10 Years PRIVATBANKIERS
REICHMUTH & CO
INTEGRAL INVESTMENT MANAGEMENT

CHECK-UP

CLIENT INFORMATION OF PRIVATBANKIERS REICHMUTH & CO, INTEGRAL INVESTMENT MANAGEMENT

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EDITORIAL

What a successful investment year! Even we did not expect such good results. Our strategy of broad diversification and successful selection of investments gave us much pleasure this year. In fact, we are celebrating twice over, since this good year of performance was achieved on our 10th anniversary. What could be more delightful than celebrating this with happy clients and employees?

As a result, this edition of Check-Up is more devoted to our anniversary, and less to the market. Karl Reichmuth has taken up the pen for our lead article, and even ventures a forecast. Of course, we are justifiably proud of what has been achieved so far yet we still have many goals. The first ten years encourage us - despite increasing bureaucracy and legislation, as well as stealthily worsening conditions - that it is still possible to create something new, even within «Old Europe».

We wish you all a happy New Year and above all courage to start something new!



Christof Reichmuth

10 YEARS OF REICHMUTH & CO:
SUSTAINABLE GROWTH ON A SOLID FOUNDATION

It was ten years ago when we registered our company, completed by our headline «Integral Investment Management». Today, we can look back on a successful decade and look ahead to what will be – hopefully – a successful future. Our loyal and ever expanding customer base, our knowledge of financial markets and our well-established company strategy provide a solid foundation from which to move forward.

Our customers

Unlike other private banks, we have been entrusted with money that our customers have earned rather than inherited. These customers know that maintaining wealth requires just as much care and attention as acquiring it. And their demands on us are correspondingly high. We feel privileged that this is the case. Our demanding customers have brought out the best in us and charted our course.

In the future too, fulfilling the expectations from our customers will form the basis of what will continue to be a gratifying development. This follows nature's basic principle of either growing or perishing. Healthy growth is also a prerequisite if we are to continue to engage the experts required to analyze what has become an ever more complex investment environment over the past ten years.

Our environment

Looking back, luck must also have been on our side. 1995 to 2000 were good years on the stock markets. By as early as 1998 and 1999 the advantage of our business model was becoming clear – identification with our customers. Back then our recommendation – which, with hindsight, was made too early – was to reduce exposure to the overvalued stock markets. Whilst we missed out on the final upturn, we did, however, also miss out on the major stock market losses of 2000 and 2003 – and since then managed to continue earning money again for the benefit of our customers.

In the future too, a marked sense of customer focus will be the prerequisite in the financial world if market trends are to be countered on a timely basis. It is only real customer proximity that can give the courage, based on mutual trust, to pursue an independent, future-oriented investment policy. This forces us to remain on the permanent lookout for ge-

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nuine value, irrespective of short-term ups and downs of the markets.

This search in a rapidly globalizing world economy also brings a key sense of broadening to investment diversification – in terms of both quality and geography. Many years ago we started to shift our investments from the Western world towards the East, particularly towards the Japanese markets that have been neglected for more than ten years now. We see Europe as being in the middle, particularly now that Central Europe has joined the capitalist part of the world. With already more than 20% exposure in markets governed by natural growth, we are expecting not euphoric but, all the same, acceptable results.

Company strategy and structure

Our core competence lies in bringing people and the market together. Our «Integral Investment Management» motto remains as relevant now as when we chose it ten years ago.

Our integral service philosophy called for the approach best suited to identifying our customer's investment objective. We achieved this in 1998 when we applied for bank status, selecting the legal form of an unlimited liability private bank. In an increasingly faceless age in the world of finance, our customers value the fact that they have a partner who, like them, takes over responsibility.

We embraced this traditional Swiss banking culture with personally liable partners and combined it with the concept of a partnership limited by shares. This meant that we were also able to take on staff without personal liability and enable them to commit to the company in the long term through investment in the share capital.

Compared with other asset management banks, which have a different structure and are generally bigger, our bank offers our customers more than just «relationship managers». Our client advisors work to implement the investment strategy agreed with our customers face to face, working as part of a team that guarantees a high level of professional knowledge. We also devote an unusually large amount of time on a daily basis to market training. This is the only way we can turn our customers' high expectations into reality.

Services

This broadly-based organizational structure, in contrast to a strict division between back and front-office, also provides our employees with greater job satisfaction and consequently, continuity in customer relations. Our very successful investment funds are used to support the individual design of each portfolio including the innovative Reichmuth Matterhorn and Reichmuth Himalaja – our fund of hedge funds – as well as Reichmuth Alpin and Reichmuth Hochalpin – our strategy funds.

Our company's equity capital is now six times as high as when we started out. Despite a portfolio management volume in excess of CHF 5 billion, it far exceeds the minimum requirements imposed by the Federal Swiss Banking Commission. This enables us to consolidate our integral range of services in a targeted way. In this vein, in 1998, we set up a subsidiary in Munich. And in 2002 we created the PensFlex pension solution, recognized as being the most flexible executive pension solution in Switzerland – either in the non-mandatory sector, or the tax-optimized PensFree for vested benefits.

Thanks to the presence of our Corporate Finance team in Düsseldorf, ever since February 2005, we have also been able to offer our corporate customers services in balance sheet management and direct investments/private equity in the quality which they have come to expect from us.

These are core areas of an integral service philosophy. With regard to tax and estate advice, legal issues and trusts, we continue to focus on cooperation with specialists from our customers' own network.

Thank you

On behalf of our whole team, which now numbers 50 persons, I would like to thank all of our customers, business partners and acquaintances for their loyalty and trust. We look forward to continuing our good working relationship with you all.



Your Karl Reichmuth
Partner with unlimited liability

MARKET OUTLOOK

1st TRIMESTER 2006

INTEREST RATES

US money market rates will rise slightly again. In Europe and Japan, meanwhile, the upwards trend has only just begun.

The US Federal Reserve, even after 13 interest rate hikes of a quarter of a percentage point, will tighten its monetary policy further still to counter potential risks of inflation. In continental Europe, and in Switzerland in particular, there has been a small improvement in the state of the economy, with exports faring especially well but with consumers too being slightly more prepared to spend. Therefore, the ECB and the Swiss National Bank have embarked on their first key rate rises, with further hikes probably set to follow in 2006. The UK is going through a phase of falling growth, with the result that the Bank of England will keep money market rates unchanged. Whilst the upturn is taking a broader hold in Japan, inflation remains negative, as a result of which the Government is strongly pressurizing the Bank of Japan to maintain its zero-rate policy for some time to come.

Long-term yields have also risen somewhat as key rates have been raised - yet to a smaller extent. This has led to a flattening of the yield curves in the US and Europe, whilst the rise in yields in Japan - as money market rates remain at zero - has generated a steeper curve. The slight upwards trend in long-term rates is set to continue. In terms of long-term historical comparisons, however, interest levels will remain low worldwide in the absence of any inflationary impetus from wage costs despite high energy prices.

Credit spreads have stabilized at a low level, and can be expected to stay there with no signs of any crisis developing on the credit markets.

CURRENCIES

The US dollar is set to become weaker over the longer term - particularly against the Asian currencies.

Despite what remain unfavorable fundamentals, the USD is tending towards the expensive compared with the other main currencies, thanks to a rising interest rate differential. The willingness of many market operators – particularly oil producers of late – to further step up their USD investments and finance the huge balance of payments deficit appears as strong as ever. However, looking to the long term, the rising level of debt of the US will encounter limits. As soon as the excessively high confidence in USD investments wanes, the dollar will fall. Hence, in the longer term, we expect to see a substantially weaker dollar, especially against the Asian currencies.

In Europe, the inflation differential means that the EUR/CHF exchange rate, which has been relatively stable for some time now, must be expected to make its way slowly down to 1.50 or below. As regards the Scandinavian currencies, we expect the NOK to fall against the EUR as oil prices drop, whilst the SEK can be expected to tend upwards.

The Asian currencies possess upward potential, particularly against the USD. The links that still exist, to a greater or lesser extent, between the USD and, in particular, the CNY, TWD and HKD will not hold. However, we consider the JPY to be attractive, even against the European currencies.

STOCK MARKETS

It is becoming increasingly difficult to find favorably valued sectors and stocks.

The stock markets have risen again during the last few months, especially in Europe, Japan and some of the developing countries. In this environment, blue chips after a relatively sustained period of below-average performance made up ground again. The majority of markets are not yet overvalued given that company profits, despite already very high profit margins, point to a favorable trend, and interest rates remain low. However, we expect to see pressure on margins, which could make the stock markets vulnerable.

In Asia, smaller markets such as Taiwan, Hong Kong and Thailand have risen to a far less dramatic extent compared with Japan and are valued relatively favorably. Hence, investments in these markets, preferably through funds or ETFs, offer good profit opportunities.

In terms of sectors, we still see further upward potential in the investment goods sector, despite what have already been strong price rises in some cases. Investment goods will profit from the predicted major rise in investment by the energy industry.

Otherwise, stocks with good and secure dividend returns remain attractive despite the slight increase in interest rates.



Dr. Max Rössler

INVESTMENT POLICY

1st TRIMESTER 2006

BASIS	CH	EU	UK	USA	J
Purchasing Power Parities					
Ned Davis Research	1.47	1.00	0.64	1.00	107
GDP Growth					
actual	2.3%	1.6%	1.7%	3.7%	2.9%
6 months	→	→	↘	↘	→
3 years	→	→	↘	↘	↗
Inflation					
actual	1.0%	2.5%	2.1%	4.3%	-0.7%
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	1.42	0.66	1.47	1.48	0.91
Dividend yield	1.5	2.1	3.5	1.8	0.9
Price/Book	2.8	1.7	2.2	2.9	2.0
Price/Earnings actual	19	16	19	18	26
Price/Earnings estimate	17	14	13	17	22

FORECAST	CH	EU	UK	USA	J
Money Markets (3 months)					
actual	1.0%	2.5%	4.7%	4.5%	0.1%
6 months	↗	↗	→	↗	→
Swap Rates (10 years)					
actual	2.5%	3.5%	4.6%	5.0%	1.6%
6 months	↗	↗	→	→	↗
3 years	↗	↗	→	→	↗
Currencies					
actual		1.55	2.29	1.31	1.11
6 months		→	→	↘	↗
3 years		→	↘	↘	↗
Stock Market	**SPI**	**DAX**	**FTSE**	**S&P 500**	**TOPIX**
actual	5'700	5'400	5'600	1'260	1'640
6 months	→	→	→	→	↗
3 years	→	↗	→	↘	↗
Real Estate Market	→	↗	↘	↘	↗

Legend: ↗ = increasing → = neutral ↘ = decreasing as of: December 22, 2005

STOCK RECOMMENDATIONS

JANUARY 2006

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

INVESTMENT STRATEGY

1st TRIMESTER 2006

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 15% JPY
- Up to 10% gold

Categories

- Bonds
  - EUR and CHF bonds
  - Good quality
  - Short duration with short and long-term maturities (barbell)
- Stock portfolio
  - Value stocks and dividend stocks
  - Energy, infrastructure stocks
  - Normal weighting of second-tier stocks
- Opportunities
  - Japanese second-tier stocks
  - S&P bear strategy
  - J-REITs
- 15-25% alternative investments
- 5-10% Swiss real-estate stocks
- Up to 5% private equity

SPORT / HOCHALPIN

Currencies

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

Categories

- Bonds
  - Opportunistic JGB and US Treasury short positions
- Stock portfolio
  - Long energy stocks
  - Long infrastructure stocks
- Opportunities
  - Japanese second-tier stocks
  - S&P bear strategy
  - J-REITs
- 20-30% alternative investments
- Up to 10% private equity

INVESTMENT STRATEGY

A BRIEF OVERVIEW

All our instruments have been designed to meet the needs of our clients. Today, our Reichmuth Matterhorn, is Switzerland's best performing fund of hedge funds, while Reichmuth Alpin offers not only our PensFlex clients a possibility to participate in our successful forward-looking investment strategy.

Despite the good performance of our funds it is important to note that – much to the contrary to other banks – our client advisors do not follow any sales targets. The client's needs always stand in the focus. This is best reflected using Reichmuth Pilatus as an example. Here the good performance of this fund in this year was completely offset by redemptions conducted by our client advisors.

Further information related to our funds can be found on our web site (www.reichmuthco.ch). If you are interested in receiving monthly information about our funds, we would be pleased to put you on our e-mail service «In a nutshell». I would be delighted to hear from you (+41 41 249 49 99).

REICHMUTH INSTRUMENTS AT A GLANCE

NAME	STRATEGY	PERFORMANCE 1.1 - 30.11.2005	PERFORMANCE Since launch	VOLATILITY Since launch
Alpin	Reichmuth strategy conservative	+11.2%	+8.0% p.a.	3.0%
Hochalpin	Reichmuth strategy dynamic	+15.7%	15.2% p.a.	5.5%
Matterhorn	Fund of hedge funds global	+8.4%	+8.6% p.a.	3.4%
Himalaja	Fund of hedge funds Asian focus	+13.8%	+10.6% p.a.	5.9%
Pilatus	Swiss small caps	+33.8%	+8.2% p.a.	17.5%
Bottom Fishing	Global equities	+31.8%	+10.2% p.a.	14.8%



Irene Heer

BETTER PERFORMANCE WITH LOWER RISKS

CHECKING THE SUCCESS OF OUR INVESTMENT APPROACH

Our forward-looking investment approach can be characterized as conservative, yet with an innovative face. It is conservative because we don't like to lose money; innovative because we are always on the look out for investment opportunities around the world. A check-up on our success over the last 5 years – in itself a rather difficult period, of course – demonstrates that this combination has delivered excellent results.

History is important – the future even more so

Reflecting on the past is important. Such reflections are less concerned with the actual performance achieved, than with understanding the reasons behind that performance. Even more important, however, is the ability to recognize future drivers of performance at an early stage, in order to ensure future-oriented wealth management. You make your bed and lie in it.

OUR FUTURE-ORIENTED INVESTMENT STYLE

FUNDAMENTAL ANALYSIS	**MONEY FLOWS**	**SENTIMENT**
In the long-run only fundamentals matter	Medium-term money flows can have a major influence on financial markets	Short-term market psychology and extraordinary events can have a decisive effect
Strategic asset allocation Time horizon: 3-5 years	Tactical asset allocation Time horizon: 1-2 years	Tactical asset allocation Time horizon: 0-1 year

Solid assessment of fundamentals forms long-term basis

The starting point is always an assessment of the fundamentals in the current economic and social situation. We use our own analyses, conversations with our clients and information gained at first hand by our global network of money managers. Our aim is to find the global picture – so that we know where we are and in what direction the rest of the world is moving.

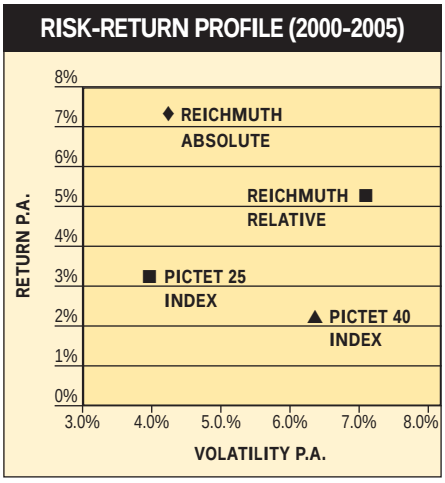
Cash flow and sentiment dominate the short and medium term

In the medium term, market movements are all concerned with cash flows. In this category we include petrodollars and money that is flowing towards the east, on the lookout for cheap labor. However, in the short term, only the psychological factors of the market can really affect financial markets.

Outstanding absolute strategy

The graph shows a risk/return profile, although we have used the theoretical risk term (volatility) here for purposes of clarity. The graph shows unambiguously that over the last five years our «absolute» strategy has yielded the best results. Annual returns are more than 5% p.a. higher than similar fluctuating passive strategies. That is more than 25% over the five years! We explain this fact with our own independent analysis of financial markets, consistently taking advantage of opportunities and avoiding risks. Our approach is not dogmatic – instead we believe in positioning ourselves early in respect of coming events. Admittedly, after the turn of the millennium, there were more mis-pricings than now, which clever investors were able to take advantage of.

RISK-RETURN PROFILE (2000-2005)



Lower volatility thanks to diversification

Very important is the main statement that risks fall and do not rise when fewer conditions are imposed. After all, a forward-looking strategy which increases the level of diversification will reduce fluctuations. On the other hand, the relative-return strategies, which are associated with greater restrictions, are somewhat more volatile. The reason for this is the restricted scope for maneuver. But even in this area we have been able to significantly outperform comparable indexes in terms of annual return. So our position is clear – the fewer restrictions, the lower the fluctuation of the portfolio. In particular the story of the past five years shows how a private bank like ours, which identifies strongly with its clients and sets itself high standards on financial markets, can achieve sustainable results like this. We just need to listen to our clients, and for our clients to have confidence in us. Thank you for giving us that confidence.



Jürg Staub

«DIVERSIFICATION WITH OUR INVESTMENT APPROACH»

SERGIO HARTWEGER ON THE 'INSTITUTIONAL CLIENTS' STRATEGY

Mr. Hartweger, how well do 'institutional clients' fit into the structure of Reichmuth & Co Privatbankiers?
Very well, because our future-oriented investment approach also offers institutional investors real value-added. Thanks to the combination of our core strengths – recognizing the needs of our clients and understanding financial markets – we can offer fully customized investment solutions.

SERVICES FOR INSTITUTIONAL CLIENTS	
ASSET MANAGEMENT MANDATES	**INVESTMENT INSTRUMENTS**
BVG Absolute Absolute-return target 5% p.a.; the investment strategy follows the guidelines of the OPP2	**Reichmuth Alpin and Hochalpin** Absolute return strategies with a performance goal of 5% p.a. and 10% p.a. respectively
BVG Relative Relative-return target; client requirements form the investment framework	**Reichmuth Matterhorn and Himalaja** Fund of hedge funds
Category mandates Bond and equity investment mandates	**Reichmuth Pilatus and Bottom Fishing** Equity funds

Where do your clients derive value-added in your services?
We distinguish between 1) asset management mandates, and 2) investment instruments. When offering asset management services, we can react in a very tailored way to the situation of each client. Investment instruments are collective forms of investment, which are not customized yet are designed to meet targets that are universally acceptable.

Where do your strengths lie?
When it comes to designing and implementing our investment strategy, the greater the freedom we have, the better. We want to reflect our clients' aims, and usually they are concerned with an absolute-return target. The fewer non-market restrictions placed on us - in addition to the OPP2 regulations - the better we can react to the actual aim of our client and to the market as a whole.

What does that mean in real terms?
Let me give you an example. A pension fund has a responsibility vis-à-visits beneficiaries. Hence, by definition it has an absolute-return target. Most banks, however, focus on achieving a relative-return target. For the banks, the advantage is that they can position themselves close to the benchmark, thus minimizing the risk of losing the mandate. But hand on heart – doesn't risk for you as a customer mean eventually losing money or missing out on the absolute target?

So, ideally, one should specify an absolute-return target?
Yes. That allows us to match the client's targets to the way the assets are managed. When investing larger amounts it is also advisable to combine different styles of investment. Typically, diversification merely means using different categories of investment and various different securities. However, the main factor that influences the result of any investment is the right strategy, and the way in which it is implemented. Therefore, when investing larger sums one should also strive to diversify in terms of styles of investment.

How could you define such a target?
In the case of our BVG absolute mandates, the target may be linked to the minimum interest rate, inflation or an internal target rate. In the case of Reichmuth Alpin, on the other hand, the target return is purely an absolute figure of currently 5% per annum. The important aspect is that this target fits the client's actual aim, takes account of the client's instructions and is tailored to what the market can offer.

Does your active approach entail frequent repositioning?
No. Firstly, active means defining a future-oriented asset allocation. For example, we keep the percentage of bonds to a minimum, allowing us to maximize the opportunities in the equities market. Secondly, active means selecting and weighting positions according to their attractiveness, not according to the benchmark weighting.

What is your view of the future?
The end of falling interest rates on financial markets has led to a change in trends. Passive investment approaches and buy-and-hold strategies can be expected to face big challenges. We recommend that our clients follow a more forward looking approach. From the reaction of our clients we can see that our investment approach is increasingly understood and appreciated. Our past success confirms that we are on the right track. We believe that with the expertise we have built up over the last 10 years in «absolute» target mandates, we can optimistically look forward to the future.



Sergio Hartweger CFA