PRIVATBANKIERS
REICHMUTH & CO
INTEGRAL INVESTMENT MANAGEMENT

CHECK-UP

CLIENT INFORMATION OF PRIVATBANKIERS REICHMUTH & CO, INTEGRAL INVESTMENT MANAGEMENT

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EDITORIAL

History repeats itself. Just a few years ago, we observed with amazement what seemed a never-ending rise of technology stocks. Rationality was out of order. It seemed that investor confidence rose in tandem with rising stock prices. We started to reduce the stock allocation for our clients in spring of 1998 – as we all know now, a year too early.

We also know now that at that time we were witness of a speculative bubble. And as always, such bubbles burst at some time. Of course, the burst always comes unannounced since it is a well known fact that there is no bell-ringing when it is time to sell. Currently, we are of the opinion that the real estate boom in the anglo-saxon countries clearly has signs of over-heating. Are we wrong? Eventually, the explanation for this development lies in the fact that citizens have lost their confidence in our monetary systems and, hence, are turning their attention to real assets? Whatever the case, our alarm bells are starting to ring also towards nominal assets.



Karl Reichmuth
Partner with unlimited liability

GENERAL CONDITIONS AND INFRASTRUCTURE

Setting the course in Germany and Japan

Imagine, you build a highway somewhere, come back 10 years later, and marvel at everything that has developed around it. Jim Rogers experienced this in Central America. What used to be true for waterways now holds for highways and airports. This describes how important a good infrastructure is for the economy. Yet the economy also needs appropriate general conditions. Subsidies are of little use – easily understandable incentive structures are far more effective.

Elections in Germany and Japan

The recently called early elections in Germany and Japan will make for a suspenseful autumn. Germany – still the world's export champion – is paralyzed domestically. Hardly anyone is investing in Germany. The rigid labor markets are unceremoniously left by the wayside. German companies are creating new jobs – yet mainly in Eastern Europe. Stagnation is systemic. The domestic problems seem to be recognized, but the readiness of the people to bear genuine and, at times, painful reforms of the welfare state is not widespread. It thus seems to be a social, not just a political phenomenon. And so we assume that Western Europe will continue to stagnate.

Opportunities in Japan

In contrast to Germany, Japan has its restructuring behind it. We also have the impression that the Japanese population supports the reforms. After 15 years of restructuring and stagnation, the theme of the upcoming election appears to be «for the future and against holding on to the status quo». Therefore, we are positively inclined toward Japanese stocks. Our favorites remain small caps. In addition, Japanese real estate (J-REITs) and the Japanese currency compared to the CHF appear attractive to us.

Energy – the theme of the future

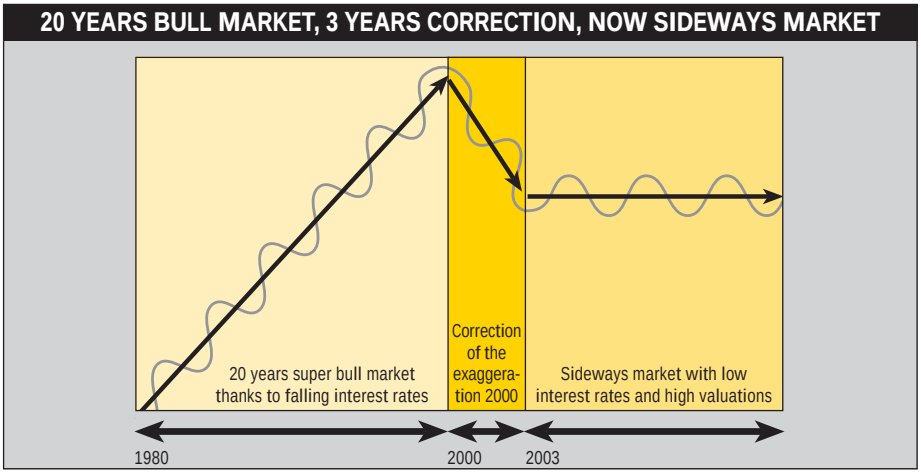
Oil and electricity stocks have made us quite happy in the past few years. However, in the meantime the theme is generally known. Hence, stocks in this sector are no longer inexpensive. Still: Energy remains the issue of the decade. After government subsidies in the 70s (again: general conditions!) led to enormous overinvestments, hardly any investments in new facilities have been made in this industry in the last 25 years. With rising oil prices, we increa-

continued on next page

CONTENT

3 Market Outlook
4 Investment Policy
5 Stock recommendations
6 Investment Strategy
6 Hedge currency risks?
7 New – Reichmuth Hochalpin
8 Corporate Finance complements integral approach

20 YEARS BULL MARKET, 3 YEARS CORRECTION, NOW SIDEWAYS MARKET



singly expect, besides infrastructure projects, the rise of substitutes as well (keyword: alternative energies), together with innovations. We expect this will become a new growth driver of the future, again with large investments in infrastructure.

Infrastructure in East and West

We see infrastructure stocks as an additional attractive theme. Besides the huge new economic regions of Eastern Europe, Asia and India, too little has been invested in the Western world as well. Just remember the blackouts in the US, Italy and Switzerland. Government spending has skyrocketed, but not because of investments in infrastructure. No, spending has instead been used for social transfer payments. Pent-up demand should therefore make itself felt in the Western industrial countries and so fill the order books in the years to come.

Good 2005 for the financial markets

The good performance this year reminds us of the late 90s – falling interest rates and rising stock markets. We, too, are happy, since our «Portfolio of the Future» has fulfilled our expectations, despite our caution toward bonds and stocks.

The building blocks of stocks and real estate have delivered outstanding results. In particular, the opportunity-oriented theme approach in stock selection performed well. Thanks to the successful initial public offering of Mobimo Holding AG, we were able to record a significant appreciation of our real estate investments. Looking forward, bonds remain unattractive. As to stocks, the issue of securing performance will become more important. We assume that in the second half-year alternative investments and some of our opportunistic investments will show good performance.

Where are the risks?

One of the main risks is that practically all valuation drivers are exhausted. Interest rates are extremely low, margins very high and the multipliers (PE ratios) for record margins are also at high levels. The pressure on margins will grow. One-time effects, such as the margin-raising elimination of goodwill amortization or restructuring gains, are over. And so the only hope that remains is an increase in revenues. Yet that, too, is unlikely. Additionally, the real estate market in the US and UK, which has recently had a strong expansive effect, should be near its peak. In summary: We expect a continued sideways market, in which we will move in the upper valuation range.

And where are the opportunities?

There are always opportunities. As mentioned above, we see the main opportunities in the themes of Japan, energy and infrastructure. We are very optimistic for our money manager programs, which implement specialized strategies and expert knowledge on specific themes. Despite the fact that the hedge fund industry has become quite fashionable, we are convinced that we can achieve our goals of stock-like profits with bond-like volatility. The opportunities in Eastern Europe can only be exploited through banks or energy companies due to the still underdeveloped financial markets. And finally, the huge amounts of cash in «leveraged buy-out» (LBO) funds seem to offer opportunities in the still moderately valued European stocks. These financial transactions take place thanks to the low interest rates and moderate valuations. They are an entrepreneurial type of the so-called «carry trades». The investment logic is fundamentally a simple one: If the company earns more than the costs of financing, the difference belongs to the LBO funds.

Added value through portfolio management

Even in sideways markets, skilled portfolio management can generate added value. That can be accomplished by searching out sectors with a tailwind and avoiding those with a headwind. In addition, we try to manage our portfolios applying skilled weighting within our asset allocation. For example, for those stocks that have become expensive, we cut our position in half, and double positions in those stocks that are less expensive. Of course, this is easier said than done, yet with this concept and our constant search for new opportunities, we are convinced we can achieve good results.

To sum things up: As we have done in the past, we still recommend a strongly diversified and future-oriented investment strategy, as schematically presented in our «Portfolio of the Future». We look forward to a lively discussion with you.

Your Reichmuth Team

MARKET OUTLOOK

3rd TRIMESTER 2005

INTEREST RATES

Money market rates in the US continue to rise, while they are still low in Europe and Japan. Long-term yields are tending slightly upwards.

The US Federal Reserve will tighten its monetary policy somewhat, even after 10 interest rate increases by a quarter percentage points each, since the economic situation in the US remains good and the Fed wants to meet possible inflation dangers early. In Europe, the economy, driven by exports, has also improved slightly, yet consumption spending is still very low. The ECB, and thus most other European central banks, will therefore not raise key interest rates yet. In the UK, the previously good growth is weakening; therefore, the Bank of England reduced its high repo rate, and further reductions will follow. In Japan, upward impulses in the economy are growing stronger, but considering the continued deflationary developments in consumer prices, the Bank of Japan sees no reason to abandon its existing zero-interest policy.

Long-term yields have reacted astoundingly little to the tightening of US monetary policy. In Europe, new historic low yields were reached just a few weeks ago. But now a trend toward slightly rising yields seems to be gradually catching on. Yet in a long-term historical comparison, the interest rate level will remain low worldwide, since no significant inflationary impulses are visible, despite very high oil prices.

The interest rate premiums («credit spreads») are relatively stable at historically low levels. They should remain low in the near term, since rising payment defaults are not expected.

CURRENCIES

The USD will become weaker in the longer term – especially against the Asian currencies.

Despite unfavorable fundamentals, the USD is holding up well against the other main currencies, thanks to the growing interest rate differentials. As long as many market participants are ready to continue to build up their USD investments (Asian central banks, oil-exporting countries, but also many private investors), the sideways trend will continue. But in the long run, the growing debt burden of the US will reach its limits. The huge current account deficit must disappear, and that can probably only be achieved with a weak USD. Therefore, in the long run we expect a considerably lower USD, especially against the Asian currencies.

For the EUR/CHF exchange rate, which is currently fluctuating in a very narrow bandwidth between 1.55 and 1.56, we expect in the longer run a decline below 1.50.

We have a positive outlook for the Asian currencies. The recent decoupling of the Chinese currency CNY from the USD has resulted in only a very small rise and is just the start of a longer upward movement.

STOCK MARKETS

Although we cannot yet talk about a general overvaluation, it is becoming more and more difficult to find industries and securities with a fundamentally low valuation.

Stock markets have continued to rise in the last few months, especially in Europe, Japan and various developing countries. Small caps have continued to develop better than the overall market, and, hence, their previous valuation gap has mostly disappeared. Most markets have become vulnerable after this rise, and an overweighting of second-line stocks no longer seems generally appropriate to us, except in special cases, such as in the context of takeovers or mergers.

With regard to industries, we still see some price potential with energy stocks. Energy should remain a rare commodity for the longer term as well. We would also overweight stocks from the investment goods sector, which will profit from the strongly growing investment expenditures expected in the energy business.

Securities with good and secure dividend yields remain attractive, due to the low level of interest rates. These include, in particular, real estate stocks; since we expect a recovery for the long-depressed Japanese real estate market, Japanese real estate stocks, especially the REITs, appear most attractive to us, as they offer both high yields and the potential to increase in value.



Dr. Max Rössler

INVESTMENT POLICY

3rd TRIMESTER 2005

BASIS	CH	EU	UK	USA	J
Purchasing Power Parities					
Ned Davis Research	1.47	1.00	0.64	1.00	107
GDP Growth					
actual	0.8%	1.1%	1.7%	3.6%	1.3%
6 months	↘	→	↘	↘	↘
3 years	→	→	↘	↘	↗
Inflation					
actual	1.2%	1.9%	2.0%	2.5%	-0.5%
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	1.30	0.62	1.42	1.46	0.74
Dividend yield	1.7	2.3	3.5	2.0	1.1
Price/Book	2.6	1.6	2.2	2.8	1.7
Price/Earnings actual	17	16	21	19	25
Price/Earnings estimate	16	14	13	16	17

FORECAST	CH	EU	UK	USA	J
Money Markets (3 months)					
actual	0.8%	2.1%	4.6%	3.8%	0.1%
6 months	→	→	↘	↗	→
Swap Rates (10 years)					
actual	2.2%	3.3%	4.5%	4.6%	1.5%
6 months	→	→	→	→	→
3 years	→	→	→	↗	↗
Currencies					
actual		1.55	2.28	1.27	1.15
6 months		→	→	→	↗
3 years		↘	↘	↘	↗
Stock Market	**SPI**	**DAX**	**FTSE**	**S&P 500**	**TOPIX**
actual	5'000	4'850	5'300	1'200	1'270
6 months	→	→	→	→	↗
3 years	→	↗	→	↘	↗
Real Estate Market	→	↗	↘	↘	↗

Legend: ↑ = strongly increasing → = neutral ↓ = strongly decreasing as of: August 24, 2005

STOCK RECOMMENDATIONS

SEPTEMBER 2005

	SECTOR	WORLD	SECONDARY	SPECULATIVE	SELL
BASE INDUSTRIES	**Chemicals**	DSM Akzo Nobel	Yara Ciba	Clariant	Lanxess
	Basic Resources	Anglo American		Vedanta Norilsk Nickel	
CYCLICAL CONSUMER	**Automobiles**	Daimler Chrysler	Peugeot Renault		VW pref
	Retail			Vögele	
	Media		Publigroupe		
NON- CYCLICAL CONS.	**Food**	Nestlé	Südzucker Emmi		
	Various				
ENERGY	**Energy**	Total / ENI Royal Dutch Shell A Öl ETF (XLE)	OMV / Neste Oil Statoil / Repsol Ölservice ETF (OIH)	Gazprom MOL Magyar Lukoil	
	Utilities	E.ON RWE pref Iberdrola	Fortum	Endesa	
FINANCIALS	**Banks**	Credit Suisse ABN Amro	SGKB Almancora Raiffeisen International	Commerzbank State Bank of India	
	Insurances	Swiss Re Zurich Fin. / Allianz Munich Re	Baloise Helvetia Patria Hannover Re	Converium Endurance	
	Financial Services	ING			
HEALTH	**Pharmaceuticals**	Novartis Roche GS Wyeth	Bayer	Schering-Plough Pfizer	
	Biotech			RIM CC Bioscience Myriad	
INDUSTRIALS	**Building**	Lafarge	Italcementi pref		Hunter Douglas
	Machinery	Siemens ABB	Rieter	Gildemeister IWKA	
TECHNOLOGY	**Hardware**	Samsung pref Philips		Hewlett-Packard	
	Software		Check Point Software	Avaya	
TELECOM	**Telecom**	Swisscom NTT	TDC Belgacom	BT Group	
	Equipment	Motorola		Nokia	
CERTIFICATES	**Index**			Korea Ishares Taiwan Ishares	MDAX
	Style		Pilatus	Bottom Fishing	

INVESTMENT STRATEGY

3rd TRIMESTER 2005

RETIREMENT

Currencies

- Overweight CHF
- Normal weight EUR
- USD at a minimum
- 0-10% miscellaneous

Categories

- Bond maturities of 3-5 years
- Up to 10% alternative investments
- Up to 5% real estate stocks
- Up to 5% dividend stocks

The recommendations are dependent on market developments and are subject to change without prior 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.

HARVESTING / BVG ABSOLUTE

Currencies

- Overweight CHF
- Normal weight EUR
- USD at a minimum
- Buy up to 10% JPY
- Up to 10% miscellaneous

Categories

- Bonds
  - EUR and CHF bonds
  - Good quality
  - Short duration with short and long maturities (barbell)
- Stock portfolio
  - Value and dividend stocks
  - Energy, infrastructure stocks
  - Normal weight small and mid caps
- Opportunities
  - Japanese small and mid caps
  - S&P bear market strategy
  - J-REITs
- 10-25% alternative investments
- 5-10% Swiss real estate stocks
- Up to 5% private equity

SPORT

Currencies

- Long JPY/CHF
- Short USD/RUB
- Write gold and silver put options

Categories

- Bonds
  - Opportunistic JGB and short US Treasury positions
- Stock portfolio
  - Long energy stocks
  - Long infrastructure stocks
  - Short US home construction stocks
- Opportunities
  - Japanese small and mid caps
  - S&P bear market strategy
  - J-REITs
- 20-50% alternative investments
- Up to 10% private equity

HEDGE CURRENCY RISKS?

The example of a CHF investor

The EUR will trend lower against the CHF in the longer term. Our expectation: This will happen within the bandwidth of the interest rate differential. Does it make sense, then, to hedge the EUR positions in the portfolio against CHF by means of forward transactions?

Interest rate differential is decisive!

The costs of hedging precisely equal the difference in interest rates for a specific period. If you buy the currency with the lower interest rates, this difference equals the hedging costs, and vice versa. In the table, you can see what hedging costs a CHF investor bears, due to the low CHF interest rates, in both EUR and USD since interest rates in both currencies are higher. Consequently, hedging currency risk only pays once the exchange rate falls below the forward price.

FORWARD PRICES SHOW THE BREAK-EVEN

	EUR/CHF	in %	CHF/USD	in %
Spot	1.5511		1.2523	
Forward 6 month	1.5403	-0.7%	1.2320	-1.6%
Forward 1 year	1.5311	-1.3%	1.2116	-3.3%
Forward 2 years	1.5148	-2.3%	1.1748	-6.2%
Forward 5 years	1.4652	-5.5%	1.0880	-13.1%

Other reasons for hedging

Other reasons for hedging can be, for example, an intentional reduction of exchange-rate fluctuations in the portfolio, or quite simply compliance with set investment limits. Whether and how much should be hedged, always depends on the individual situation. Our client advisors look forward to discussing this with you.



Cornelia Wyrsch-Klötzel

NEW – REICHMUTH HOCHALPIN

THE REICHMUTH INVESTMENT STRATEGY, DYNAMICALLY IMPLEMENTED

For two years now, we have been carrying out our firm's strategy applied to individual portfolios also with a Swiss investment fund named Reichmuth Alpin. Reichmuth Alpin is an investment strategy fund with an absolute return target – in the current environment 5% per year. The Swiss OPP2 regulations for pension funds apply as investment restrictions. Hence we can say, somewhat simplified, that Reichmuth Alpin is our investment strategy in a conservative form.

Reichmuth Alpin above target

Reichmuth Alpin can very well be used for pension solutions in PensFlex and PensFree portfolios. But thanks to the low asset management fee of 0.5% per year and its economies of scale, it is also optimally suited for use as a basic strategy for smaller portfolios. We are very happy about the achieved results. Since September 1, 2003, the average return has been +7.5% per year. This year, Reichmuth Alpin has achieved +8.2% up to the end of July.

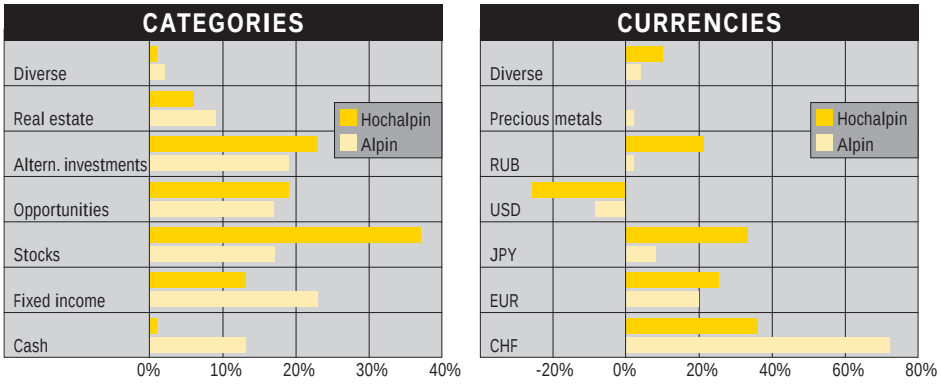
Reichmuth Hochalpin – somewhat more aggressive

With our new fund, Reichmuth Hochalpin, we now offer our firm's strategy in a more dynamic form as well. Reichmuth Hochalpin, a portfolio that has been implemented in reality for two years, is made available to new investors in the form of a Swiss investment fund with special risks. It is a strategy fund with very wide bandwidths. And so, for example, besides currencies and derivatives, we may apply leverage (borrowed funds) up to twice the amount of the fund's assets. Although, thanks to our conservative investment approach, we will hardly exhaust these broad guidelines, they permit the opportunistic investment style that promises the most success in the current market environment. With Reichmuth Hochalpin, we have set the goal of achieving an average return of 10% per year. Of course, on the flipside, the fluctuation (volatility) of Reichmuth Hochalpin will be greater compared to Reichmuth Alpin. This year, Reichmuth Hochalpin has risen +10% up to the end of July. Since its start on October 1, 2003, the average return has been +15% per year.

Reichmuth Alpin or Hochalpin?

Whether or not the one or the other instrument is suitable for you always depends on your individual situation. Our strength lies in the implementation of individual portfolios. Yet for smaller portfolios, Reichmuth Alpin offers an attractive way to profit cost-effectively from our future-oriented investment policy. For more aggressive investors, Reichmuth Hochalpin creates the optimal framework for success. We look forward to your questions.

A comparison of Reichmuth Alpin and Hochalpin



FACTOR	REICHMUTH ALPIN	REICHMUTH HOCHALPIN
Focus	Investment strategy fund with absolute return goal	Investment strategy fund with absolute return goal
Investment style	Future-oriented with broad diversification	Opportunistic with clear focus
Restrictions	Swiss OPP2, conservative	High discretion
Leverage	Not permitted	Max. 200% (gross)
Currency	CHF	CHF
Target return (avg. 3-5 years)	5% per annum	10% per annum
Return 2005 (-July)	8.2%	10.1%
Return 1.10.03-31.07.05	7.5% per annum	15.0% per annum
Subscriptions/redemptions	Monthly	Monthly
Management fee	0.5%	0.5%
Performance fee	None	10%
Security Nr.	1'655'599	2'249'740



Dr. Ricardo Cordero

«CORPORATE FINANCE COMPLEMENTS INTEGRAL APPROACH»

DR. CHRISTOPH VON ROEHL ON THE CORPORATE FINANCE BUSINESS OF REICHMUTH & CO

Dr. von Roehl, what does the term «corporate finance» mean?
In principle, corporate finance literally means «company financing» – this is accurate, but doesn't quite cover everything. Under this term we understand all strategic and equity-related questions. These are the areas of strategic company financing, mergers & acquisitions and capital market consulting. Classic credit financing is also of interest when the goal is to optimize and restructure the overall company financing. For us, this explicitly includes outsourcing of pension liabilities or intelligent approaches for investing free liquidity.

How do you operate the corporate finance business?
Our core competence lies in understanding customer needs, advising and in the structured development of individual solutions – because each company, each task is individual. This is our day-to-day business. And this is precisely where we've built up a great deal of experience, from which our clients benefit. We act as an independent and neutral consultant, without conflicts of interest, and as a critical sparring partner. Management receives well-targeted support and a relief of burdens in its everyday business.

Who are your clients?
Our clients come mainly from the larger medium-sized companies in the German-speaking region. These include, in particular, active business owners and (family) shareholders. But we also advise corporate groups, municipalities and financial investors, such as with acquisitions or sales of companies or privatizations. The projects entail constant negotiating, including negotiating with foreign companies.

What services do you offer specifically?
Together with the client, we adapt the financing to the company's long-term goals, structure and place mezzanine financing (participation certificates, silent partnerships, etc.) or acquisition financing. In addition, we have a great amount of experience with the acquisition and sale of companies. In the case of company succession, we make suitable preparations with the owner at the right time. Here, tax issues for the owner are often in the forefront. And it is precisely here that the integral approach of Reichmuth & Co is very helpful to customers. We also assist with and initiate initial public offerings and capital increases.

Considerable amounts of money are often at issue – how do you charge for your services?
We mainly work on a performance basis. Since we sometimes invest considerable consulting hours over a period of months, we also charge a moderate retainer during the project. This covers only a part of our expenses. Only after the successful completion of the project do we wish to be appropriately compensated.

Where are your strengths?
The team is very experienced: Together, we have over 50 years of corporate finance, consulting and operational experience and have broad expertise from banking, industry and management consulting. The ability to quickly learn about new markets is certainly an advantage, particularly since medium-sized companies are frequently positioned in niche markets. Beyond that, we are «craftsmen» in our field and know that, in the long run, only quality and conscientious work are rewarded accordingly.

You started up in Düsseldorf in February 2005 – What are your most significant impressions from the first 6 months?
It's interesting to see how similar the cultures of the parent company in Lucerne and the teams in Munich and here in Düsseldorf are. We think and act in an extremely customer- and service-oriented way. Together, we endeavor to advise our customers professionally, but also pragmatically. And the human element certainly must never be neglected. In our first months, we have already worked hand-in-hand on many projects. We complement each other excellently – just as we had hoped for. The unique approach of integral investment management at Reichmuth & Co definitely works.

Are you satisfied with the development of business?
Yes, we're very satisfied. Of course, we have et high goals for ourselves, which we want to reach in the next few years – and so we still have quite a way to go. We're very grateful for the trust that our customers have placed with us so far.



Dr. Christoph von Roehl