PRIVATBANKIERS
REICHMUTH & CO
INTEGRAL INVESTMENT MANAGEMENT

CHECK-UP

CLIENT INFORMATION OF PRIVATBANKIERS REICHMUTH & CO, INTEGRAL INVESTMENT MANAGEMENT

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EDITORIAL

«Changes in the monetary system are signs of coming changes in society», said Prof. Aldo Haesler at our symposium in the Lucerne Culture and Conference Center (KKL Luzern). The use of electronic payments further weakens the argument for retaining physical money. In respect of protecting value, Prof. Baltensperger even recommended diversification into other than nominal investments. The influence of the central banks is declining, although inflation has been tamed and exchange rates have remained surprisingly stable. It is precisely this currently comforting situation that I do not trust.

The universally positive market opinion reminds me of the end of the 60s. At that time there was also the factor that the system of fixed exchange rates allowed major distortions to develop in many national economies. Instead, we no longer have a Bretton Woods exchange rate system. But the major surplus countries of Asia – especially China – largely fix their currency against the dollar. If major shifts in exchange rates result, as happened at the beginning of the 70s, today's stable and positive-appearing financial markets will change fast.

Karl Reichmuth
Partner with unlimited liability

THE GLOBAL ECONOMY IS HUMMING

TIME TO BE SOMEWHAT MORE CAREFUL

The global economy is growing robustly, and even the financial markets are still enjoying good health. It is a good thing that we recognized the important issues of the day a few years ago, so that our customers can take pleasure in today's higher market values. Yet despite the joy, we never forget the two pillars of our investment approach.

Magic of Compounding and Basis Effect

The effect of compounding is without doubt the strongest force in the investment business. What is more, with that in mind we protect our base in difficult times and that enables us to maintain a gradually rising base on which to build further. That is our recipe for success, and it has proved convincing for our customers over the turbulent past 10 years.

Worldwide positive outlook

How rosy the future of the global economy seems, compared to just a few years ago! We hardly ever hear of a scenario that does not take for granted a sound, growing global economy and good financial markets. Even Europe is in a cyclical upswing. We, too, see the global economy quite positively. Of course, we do not close our eyes to possible external shocks (bird flu, Iran, «dirty bomb», USD collapse, real estate crisis). Yet recent panic buying in some markets, for example India, or in some commodities, such as zinc and copper, clearly indicates to us that despite a good global economy risks have increased.

Liquidity and rising stock prices

All too often we hear the argument that the world's excess money is looking for investments, and therefore that prices can only go higher. We see things more soberly. High liquidity is certainly a necessary condition for rapidly rising markets, but not a sufficient one. That can be seen from the example of the stock market in Dubai. After rising 600% over the past 2 years, the market has lost around 50% in the past 3 months! And no one can argue that liquidity in Dubai has disappeared! Markets simply must be supported by profits, or they become top heavy and collapse. That is the case with every asset bubble.

Lively issuing activity

The high volume of new issues in both East and West shows that a correspon-

continued on next page

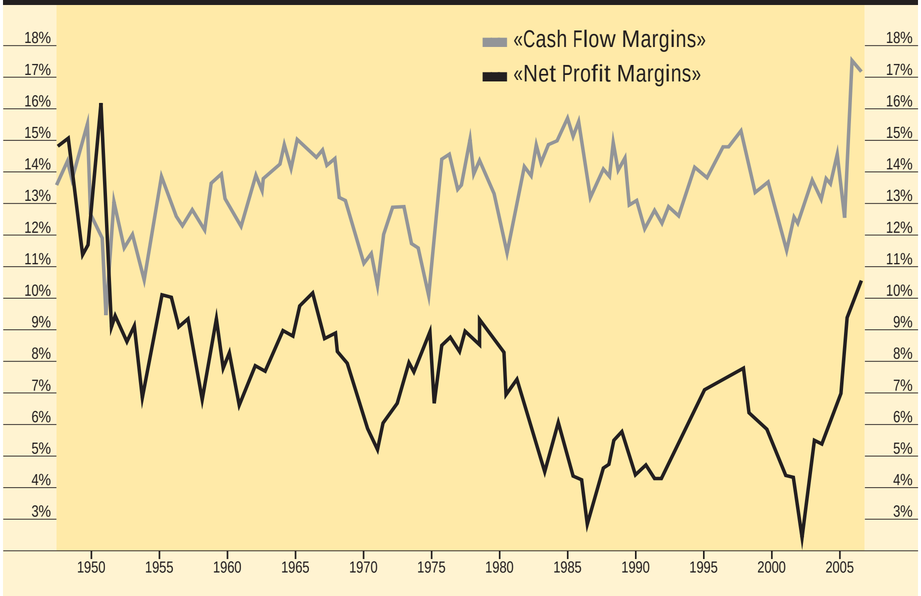
CONTENT

ding supply is being created due to the high demand of investors. Today, almost any project in alternative energy or commodities can be financed – just like the situation in the technology sector at the end of the 90s. Yet even India and China are borrowing money, and it shows that both markets are rather expensive and that liquidity is drying up.

Are stock markets expensive?
No, provided we assume that today's record profits (especially in the financial and oil sectors) will continue. The only thing that makes us cautious is that we do not believe that companies can increase their high net margins further. Rather, we expect that the first skid marks, caused by higher interest rates, higher oil and commodity prices, and intense global competition, will emerge this year! In the long run, profit margins always gravitate towards the mean. In 2002, profit margins were certainly too low. And so managers reacted and cut costs. Now they are high. We are glad, but how much higher can they go? We see few problems from sales revenues (Top-Line), and based on the interest rate outlook we continue to see rather high price/earnings ratios. Yet the question of margins does make us cautious.

Unstable Stability in Exchange Rates
Besides worries about margin developments, we fear that disequilibrium in the Asia /US currency relationship, which has been unstable for years, will become the next major topic in the financial markets. As always, changes in relative price structures also mean new opportunities, just like the ones we saw coming with the oil price rise a few years ago.

ARE THE RECORD HIGH MARGINS SUSTAINABLE?



Source: Ned Davis Research

Value-oriented and countercyclical
As value-oriented investors with a contrarian approach, things are currently not too easy. There are no longer many undervalued assets. Also, contrarian stories are difficult to find. We follow very carefully the five basic rules in the adjoining box. Although we know that those statements are never entirely clear-cut, and there must always be a somewhat subjective evaluation despite all the objective indicators that we have followed, in the past few years we have always found them a helpful support.

Diversification and partial protection
Now is not the time to increase risk in the portfolios, although, except for bond markets, the trend still looks quite good. Interest rates are rising worldwide. Excess liquidity is being slowly absorbed – and not just by the US Fed; even Japan is starting to drain excess liquidity.

Changes in the «Portfolio of the future»
Our modular concept has proved itself. We are currently buying bonds in EUR and SGD to a limited extent as interest rates have again become more attractive. With stocks, our focus remains on energy, infrastructure and natural resources. At the same time, we are slowly building up healthcare. In the opportunities sections of the portfolio, we are securing profits through new and increased protection levels. Here we are acting somewhat more cautiously and structuring new solutions to the upcoming currency shifts. The alternative investment allocation remains high. On the currency side, we are building up Asian currencies and reducing EUR against CHF.

Your Reichmuth Team

BEING RIGHT OR MAKING MONEY

1. Don't fight the tape.
2. Don't fight the Fed.
3. Be wary of crowds at extremes.
4. Study history to not repeat mistakes.
5. Cut losses short and let profits run.

Source: Ned Davis Research

MARKET OUTLOOK
2nd TRIMESTER 2006

INTEREST RATES

Money-market interest rates in the US are approaching their cyclical high; in Europe and Japan, they will continue to rise for a longer period of time.

The US Federal Reserve has already strongly tightened its monetary policy and will raise its key interest rate, which is now considerably above the inflation rate, only a little further. In Europe, economic recovery is hardly progressing at all, and, especially in Germany, is based on exports to the US and Asia. Consequently, the ECB will be slow and careful in adjusting interest rates upward. Economic growth in Switzerland has improved astonishingly quickly and is now higher than the European average. The Swiss National Bank will therefore raise its target band for interest rates (currently 0.75% to 1.75%) at least to the level of the ECB's key interest rate, if not even higher. In the UK, no change in rates is expected, and in Japan, where the deflation of many years has ended and the economy is in an upswing, the central bank has abandoned its zero-interest-rate policy and will soon start to raise interest rates.

Long-term yields have risen relatively strongly since the start of the year, at times even more strongly than money market rates. Only a very modest further rise is expected, as inflation remains low in almost all countries, despite high energy and commodity prices, and could even turn downwards in the coming months due to basis effects. Credit spreads for non-first-class debtors remain at low levels, due to an absence of unexpected defaults or downgrades in ratings. While a renewed rise is not expected soon, the period of high profits from high-yield and emerging-market bonds is over. We therefore recommend paying increased attention to debtor quality.

CURRENCIES

The USD will fall in the long term, especially against Asian currencies. The CHF will overcome its current weakness against the EUR.

Despite America's very high current account deficit, the USD is holding its own against the other main currencies, thanks to strong capital inflows caused mainly by interest rate differentials. However, the resulting increased indebtedness of the US will sooner or later hit a point at which today's capital inflows will dry up or even reverse. Then the USD will weaken considerably, falling most against those currencies from which the greatest inflows to the USD are currently taking place; namely Asian currencies, in particular JPY, SGD and CNY.

The EUR/CHF exchange rate is at the upper end of its fluctuation band of the last few years. For fundamental reasons (inflation rate differences, current account balances, economic cycles) a trend to a stronger CHF would actually be expected but has been overshadowed until now by short-term capital flows based on interest rate differentials. In the longer term, however, a correction towards a EUR/CHF exchange rate of 1.50 or lower can be expected, something which will most likely occur in the context of turbulence in the financial markets.

STOCK MARKETS

The markets are not yet generally overvalued but are susceptible to price corrections.

Almost all stock markets have risen further since the start of the year. While rising money market rates have slowed the market rise in the US, they have not yet turned it negative. Company profits have continued to move favorably, and already high profit margins rose further in some industries. While most markets are not overvalued in terms of price/earnings ratios and compared to the interest rate level, it is questionable whether the historically high profit margins and returns on capital can be maintained in the longer term. In any case, the market level is vulnerable, especially as the current very optimistic fundamental sentiment could suddenly reverse.

In our opinion, there is still good price potential in stocks from the energy, durable goods and investment goods sectors, which are profiting from pent-up demand in infrastructure. By contrast, the financial sector seems to have exhausted its potential.

As far as particular regions are concerned, Asia remains the most attractive to us. Growth remains high and valuations relatively cheap. Japan is at the forefront, of course, due to its broad and liquid market, but South Korea, Hong Kong, Singapore, Taiwan and, somewhat more speculatively, Thailand are also interesting, so that we consider instruments such as funds, ETF's or specially structured products suitable investments for these markets.

Dr. Max Rössler

INVESTMENT POLICY

2nd TRIMESTER 2006

BASIS	CH	EU	UK	USA	J
GDP Growth					
actual	2.7%	1.8%	1.8%	3.2%	4.0%
6 months	→	↗	→	↘	→
3 years	↘	↗	→	→	→
Unemployment					
Unemployment rate	3.6%	8.2%	3.0%	4.7%	4.1%
Inflation					
actual	1.0%	2.3%	2.0%	3.6%	0.4%
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	1.50	0.72	1.31	1.48	1.01
Dividend yield	1.8	1.9	3.8	1.8	0.9
Price/Book	2.8	1.8	2.5	2.8	2.2
Price/Earnings actual	19	16	15	18	28
Price/Earnings estimate	16	14	13	15	23

FORECAST	CH	EU	UK	USA	J
Money Markets (3 months)					
actual	1.2%	2.6%	4.6%	5.1%	0.1%
6 months	↗	↗	→	↗	↗
Swap Rates (10 years)					
actual	3.0%	4.2%	4.9%	5.5%	2.2%
6 months	→	→	→	→	↗
3 years	→	→	→	↗	↗
Currencies					
actual		1.57	2.27	1.28	1.08
6 months		→	→	↘	↗
3 years		↘	↘	↘	↗
Stock Market	**SPI**	**DAX**	**FTSE**	**S&P 500**	**TOPIX**
actual	6’230	6’030	6’100	1’310	1’750
6 months	→	→	→	→	↗
3 years	→	↗	→	↘	↗
Real Estate Market	→	↗	↘	↘	↗

Legend: ↗ = increasing → = neutral ↘ = decreasing as of: April 20, 2006

STOCK RECOMMENDATIONS
MAY 2006

	SECTOR	SWITZERLAND	EUROPE	USA	REST OF WORLD
BASE INDUSTRIES	**Chemicals**	Clariant Ciba	DSM Yara		
	Basic Resources				Anglo American Norilsk Nickel Vedanta
CYCLICAL CONSUMER	**Automobiles**		Daimler Chrysler Peugeot Renault		
	Retail	Vögele			
	Media	Publigroupe			
NON- CYCLICAL CONS.	**Food**	Nestlé Emmi	Südzucker		CP Foods
	Various				
ENERGY	**Energy**		Total / ENI / Statoil Repsol / Royal Dutch MOL / OMV / Neste	Oil ETF (XLE) Oil service ETF (OIH)	Gazprom / Lukoil Surgutneftegaz Keppel
	Utilities		EOn / RWE Iberdrola / Endesa Fortum		
FINANCIALS	**Banks**	Credit Suisse VP Bank SGKB	Almancora ABN Amro Raiffeisen International		State Bank of India Topix Bank ETF Bangkok Bank
	Insurances	Swiss Re Zurich / Baloise Helvetia	Munich Re Hannover Re		
	Financial Services		ING		
HEALTH	**Pharmaceuticals**	Novartis Roche GS	Pharma ETF Bayer	Pharma ETF (PPH) Schering-Plough Pfizer	
	Biotech			Myriad	
INDUSTRIALS	**Building**		Lafarge Italcementi Pref.		Hutchison Whampoa Siam Cement
	Machinery	ABB Rieter	Siemens IWKA		Toshiba
TECHNOLOGY	**Hardware**		Philips		Samsung Pref.
	Software			Check Point Software Avaya	
TELECOM	**Telecom**	Swisscom	Belgacom BT Group		NTT
	Equipment		Nokia	Motorola	
CERTIFICATES	**Index**				Taiwan ETF (EWT) Malaysia ETF (EWM)
	Style	Pilatus			Bottom Fishing RIM CC Bioscience

INVESTMENT STRATEGY

2nd TRIMESTER 2006

RETIREMENT

Currencies

- Overweight CHF
- Normal weight EUR
- USD at a minimum
- Up to 10% Asian currencies

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.

HARVESTING / BVG ABSOLUTE

Currencies

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

Categories

- Bonds
  - EUR, CHF and SGD bonds
  - Good quality
  - Lengthen duration somewhat, with short and long maturities (barbell)
- Stock portfolio
  - Value and dividend stocks
  - Energy, infrastructure, durable goods and healthcare
  - Normally weight second-line stocks
- Opportunities
  - Japanese second-line stocks
  - S&P bear market strategy
  - Asian currency basket
  - REITs in Japan and Singapore
- 10-25% alternative investments
- 5-10% Swiss real estate stocks
- Up to 10% gold (forwards)
- Up to 5% private equity

SPORT

Currencies

- Long JPY/CHF
- Short USD/RUB
- Long gold/USD
- Long SGD

Categories

- Bonds
  - Opportunistic JGB and US Treasury short positions
- Stock portfolio
  - Long energy stocks
  - Long infrastructure stocks
  - Long real estate Asia
  - Long banks in emerging markets
  - Short S&P futures
- Opportunities
  - Japanese second-line stocks
  - Asian currency basket
  - REITs in Japan and Singapore
- 20-50% alternative investments
- Up to 10% private equity

SYMPOSIUM WITH ANNIVERSARY CELEBRATION

TEN-YEAR CELEBRATION AT THE CULTURE AND CONGRESS CENTER LUCERNE

We celebrated our anniversary in February with around 500 guests from among our customers. Attendance at the symposium, «Do currencies deserve your confidence?», exceeded expectations. This was followed by a celebration lunch with musical entertainment, which everyone enjoyed. We thank you for coming, for the interesting discussions and unique atmosphere. You contributed significantly to the event's success.

«FUND OF EDGE FUNDS»

OUR WAY WITH ALTERNATIVE INVESTMENTS

Our two alternative investment instruments, Reichmuth Matterhorn and Himalaja are important components of our investment policy. Their good and relatively stable performance contributes to the success and stability of our customer portfolios. Also, we show up very favorably in any peer group analysis. What is the secret of this success?

Clear targets

For Reichmuth Matterhorn – our global money manager program – it has always been our goal to achieve stock-like returns (8-10% per annum) but with bond-like volatility (below 5%). With Reichmuth Himalaja – our money manager program with an Asian focus – we strive for an above-average return (10-15% per annum) with stock-like volatility (approx. 10%).

Experience is key

Our experience in every financial market scenario is certainly of the greatest value. We have experienced of all sorts of market conditions – external shocks, euphoria, bear markets, rising interest rates, falling interest rates, and so on. Thanks to our regular talks with specialist hedge fund managers, we hear about new topics and changing market conditions at a very early stage.

Own market view

What is a great help is that we also manage assets ourselves. Based on a thoroughly tried and tested fundamental evaluation of financial markets, we place the greatest value on analyzing the drivers of the various individual strategies. We plan our asset allocation in a correspondingly target- and future-oriented way and actively weight the individual strategies in the portfolio.

Proven selection criteria

Put simply, money managers are selected on three main criteria, in the following order of priority:

1. People: for us, it is the decision-makers, the people, the team that have the most importance. This is decisive. If all other criteria are positive, but doubts arise when we assess the people, we do not invest.

2. Strategy: we have to understand the money manager's strategy. We ourselves have learned so much over the years, thanks to which have been able to avoid many pitfalls, but without our understanding the strategy, it would be impossible to make target-oriented allocations for the funds. So expectations management is absolutely vital.

3. Performance: in third place is quantitative analysis of results achieved, whereby we pay special attention to the sensitivity of individual funds and strategies to various market conditions.

Hedge funds are not a science

Hedge funds are «skill»-based strategies. The most important factors are the people, and understanding the strategy and only then the results. It is of course easy to obtain and evaluate past performance data, which can then be calculated back and forth, up and down and often pro forma. But we do not believe this type of past-oriented, numbers-based approach to be very promising.

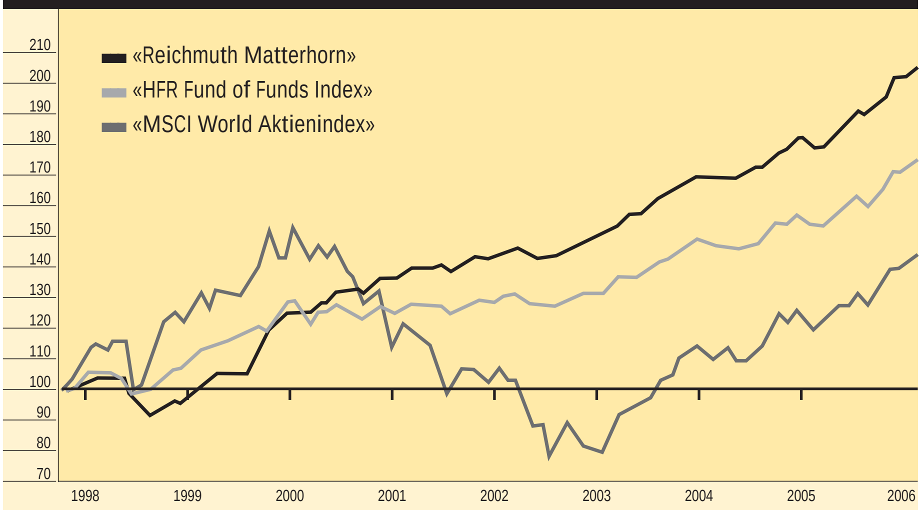
Investments in meetings on site

Personal contact with funds managers is very important. And so we visit our managers on site. These trips cost time and money, but ultimately they are the best guarantee for successful collaboration, and also we learn much ourselves for our overall investment strategy.

Fund of Edge funds

With an investment in hedge funds, you are investing primarily in the ability of the manager. We have to be able to recognize a manager's «edge». He or she needs to have quite a specific expertise. We do not invest in any hedge fund without its own particular «edge». This is why our instruments are called «fund of edge funds».

STABILITY - OVER 9% PERFORMANCE WITH LOW VOLATILITY



Patrick Erne

«APPEAL THROUGH PERFORMANCE»

DR. RICARDO CORDERO ON THE STRATEGY OF THE FUND MANAGEMENT COMPANY

Mr. Cordero, why do you as private bankers also offer funds?

Our activities are always based on our customers needs. Our large customers put us into contact with hedge funds as early as 1996. At that time, we learned about profitable strategies, irrespective of market conditions. We wanted our customers to have access to these strategies, and, consequently launched Reichmuth Matterhorn.

REICHMUTH INSTRUMENTS AT A GLANCE

NAME	STRATEGY	PERFORMANCE 1.1 - 31.03.06	PERFORMANCE 2005	PERFORMANCE since inception	VOLATILITY since inception
Alpin	Reichmuth Strategy conservative	+4.1%	+13.5%	+9.4% p.a.	3.0%
Hochalpin	Reichmuth Strategy dynamic	+6.8%	+20.0%	+17.7% p.a.	5.5%
Matterhorn	Fund of Edge Funds worldwide	+4.9%	+10.2%	+9.1% p.a.	3.5%
Himalaja	Fund of Edge Funds Focus Asia	+7.3%	+19.2%	+14.8% p.a.	6.8%
Pilatus	Swiss small caps	+13.4%	+37.6%	+9.7% p.a.	17.4%
Bottom Fishing	Global Stocks	+9.2%	+39.6%	+13.4% p.a.	14.6%

Do you offer new funds for every need?

No, just the opposite. We normally rely on individual investments or funds of specialist providers. But if the appropriate solution is not available in the market, and we ourselves have the experience, we're happy to be innovative pioneers and one step ahead of the competition.

Funds of hedge funds are available everywhere today.

Today yes – but not in 1996! We're happy that, according to the well-known newspaper «Finanz und Wirtschaft», we've achieved the top position for the last two years. It seems that our approach is superior to that of purely quantitative-oriented firms. We learn a lot from our money managers. This valuable information is used for Reichmuth Alpin and Hochalpin as well.

What are Reichmuth Alpin and Hochalpin?

These are our two visible instruments. Reichmuth Alpin applies our investment approach conservatively, hence suited for pension funds. Reichmuth Hochalpin applies our investment approach dynamically. These funds have a future-oriented return and volatility target. Here, too, we embark on new roads, away from the path of relative-oriented benchmark investors.

Don't funds cost much more than direct investments?

No. Funds are often less expensive, as broker's fees are lower for larger amounts. Also, we only charge a ticket fee of CHF 120 and, of course, no custodial fees. More important: funds can react quickly to changed market conditions. Thanks to this greater flexibility, strategies can be implemented more efficiently. Outsiders use Reichmuth Alpin and Hochalpin's performance as «benchmarks» for the soundness of our investment strategy.

For whom are your funds appropriate?

Good question! But there's no general right answer. The optimal portfolio is always determined by the clients' needs and goals. That requires personal dialogue with each client. Our strategy funds are one solution. That's why they're especially popular for smaller investors. The fund of hedge funds is one of the modules of our asset management. Performance is clearly attracting an increasing number of customers from other banks.

How do you see the future of your funds business?

Our funds are investment solution alternatives. We create added value through our core competence of «understanding financial markets». Our principle «Appeal through Performance» and the increasing use of our funds rather than individual accounts highlight the results of our investment strategy. Our fees are customer-oriented and low. While increased visibility isn't just an opportunity, we're happy if our results help us to win additional clients.

Can non-customers as well as Germans and Austrians invest in your funds?

Yes, investors with Swiss domicile can invest in our funds, since they are investment funds under Swiss law. For our German and Austrian investors, we've created taxation-optimal certificates.

How can I follow your funds?

We're always personally available to answer your questions. Our website www.reichmuthco.ch reveals further useful information related to our instruments. If you wish, we'd be happy to place you on our monthly e-mail distribution list. I look forward to hearing from you!

Dr. Ricardo Cordero