PRIVATBANKIERS
REICHMUTH & CO
INTEGRAL INVESTMENT MANAGEMENT

CHECK-UP

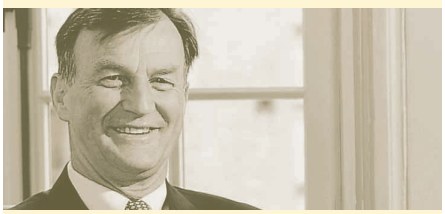
CLIENT INFORMATION OF PRIVATBANKIERS REICHMUTH & CO, INTEGRAL INVESTMENT MANAGEMENT

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EDITORIAL

«There is no tree growing into heaven – but on the other hand there is no hole leading into hell». These words of my mother also hold for the stock market. Thus, in 1998 it was not wrong to reduce the equity exposure and to build up alternative investments in view of the over-optimism at that time. And now it is time to look for candidates which are already undershooting.

Today most people do not see that also supposedly risk free investment categories like money markets or bonds can overshoot. Inflation rates are already higher than short term interest rates. If the inflation exit is followed, then these investments will not keep their real value. Therefore, we will show in this Check-Up how important «Absolute Thinking» and innovative ideas are for long-term investment performance. These basic thoughts are supplemented by a well tested structural instrument, the so called «Switch Control Box». It is the heart of our concept «Integral Investment Management».



Karl Reichmuth
Partner with unlimited liability

INFLATION AS AN EXIT STRATEGY

BUT IT MIGHT TAKE SEVERAL YEARS

The current outlook for the world is not good. War in Afghanistan and Iraq, and the «axis of evil» includes more dynamite, like North Korea. The economies suffer from over-capacities, risk aversion of investors and lacking consumer confidence. Unemployment is increasing, and the high debt burden weighs heavily on many companies and governments despite low interest rates.

Democracies are Almost Unable to Reform Themselves

The inability for reforms is a big disadvantage of today's democracies. Reforms often cause much pain, and politicians can lose voters. This leads to a search for an exit strategy which can solve the problem without pain in the short-term; higher inflation is such an exit.

Inflation – the Chosen Exit

Inflation helps debtors (governments, companies, US consumers) and punishes investors and savers. Companies are better positioned to bear their debts thanks to pricing power, governments get increasing tax returns, and they can reduce debt in real terms. Ben Bernanke, governor of the US Federal Reserve, has explicitly stated that the US will make use of all possible measures to avoid deflation. This is the way to reflation, a combination of expansive fiscal and monetary policies.

Reflation is a Tightrope Walk

If interest rates were increased substantially in an inflationary environment, the US real estate boom would collapse. The result would be that consumers and the banking system would face serious trouble. Another effect might be a much weaker USD hurting USD investors in Asia and Europe. These regions would become less competitive with a weaker USD, hence resulting in a lagging economic recovery.

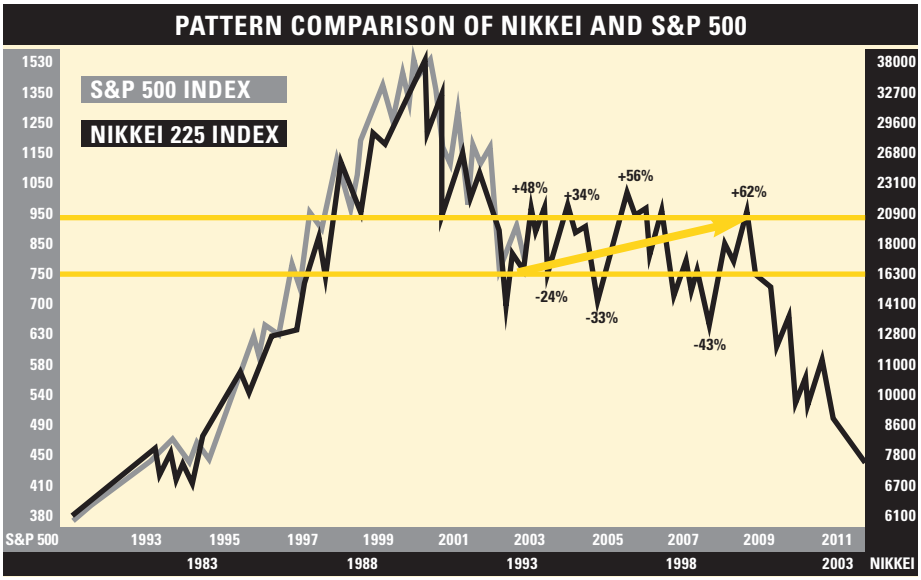
Over-Capacities and Unemployment Delay Inflation

Worldwide over-capacities and increasing unemployment prevent inflation from rising immediately. Globalisation has led to pressure on prices for practically all tradeable goods, but also to sinking prices for many services. There-

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fore, we do not expect inflation to pick up in the short run.

Investing in the Current Environment

In this environment, we have to adapt to the not very encouraging outlook for the economy, where structures which are no longer sustainable, finally disappear. At the same time, the reflation scenario should be kept in mind. Thus, the portfolio can correspondingly be positioned within the coming 2 or 3 years. In an environment of extremely low interest rates and very unattractive perspectives for the economy, responsible asset management is quite a challenge.

Negative Real Interest Rates …

Interest rates on deposit accounts or in the money market are currently so low that they do not even compensate the already low inflation. This means that real returns are negative. Bond investments are justified only as a waiting position and to diversify counterparty risk. Corporate bonds of companies with a sound balance sheet and good cashflow are somewhat more attractive.

… and Diversified Equity Markets

There are different kinds of stocks. On the one hand, there are companies which are solidly financed with a dividend yield of 4% or more; on the other hand, there are the broadly traded equities with a large capitalization, which we think will continue to go more or less sideways. The fundamental valuation of many small cap stocks looks attractive, especially in Europe and considering its smaller risk of inflation.

Equity Market Japan – Scenario for the Coming Years?

The big boom, driven by sinking interest rates and increasing multipliers (P/E), is over. But most of the correction is also behind us. The most likely scenario is a long sideway trend with large fluctuations. The chart with the example of Japan indicates, that the first cyclical counterrally could last several months, and could easily account for 50% from the low to the top of the trading range. If translated for the S&P 500 index this would mean that the US equity market might go from 780 points to 1170 points and then go down again. For the DAX we would see an increase from 2200 to 3300 points, which seems even more likely to us. The fundamental valuation in Germany is much more attractive, the correction was sharper, and there are more similarities with mercantilistic Japan.

Fair Values and Discipline

These are the two success factors to create value in such a market. Passive investment in the index can be positive or negative depending on the exact time period. Yet on average, the total performance over the coming years will probably be slightly positive, also thanks to dividend income. Additional performance should be possible for investors, who systematically compare fair values and derive a strategy of under- and overweighting equity exposure. Discipline and keeping distance to the daily market movements are important for the success of this strategy. One must have the ease not to be invested over an extended period of time, in order to be able to take advantage from upcoming opportunities. This is possible only with an absolute investment strategy over a multi year horizon (see «Absolute Thinking», p. 7).

Alternative Investments still Attractive

Alternative investments, which have become increasingly fancy, still offer an attractive risk/reward ratio. They try to combine equity-like performance of 8 to 10% with low volatility. The risks are qualitatively about the same as for equity investments. But the volatilities are much smaller, which is very important for insurance companies and pension funds which have lost most of their risk capacities over the past years. Overweighting investments in a diversified alternative portfolio is therefore still recommended. With Reichmuth Matterhorn we have such an instrument ever since 1997. It has a proven successful 5 years history with a performance of +8% per annum or +50% overall; in comparison, equity markets halved over the same time period.

Your Reichmuth & Co Team

MARKET OUTLOOK
2nd TRIMESTER 2003

INTEREST RATES

Interest rates remain low. In the euro zone they might even fall further.

Global economic development remains unsatisfactory. Companies are concentrating on the objectives of reducing costs and deleveraging whilst keeping their investment plans at a low level. In addition, banks are extremely cautious in providing financing. Consumers, at least in the USA, are heavily indebted and are holding back on spending. Only the massive increase in American public spending (financing the war) has a limited stimulant effect on the economy. This environment allows the central banks to continue their extremely expansive monetary policy without creating immediate inflationary pressure. The large money supply will lead to new inflation and to higher interest rates in the long run. Yet, until this realizes, some years may pass.

To be specific, we expect the European Central Bank to lower the base lending rate one or more times during the second third of 2003, and long-term European rates may also fall slightly. Therefore, medium term euro bonds are still attractive. The Swiss National Bank has reached the end of its potential to reduce interest rates. Money market rates are not able to fall further for technical reasons. The rates of return on CHF bonds should remain at their current level, whereby the interest differential to the EUR will be reduced slightly.

The spreads for lower quality bond issuers have fallen again and are now only slightly above their long-term average. Even so, we still believe that corporate bonds remain attractive.

CURRENCIES

The continuing downward spiral of the USD is having a positive effect on the US economy.

The exchange rates for the main currencies are moving in an unstable equilibrium. This is reflected in increased volatility, i.e. high day-to-day fluctuations without any significant shifts being apparent. In principle, and especially when taking the enormous trade deficit into account, a significantly lower USD is to be expected in the long run. In Japan, the Bank of Japan is putting all its efforts into maintaining the USD at its current level. However, because of the enormous surplus in the balance of payments and the continuing tendency towards deflation, this is doomed to fail in the long run, even if the recession continues.

In Europe, the GPB has weakened considerably vis-à-vis the EUR and is close to reaching the level, where decision-makers (central banks, English government and industry) may judge it to be ripe to join the European monetary system. Therefore, we expect a rather stable GBP/EUR exchange rate. Fluctuations in the Norwegian NOK are closely linked to petroleum price movements and, therefore, can only be forecast in conjunction with the prognosis for oil prices. In the long run, we do not expect any significant shift in relation to the EUR.

Set in motion by the aggressive low interest policy of the Swiss National Bank, the CHF has weakened somewhat in relation to the EUR. In the long run, and in view of interest rate differentials, we expect the CHF to appreciate against the EUR in the order of maximum 2 cents a year on average. Thus, the decision either in favour of the CHF or EUR is not particularly relevant for evaluating risk.

EQUITY MARKETS

Equity markets remain volatile and on balance will have a sideways tendency for some time to come.

On average, shares are valued quite fairly on the usual fundamental criteria. But there are clear differences by region, by sector and by individual securities. US shares are still too expensive, and since Wall Street remains the world's leading exchange, this has a negative effect on the more attractively valued markets in Europe. Because of the many uncertainties (extreme claims for damages, insufficient retirement fund reserves, creative accounting) the risks are high, and this is expressed by consistently higher volatility. After the market rally in the aftermath of the outbreak of the war in Iraq, we expect markets to correct downwards. However, for the whole second quarter of 2003 the movements, measured against the indices, will probably remain relatively small.

Despite the overall rather fair valuation there are many attractive securities, which at least in the medium to long term should offer a very good investment result. As an example of this, there are many less liquid securities of smaller companies in traditional sectors, especially in continental Europe (Switzerland, Germany, Austria, Finland). Many of these firms have adapted to the unsatisfactory economic situation, successfully restructured, and are making handsome profits even in the unfavourable current conditions.

INVESTMENT POLICY

2nd TRIMESTER 2003

	CH	EU	UK	USA	J
Purchasing Power Parities					
Ned Davis Research	1,51	1,01	0,64	1,00	110
GDP Growth					
actual	0,1%	0,9%	1,5%	2,3%	-0,6%
6 months	↘	↘	↘	↘	→
3 years	↗	↗	↗	→	↑
Inflation					
actual	1,3%	2,3%	3,1%	3,0%	-0,2%
6 months	↘	↘	→	↗	↗
3 years	2,0%	2,5%	3,0%	3,5%	1,0%
Stock Market	**SPI**	**DAX**	**FTSE**	**S&P 500**	**TOPIX**
Price/Sales	0,99	0,38	1,16	1,30	0,69
Dividend yield	1,7	3,0	3,9	1,8	1,2
Price/Book	2,0	1,2	1,8	2,8	1,3
Price/Earnings 2002	67	2280	63	31	197
Price/Earnings 2003 E	16	16	21	17	51

	CH	EU	UK	USA	J
Money Markets (3 months)					
actual	0,2%	2,4%	3,6%	1,2%	-0,02%
6 months	→	↘	↘	→	→
Swap Rates (10 years)					
actual	2,8%	4,3%	4,6%	4,3%	0,6%
6 months	→	↘	↘	↗	→
3 years	↗	↗	↗	↗	↑
Currencies					
actual		1,50	2,16	1,38	1,15
6 months		→	↘	↘	→
3 years		↘	↘	↓	→
Stock Market	**SPI**	**DAX**	**FTSE**	**S&P 500**	**TOPIX**
actual	3.200	2.900	3.900	890	790
6 months	→	↗	→	→	↗
3 years	↗	↗	→	→	↗
Real Estate Market	→	→	↘	→	↗

Legend: ↑ = strongly increasing → = neutral ↓ = strongly decreasing as of: 22 April 2003

STOCK RECOMMENDATIONS

MAY 2003

	SECTOR	WORLD	SECONDARY	SPECULATIVE	SELL
BASE IND.	**Chemicals**		DSM Kemira		
	Basic Resources	Anglo American	M-Real		
CYCLICAL CONSUMER	**Automobiles**	VW Pref. Daimler Chrysler			
	Retail			Charles Voegele	
	Media				
NON- CYCLICAL CONS.	**Food**	Nestlé	Südzucker	Altria	
	Various		Kali+Salz Emmi (Convertible)		
ENERGY	**Energy**	TotalFinaElf Royal Dutch	ENI OMV	Lukoil Transocean Gazprom	Repsol
	Utilities		RWE V CKW PS		
FINANCIALS	**Banks**		LUKB SGKB	Commerzbank CS	ABN Amro
	Insurances	AXA Swiss Re	Baloise	Zurich Fin. Allianz	
	Financial Serv				
HEALTH	**Pharmaceuticals**	Schering-Plough Roche GS Novartis	Merck KgAA		
	Biotech			RIM CC Bioscience Myriad	
INDUSTRIALS	**Building**	Holcim	Hunter Douglas Pilkington	Dyckerhoff Pref.	
	Machinery		Schindler PS		
TECHNOLOGY	**Hardware**	Philips Siemens Hewlett-Packard	BB Medtech Samsung Pref.		
	Software			Computer Associates	
TELECOM	**Telecom**				
	Equipment			Alcatel Motorola	
CERTIFICATES	**Index**	Dax Airbag	MDAX		
	Style		Pilatus	Bottom Fishing	

INVESTMENT STRATEGY

2nd TRIMESTER 2003

PERSONAL INSURANCE

Currencies

- CHF overweight
- EUR normal weight
- USD at a minimum
- 0-5% various currencies

Categories

- Duration CHF bonds 3 years
- Duration EUR bonds 4-5 years
- Up to 5% real estate equities
- Up to 5% dividend stocks

The recommendations are dependent on market developments and are subject to change without notice. Further information including our World List, Small-and-Mid-Cap List and the current Bond List are available from Mr. Othmar Som or Mr. Yves Bachmann at +41-41-249 49 29.

CROPS / INHERITANCE

Currencies

- CHF overweight
- EUR normal weight
- USD at a minimum
- 0-5% various currencies
- ca. 5-10% gold forwards against USD

Categories

- CHF corporate bonds with yields of 3- 4% and duration of approx. 3 years
- EUR bonds with maturities of 4-5 years and yields of approx. 3.5%
- Sideways strategy for equities, with limits for buy and sell orders
- Basis portfolio: value stocks, dividend stocks and small cap stocks.
- Trading-Portfolio: ETFs (Exchange traded funds), high beta stocks, bottom fishing fund or structured products (e.g. Airbag)
- 5-10% Japan Groi (capital protected)
- 10-20% alternative investments
- 5-10% real estate stocks CH
- Up to 5% private equity instruments

SPORT

Currencies

- Short USD/EUR
- Gold forwards against USD

Categories

- Sideways strategy in the equity markets with Futures, ETF's, high beta stocks or structured products (especially with the DAX).
- Long small caps Europe
- Bottom fishing strategy
- Nikkei/Topix long
- 30-50% alternative investments
- Up to 10% high yield investments
- Up to 10% private equity

PENSFLEX – ON COURSE FOR SUCCESS

ACQUISITION OF PROVIDENTIA'S «BEL ETAGE» CUSTOMERS

PensFlex will acquire Providentia's management insurance business during the course of this year. Corresponding contracts were signed with Providentia in early March. This is further evidence of this innovative pension solution's ongoing success in the face of the current turbulent market for pension funds.

Switzerland's most flexible «Bel Etage» solution is enjoying an additional boost from the desolate condition of the remaining market players. The shortage of cover by some of the pension funds – which in some cases is quite pronounced – will only allow zero interest for Bel Etage pension funds for several years. This is further reinforced by the fact that the general fluctuation reserves will also have to be replenished.

The PensFlex offering with its individual fluctuation reserves, i.e. the total investment success is credited to the personal pension account of the individual policy-holder, has shown itself to be a real pearl on the market for professional retirement benefits.

Are you also looking for a transparent, future-oriented Bel Etage solution? Contact us for information on the concrete benefits we can offer to meet your needs (www.pensflex.ch).



Jörg Odermatt
CEO PensFlex

ABSOLUTE THINKING
INVESTMENT STYLE FOR THE COMING YEARS

Benchmarking is a trend that reached its peak of popularity at the end of the nineties. From our point of view, two basic philosophies, each with two variants, can be described.

Relative Benchmarks – Hobby Horse for Controllers

Supporters of relative benchmarks are advocates of the Efficient Market Theory. This theory says the markets are always right. The most consistent form of this philosophy requires passive investing. Here, the benchmark is replicated as exactly as possible. Any evaluation of the market situation is obsolete. It is obvious that the choice of the benchmark and the assigned share of investment assets are of decisive importance. Unfortunately, this decision is usually made technocratically with «hindsight» arguments based only on theoretical foundations and historical data. Those who followed this approach had to accept large losses in the last few years, and, in a sideways-moving market, this approach seems unattractive in terms of profit expectations and the volatility that would need to be accepted.

Active Management Offers Room for Added Value

Less strong advocates of the Efficient Market Theory believe that investors can achieve a better result than the market through qualitative market analysis. They try to generate added value through selection of securities or sectors, and also through timing, as we recommend for the upcoming sideways market. Here we follow an active investment strategy and move within the boundaries specified. The goal is to exceed a benchmark, e.g. the Pictet LPP 25, on average over a several-year time horizon.

OVERVIEW INVESTMENT STYLES

	RELATIVE BENCHMARKS		ABSOLUTE BENCHMARKS	
	PASSIVE	ACTIVE	WITH RESTRICTIONS	WITHOUT RESTRICTIONS
BASIS	The market is always right	The market is not always right	The market offers opportunities	The market always offers inefficiencies
GOAL	Average result close to index	Added value by varying within bands	Added value by achieving the target return	Absolute returns Mimimizing volatility low correlation
STRATEGY	Fixed asset allocation according to market weights	Flexible Asset Allocation and selection	Innovative Asset Allocation with broad universe	Specialised strategies without restrictions
GUIDELINES	Passive Index-Strategies Tracking Error	Active Bands No Tracking Error	Active BVV2 restrictions	Active Trading Leverage
EX.	Index-Strategies / Funds	BVG Relative	BVG Absolute	Hedge Funds

Reichmuth approaches

Absolute Benchmarks – Playing Field for Innovators

On the other side is the absolute investment approach, to which we have long tended. Here we look through the entire universe of investments for possibilities to achieve a certain return with an attractive risk profile in the respective market environment. We target absolute returns and make investments based on our estimate of the return and risk expectations, or we consciously choose not to invest. Here, investment is understood as a means to achieve higher future net cash flows with today's use of funds. This means that the future and its evaluation are the key elements. Market evaluation is of central importance since, in contrast to investment analysis for projects, financial markets are of such a size that they can only be influenced marginally.

Absolute Thinking is a Philosophy

Investors who think absolutely are constantly searching for new investment opportunities. Innovation is an important factor for success. Here, too, allocation is decisive. For example, if the stock markets seem overpriced and no reasonable scenario shows additional potential for them, investors reduce the allocation to stocks in favor of other, often innovative ideas. The absolute philosophy is also used by hedge funds, which are becoming increasingly popular. But due to the lack of restrictions, hedge funds are the most extreme variation of this philosophy. They always try to achieve absolute returns, in part also through leverage, while we pursue a «long only» approach, especially because of investment restrictions of our clients. In difficult markets, we strive to secure the investment base, that is, to avoid losses, so the basis effect can be used, when financial markets are better.

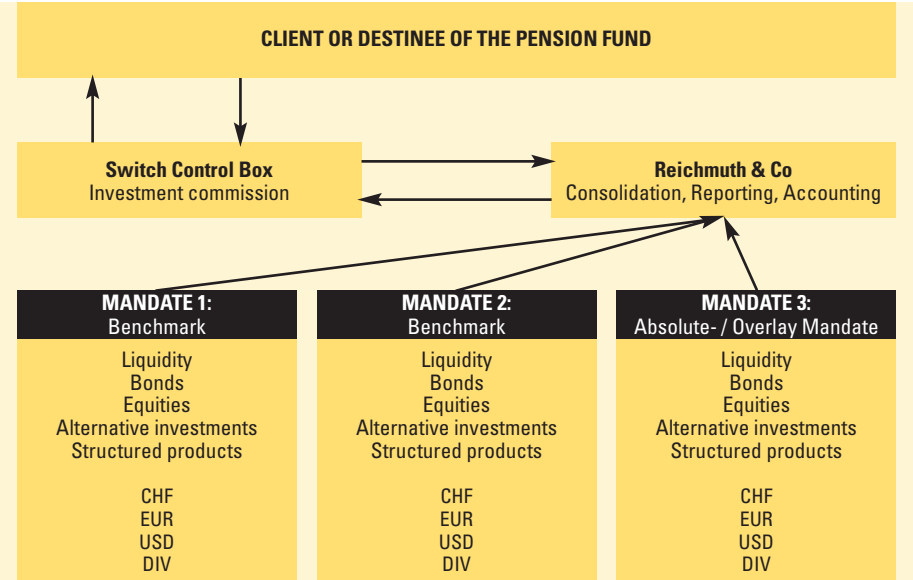


Sergio Hartweger CFA

SWITCH CONTROL BOX - SETTING THE DIRECTION CORRECTLY

HEART OF INTEGRAL INVESTMENT MANAGEMENT

With integral investment management, we have followed a concept for seven years that many competitors today also claim to use. The concept is based on the philosophy that investment success can only be achieved through personal identification with the customer. Here it is not adequate for clients to choose the standard portfolio based on standardized questions. Rather, a comprehensive view is needed. Clients must feel that their wealth is in trustworthy and competent hands. In short, they must feel, that the advisor is treating their assets as if they were his or her own.



Switch Control Box – Heart of Integral Investment Management

The most important element of integral investment management is what we call «Switch Control Box». In the Switch Control Box meeting, the asset distribution and benchmark values are established, on a consolidated basis. What has proved to be especially successful is that, with our fundamental evaluation of the financial markets, the client receives, as a basis for decision, information that is adapted to the situation, not just theoretical concepts and historical data.

Switch Control Box – Also Important for Pension Funds

The recent past especially has shown how procyclically pension funds have allocated their assets. In good financial markets, returns rise and so do the valuation reserves. As they rise, so does the risk capacity of the pension funds. If the asset allocation is decided only on the basis of risk capacity, regardless of the market environment, the logical conclusion is that holdings of stocks were expanded only at the end of the nineties, when the bull market was coming to a close: exactly the time when markets were over-priced. In contrast, our «BVG Absolute» approach is future-oriented and takes into account the needs of pension funds.

Identification with the Client

Integral asset management without identification with the client is a meaningless phrase. In addition to answers to the most important series of questions on the client's environment, frequent client contact is needed. In this way, in addition to having hard facts, the advisor develops a feeling for the client's situation as it changes through the client's life. This creates an identification with the client and the needed relationship of trust on which long-term investment success ultimately always rests.

Solid Market Evaluation – Second Most Important Success Factor

Especially in uncertain times, it is important not to conjure up nice-sounding sales platitudes but to give the client an honest assessment of the status quo and a farsighted development perspective. Only then can the Direction Control function serve its future-oriented purpose. We place great value on a professional and independent market evaluation. Together with the personal client identification, the result is a solid, valuable concept.

Switch Control Box – The Solution for You, Too?

If you are not yet profiting from integral investment management and are disillusioned with the results of isolated investments, our «Switch Control Box» could be the right concept for you as well. We would be happy to show how you can profit from this solution and to work out a tailor-made proposal for you. Please feel free to contact your client advisor or call Alessandro Pelli (private clients) or Marcel Wickart (pension funds). Phone +41 41 249 49 29



Alessandro Pelli



Marcel Wickart