occurrence is inexplicable - especially when considering that all affected funds were audited by some of the most renowned audit firms, i.e. Ernst & Young, PwC, KPMG and BDO. Further, all periodically proved transactions appeared plausible. Yet, no one is immune against fraud.

This fraud has an impact on client's accounts provided that there is an allocation to Reichmuth Matterhorn. For example, in the case of a portfolio allocation between 15%-20%, the performance impact would potentially amount to a loss between -1.3% and -1.7%. In the case of our strategy fund, Reichmuth Alpin, the allocation amounts to 17%, and, hence the negative impact is -1.5%. Reichmuth Hochalpin, the allocation amounts to 22%, and, hence the negative impact is -1.9%.

The balance sheet of our bank is not affected by this fraud. We are an investment management firm which does not conduct such on-balance transactions like granting of credits or proprietary trading. The affected funds amount to roughly 3.5% of our assets under management of approximately CHF 11 billion.

It is our aim to inform you promptly and we sincerely regret that Reichmuth Matterhorn is affected by the criminal activity of Bernard L. Madoff. As a matter of course we will keep you posted, as soon as we have further information and remain at your full disposal to answer any questions that you may have.

In the meantime, we send you our best regards from Lucerne and remain

Truly yours,

REICHMUTH & CO



Dr. Ricardo Cordero



Christof Reichmuth