PRIVATBANKIERS
REICHMUTH & CO
INTEGRAL INVESTMENT MANAGEMENT

# CHECK-UP

CLIENT INFORMATION OF PRIVATBANKIERS REICHMUTH & CO, INTEGRAL INVESTMENT MANAGEMENT

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## EDITORIAL

*Big changes are on the horizon. The states have saved the financial system, but now many of the saviors are facing problems: heavy debt and inflexible exchange rates. Further, also sociopolitical changes lie ahead. As a result of the excessive bonuses, the liberal market regime is losing many followers. And many Europeans are realizing that there is no sustainable financing for the welfare system. This edition of the Check-Up deals with the diverging future economic perspectives.*

*May 2010 marks the 10th anniversary of our sister company, PensExpert. We are happy to report about «the individualization of pension fund solutions».*

*In the name of our team, I thank you all for the loyalty and support over the past years. It is exactly this that makes our job fulfilling and gives us the spirit to perform for you. We hope you enjoy the reading and are looking forward to our next dialogues.*

*Karl Reichmuth*
*General Partner*

# EUROPE: HELLO DIVERGENCE

## THE LONG-LASTING PHASE OF CONVERGE HAS COME TO AN END

Our globalized world has become extremely fragile: the bankruptcy of an US investment bank in 2008 brought the world financial system close to a collapse, the eruption of an Icelandic volcano disabled all air traffic in Europe for days, and the massive current deficits of little Greece pose a threat to the Euro.

**Fixed exchange rates: blessing or curse?**
Fixed exchange rates simplify enterprise planning and calculation, obviate the need for travelers to exchange currencies, and make price comparison easier. These advantages come at a price, since fixed exchange rates are one of the main causes of the current imbalances, and are an obstacle to eliminating these without provoking even more serious problems. This applies to the US-Chinese relationship, as well as the relationship between the main European economies (e.g. Germany) and the Mediterranean economies.

**Imbalances: close to the tipping point**
Current imbalances are slowly but surely becoming widespread and untenable – a correction is undoubtedly in the offing. As is known, China manufactures goods for the US, and at the same time provides the financing for these activities. Hence, China is one of the key determining factors for interest rates the US government pays on its debt. Moreover, the US's expansive monetary policy automatically translates into an expansive Chinese monetary policy. Thus far, China resisted US pressure to increase the value of the RMB for the simple fact that exports are the main driver of its economy. But now China is feeling increased inflationary pressures and is attempting to put the brakes on its overheated economy. Salaries are on the rise, and we wouldn't be surprised if inflation were added to the list of Chinese exports.

**«China boom» or «China bust»**
Further development is to be expected between two extremes. In the first scenario, China adheres to its growth policies and the country's economy overheats, hence, creating a bubble. In the second scenario, China institutes stringent monetary policies resulting in falling real estate and commodity prices and worldwide pressure on stocks. The first scenario is good news for investors – providing that the bubble doesn't burst. However, in the long run Asian economies are likely to exhibit higher growth rates. Hence,

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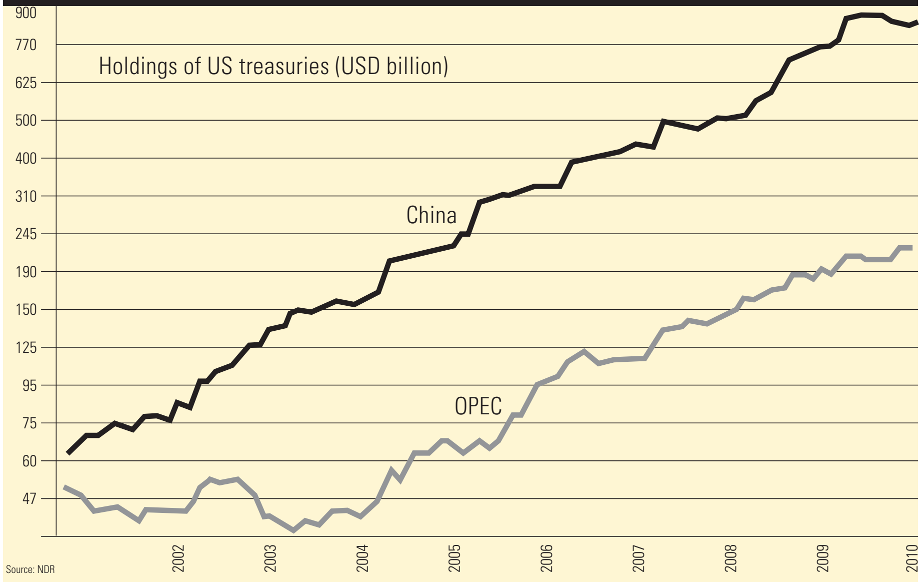
## CONTENT

**DO CHINA AND THE OPEC STILL HAVE AN APPETITE FOR US TREASURIES?**




an economic downturn in Asia opens up excellent investment opportunities. When analyzing economic growth, China's importance is on a par with that of the US.

### European convergence – the end of an era

The financial crisis marked the end of a decade of convergence in Europe. For years, all countries interested in economic stability and low interest rates wanted to be a member of the Euro club. Low interest rates supported robust economic growth in southern European countries, largely financed by debt. Comparable with the US-China imbalance, southern European countries lived above their means thanks to low interest loans. Germany and Switzerland benefited from exports to these countries. But this era may be headed for the dustbin of history, leaving the core EU countries, e.g. Germany and Holland, with two choices: (a) accept that the current system is dead, or (b) the Euro zone will have to evolve into a federation of nations with a single fiscal policy and the consequent redistribution mechanisms.

### Is Germany forcing southern European economies to deflate?

Nations who live above their means inevitably end up instituting austerity measures. This is what Germany is now calling for, and rightly so. However, it is highly unlikely that Western democracies will institute fundamental financial reforms in due course – although this is what is necessary when a country does not have its own currency and cannot relieve the economic pressure by devaluing its currency. The fact is that all EU governments have grown accustomed to borrowing at low interest rates. Yet the huge deficits are provoking ever stronger deflationary pressures! Against this backdrop, it seems unlikely that southern European economies will be able to keep up with the high productivity of countries such as Germany.

### Popular pressure to pursue inflationary policies

Although the need for austerity measures is the prevailing trend, popular pressure may prompt governments to find a middle way, e.g. a combination of fiscal restraint and expansive monetary policy. Since the latter would apply to the entire Euro zone – including economies where such measures are unnecessary – inflation would be the result. Some Euro countries are considering that they would be better off sticking to their national currency – a popular and efficient way to relieve pressure in times of economic crisis. Bulgaria's decision to abandon its planned accession to the Euro zone in 2013 may well be interpreted this way. There are bound to be popular pressures in various countries to use inflation as an instrument to reduce high government deficits.

### Divergence is in the offing

As a matter of fact, governments simply cannot solve all economic problems. Hence, we don't recommend buying long-term government debt. We need to disabuse ourselves of the paradigm of an overarching controlling entity, since we would be far better off placing our trust in numerous smaller governing organs. Inflation will surely be one cure for massive government deficits. Both the US and UK seem to be headed in this direction. However, continental European countries will probably turn to austerity measures, i.e. deflationary policies. As a result, European interest rates are likely to remain low for the present. Asian economies are growing rapidly and are subject to inflationary pressures. Yet these economies have far lower deficits and will be able to maintain their growth policies. Japan, whose economy has experienced Asia's most severe downturn, may unexpectedly bounce back this year. Fiscal restraint and expansive monetary policies normally benefit equities. Hence, we recommend that investors place a high proportion of their assets in stocks – although hedging some of the downside risk is advisable. In particular, we recommend purchasing dividend stocks. Some good investment opportunities are likewise available in currency markets – especially Asian currencies are a good bet here.

*Christof Reichmuth*
*General Partner*

# THE BIG PICTURE
## OUR SCENARIO ANALYSIS IN A NUTSHELL

| CONSENSUS | STAGFLATION | GLOBALE DIVERGENCE | CRISIS |
|---|---|---|---|
| The financial crisis is over. The economies recover gradually. Central bank's policies remain expansive for the time being. This leads to renewed asset bubbles. The budget deficits of many governments remain stubbornly high. Inflation remains low due to overcapacities and high unemployment rate. | The central bank's policies remain extremely expansive and the markets are supplied with cheap money. This leads to inflationary pressures, including assets, yet no real growth is visible. The budget deficits of governments remain stubbornly high. Austerity programs in Europe are abandoned due to social unrest. Long-term interest rates rise since the gigantic supply can only be placed at higher rates. | Global economic divergence. The European zone follows a rigorous austerity program, especially in the southern states. The US, UK and Japan follow an expansionary money and fiscal policy. The interest rates in these countries start to rise. In order to control inflation, China allows an appreciation of their currency. Due to the lower demand for Asian goods some economies, such as Australia, even lower their interest rates in order to stimulate the economy. | No real recovery of the global economy. The economic imbalances remain high, and the foreign currency reserves of the surplus countries continue to grow. Government debts continue to grow fast, social unrest rises, threat of government defaults, and debt restructurings must be prepared. Continued distortions on foreign exchange markets. Capital controls as well as currency reforms become socially acceptable. Rising protectionism. China depreciates its currency in order to remain competitive. |
| INVESTMENT IDEAS<br>Blue Chips<br>Cyclical Stocks<br>Emerging Markets<br>Commodities<br>Gold, Silver | INVESTMENT IDEAS<br>Inflation-linked bonds<br>Stocks with high dividend yields<br>Real assets (e.g. real estate)<br>Gold, Silver | INVESTMENT IDEAS<br>Selective European bonds and inflation-linked government bonds<br>Selective stocks of defensive sectors<br>Selective hedge funds<br>Gold, Silver<br>Avoid USD and GBP | INVESTMENT IDEAS<br>Cash in home currency<br>Investments only in countries with little risk of expropriation<br>Stable dividend stocks<br>Physical real assets<br>Gold, Silver |
| High Yield Spreads: 500 bps | High Yield Spreads: 400-600 bps | High Yield Spreads: 400-700 bps | High Yield Spreads: 1200 bps |
| Probability 6 months: 40% | Probability 6 months: 5% | Probability 6 months: 50% | Probability 6 months: 5% |
| Probability 18 months: 20% | Probability 18 months: 30% | Probability 18 months: 40% | Probability 18 months: 10% |

# DELEVERAGING – ONE STEP AT A TIME
## VARYING SPEED DEPENDING ON THE BORROWER

The current financial crisis has once again illustrated how quickly debt can lead to bankruptcy. When asset prices decline, all that remains are the debts that were incurred for financing purposes, while equity soon evaporates. In other words, a company's balance sheet is just as important as its profit and loss statement. The deleveraging process set in motion by the financial crisis could easily provoke a genuine economic depression – an evolution that national governments could avoid by implementing massive bail-out programs. But instead, governments have gone on a borrowing spree. As long as government deficits remain below a certain percentage of GDP and the interest on national debt does not account for an unduly high proportion of tax revenue, such deficits are tolerable. However, this cannot go on forever.

**The private sector: largely out of the woods**

The deleveraging process in the private sector is well advanced, and listed companies in particular have been forced to take swift action in this regard. However, the process has been slower in the consumer sector, where mortgages are paid off over a far lengthier period and are refinanced over time. Normally, governments are the slowest to progress since they have the means at their disposal to turn such situations around. Such instruments include raising taxes, increasing the retirement age, reducing entitlement payments, and inducing inflation. Hence, on the one hand the deficits in countries such as the US and Germany are unlikely to be unsolvable problems in the foreseeable future. On the other hand, there appear to be only two possible solutions for countries such as Greece: leaving the Euro, or debt restructuring, both of which would of course have major repercussions. Moreover, each such case should be handled in accordance with the country and currency concerned.

*Patrick Erne CFA*

# INVESTMENT POLICY
## MAY 2010

| BASIS | CH | EU | USA | J | CHINA |
|---|---|---|---|---|---|
| **Purchasing Power Parities** | | | | | |
| Ned Davis Research | | 1.55 | 1.14 | 1.12 | |
| | | | | | |
| **GDP Growth** | | | | | |
| actual | 0.6% | -2.2% | 0.1% | -1.0% | 11.9% |
| 6 months | ↗ | ↗ | ↗ | ↗ | → |
| 3 years | ↗ | ↗ | ↗ | ↗ | ↘ |
| | | | | | |
| **Inflation** | | | | | |
| actual | 1.4% | 1.4% | 2.3% | -1.1% | 2.4% |
| 6 months | ↗ | ↗ | ↗ | ↗ | ↗ |
| 3 years | 2.0% | 3.0% | 6.0% | 1.0% | 8.0% |
| | | | | | |
| **Stock Markets** | **SPI** | **DAX** | **S&P 500** | **TOPIX** | **HSCEI** |
| Price/Sales | 1.5 | 0.7 | 1.3 | 0.6 | 1.6 |
| Dividend Yield | 2.8 | 2.8 | 1.8 | 1.6 | 1.8 |
| Price/Book | 2.0 | 1.6 | 2.3 | 1.2 | 2.3 |
| Price/Earnings actual | 15 | 22 | 18 | n.a. | 16 |
| Price/Earnings estimate | 13 | 13 | 15 | 20 | 13 |

| FORECAST | CH | EU | USA | J | CHINA |
|---|---|---|---|---|---|
| **Money Markets (3 months)** | | | | | |
| actual | 0.24% | 0.65% | 0.33% | 0.24% | 1.9% |
| 6 months | ↗ | ↗ | ↗ | → | ↗ |
| | | | | | |
| **Swap Rates (10 years)** | | | | | |
| actual | 2.3% | 3.2% | 3.8% | 1.4% | n.a. |
| 6 months | → | → | ↗ | → | n.a. |
| 3 years | ↗ | ↗ | ↗ | ↗ | n.a. |
| | | | | | |
| **Currencies** | | | | | |
| actual | | 1.43 | 1.08 | 1.15 | 6.3 |
| 6 months | | ↗ | → | → | ↗ |
| 3 years | | ↘ | ↘ | → | ↗ |
| | | | | | |
| **Stock Markets** | **SPI** | **DAX** | **S&P 500** | **TOPIX** | **HSCEI** |
| actual | 5'970 | 6'270 | 1'200 | 1'000 | 12'170 |
| 6 months | → | → | → | → | → |
| 3 years | ↗ | ↗ | ↗ | ↗ | ↗ |
| | | | | | |
| **Real Estate Market** | → | → | → | → | → |

Legend: ↗ = increasing → = neutral ↘ = decreasing as of: April 27, 2010

# MARKET OUTLOOK

**2nd TRIMESTER 2010**

## CURRENCIES

**The Euro has exhibited weakness in recent months, and there has been substantial upward pressure on the Swiss Franc. Both trends are likely to undergo a correction in the medium term.**

The Euro has come under increasing pressure owing to the massive deficits of some southern European countries. This has raised questions about the solvency of these nations going forward, as well as the prospects for the euro itself. Increasingly, investors have been converting their Euro holdings to Swiss Francs, in at least some cases for speculative purposes. Despite the Swiss National Bank's repeated interventions, the value of the Euro has continued to decline against the Swiss Franc, dropping below the December 2008 low of CHF 1.43. This trend may continue in the short term but is likely to undergo a partial correction in the medium term.

Over the long term, currency values are normally determined by fundamental factors that evolve slowly such as balance of payments, central bank monetary policies, government finances, purchasing power parity, and inflation rates. Against this backdrop, the US Dollar is likely to weaken again, whereas the Euro will probably increase in value. The Swiss Franc is set to remain the strongest currency, although the Japanese Yen will probably be robust as well. The currency rate outlook for emerging economies varies from one country to another. We anticipate that the Chinese RMB and the currencies of a number of other Asian currencies will rise against the US Dollar, whereas most other emerging-economy currencies are likely to exhibit weakness owing to the fact that the inflation rates in these countries are considerably higher than in industrialized countries.

## INTEREST RATES

**Interest rates are likely to remain low for the present, but may begin rising again toward the end of this year, although yields on long term government bonds may rise before that.**

Central banks are refraining from raising their prime interest rates and have strengthened their resolve to continue on this course in the coming months. The economic recovery has not really kicked in as yet. Unemployment rates remain unduly high and the banking system still shows signs of weakness as a result of the economic crisis. Inflation is unlikely to rise. Yield curves are relatively steep at present, with a certain amount of differentiation among the various currencies. The very expansive fiscal and monetary policies in the US and the consequent risk of long term inflation have triggered a rise in the yield of ten year government bonds to approximately 4%. At the same time, Euro bond yields have scarcely increased at all owing to the European Central Bank's rigorous stability oriented policies, and interest rates for CHF bonds have not risen at all. The differences between these various interest rates may widen in the coming months.

The CDS spreads of numerous government bonds have increased owing to sharp rises in government deficits and the consequent concerns regarding long term government solvency, particularly in Greece. One thing is certain: government deficits will have to be massively reduced in the coming years, since otherwise surcharges will rise, credit markets will be crippled, and ultimately we will see debt defaults and restructuring.

## STOCK MARKETS

**Despite a setback in January, equity prices are continuing to rise and have almost universally exceeded the levels at the beginning of the year. However, if the current optimism flags and interest rates begin to creep upward, the stock market may be in for a correction.**

Economic indicators have exceeded expectations of late, and the positive impact of robust corporate profits has strengthened investors' optimism. However, it remains to be seen whether the current upward trend is here to stay or is only a flash in the pan. Most of the problems that provoked the crisis in the first place remain unresolved. Rapidly escalating government deficits and persistently high balance of payment deficits, as well as abysmally low interest rates and the asset price inflation provoked thereby, raise serious doubts in our mind as to whether share prices are poised for a long term increase. As has been the case for quite some time now, equities from companies in non-cyclical sectors with high and reliable dividends are the best bet when it comes to investing in the stock market. Less risk averse investors should stick to selected cyclical shares, but also need to bear in mind that many of these stocks have already bounced back from their lows and thus only offer good profit potential if the economy genuinely recovers.

*Dr. Max Rössler*

# «PORTFOLIO OF THE FUTURE»

### DIVERSIFIED AND FUTURE-ORIENTED – ADAPTED TO THE PREVAILING MARKET ENVIRONMENT

| % | WHAT | HOW | YIELD* | VOLATILITY* |
|---|---|---|---|---|
| 35% | Fixed Income | Money Market investments<br>Short-duration bonds of firms with stable cash flows<br>Inflation-linked Government bonds | 0-5% | 5% |
| 5% | Structured Products | Asia FX against EUR and USD | 6-8% | 8% |
| 30% | Equities | Scale-in /Scale-out concept, ev. with partial hedge<br>Stocks with high dividends and low valuation<br>(Energy, Telecom, Food, Pharma, Insurance)<br>Asia ETFs and Sector ETFs actively managed | 5-8% | 15% |
| 5% | Real Estate | 1/2 Switzerland, 1/2 Asia | 5-8% | 15% |
| 20% | Alternative Investments | Reichmuth Matterhorn 3 and 24 or third party instruments<br>Reichmuth Himalaja | 5-8%<br>10-15% | < 7%<br>< 12% |
| 5% | Precious Metals | Gold and Silver physical | 5-10% | 10% |
| | | **Total** | **4-8%** | **approx. 6%** |

* Expected average values over a 5-year time horizon - no guarantee

# DIVIDEND STOCKS REMAIN ATTRACTIVE

### HIGHER YIELDS THAN GOVERNMENT BONDS AND ATTRACTIVE VALUATION

Numerous blue chip stocks whose dividends exceed the yield on long term government bonds and that offer robust value remain popular among investors. Last September we issued a list of such stocks, and as can be seen in the table below, their dividends are expected to remain high. These shares are ideal for long term investors who wish to achieve good performance and receive dependable dividends in the current low-interest rate environment. Additionally, a high dividend yield may offer protection during a market correction.

*Silvan Betschart*

**SELECTED DIVIDEND STOCKS**

| STOCK | FX | Price | Perf. YTD | P/E | P/B | P/S | D/P current | D/P 10 | D/P 11 | D/P 12 | D/P 13 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| NESTLE | CHF | 53.4 | 6.7 | 16.6 | 3.8 | 1.9 | 3.0 | 3.2 | 3.5 | 3.8 | 4.1 |
| UNILEVER | EUR | 23.2 | 2.7 | 16.1 | 5.4 | 1.6 | 4.2 | 3.5 | 3.6 | 3.9 | 4.4 |
| PROCTER & GAMBLE | USD | 63.5 | 5.5 | 17.6 | 2.8 | 2.4 | 3.0 | 2.8 | 3.1 | 3.3 | 3.8 |
| TOTAL | EUR | 42.4 | -5.2 | 9.6 | 1.8 | 0.7 | 5.3 | 5.4 | 5.6 | 6.0 | 6.2 |
| ROYAL DUTCH SHELL | EUR | 23.1 | 9.3 | 10.8 | 1.4 | 0.6 | 5.2 | 5.4 | 5.6 | 5.8 | 6.1 |
| ENI | EUR | 17.5 | -0.4 | 9.6 | 1.4 | 0.8 | 5.6 | 5.7 | 6.0 | 6.0 | 6.3 |
| STATOIL | NOK | 147.1 | 1.5 | 10.2 | 2.4 | 0.8 | 4.1 | 4.4 | 5.0 | 5.4 | 4.6 |
| NOVARTIS | CHF | 55.8 | -0.8 | 10.6 | 2.2 | 2.5 | 3.7 | 4.1 | 4.4 | 4.8 | 5.0 |
| ROCHE GS | CHF | 171.8 | -2.3 | 12.9 | 20.1 | 3.0 | 3.5 | 3.9 | 4.3 | 4.9 | 5.2 |
| SANOFI-AVENTIS | EUR | 53.0 | -1.8 | 10.7 | 2.4 | 2.4 | 4.4 | 4.7 | 4.9 | 5.0 | 5.1 |
| RWE AG | EUR | 62.0 | -8.5 | 8.9 | 2.6 | 0.7 | 5.6 | 6.0 | 6.1 | 6.4 | 6.0 |
| EON AG | EUR | 28.4 | -3.1 | 10.0 | 1.3 | 0.7 | 5.3 | 5.4 | 5.5 | 5.8 | 5.9 |
| DEUTSCHE TELEKOM | EUR | 9.8 | -3.4 | 13.9 | 1.2 | 0.7 | 7.8 | 7.3 | 7.3 | 7.3 | 6.8 |
| FRANCE TELECOM | EUR | 16.8 | -2.4 | 9.6 | 1.7 | 1.0 | 8.2 | 8.3 | 8.3 | 8.4 | 8.2 |
| SWISSCOM | CHF | 388.6 | -0.5 | 10.8 | 3.2 | 1.7 | 5.1 | 5.9 | 6.2 | 6.5 | 6.3 |
| BCE INC (BELL CANADA) | CAD | 30.9 | 6.7 | 11.6 | 1.7 | 1.3 | 5.6 | 5.6 | 5.9 | 6.2 | n.a. |
| SINGAPORE TELECOM | SGD | 3.1 | -0.6 | 12.8 | 2.2 | 3.1 | 4.2 | 4.4 | 4.6 | 5.2 | 5.3 |
| BOUYGUES SA | EUR | 37.6 | 6.0 | 110 | 1.6 | 0.4 | 4.1 | 4.1 | 4.4 | 4.6 | 4.5 |
| ZURICH FINANCIAL SERVICES AG | CHF | 245.8 | 10.3 | 8.1 | 1.2 | 0.5 | 6.4 | 6.7 | 7.0 | 7.3 | 8.0 |
| MUENCHNER RUECK | EUR | 116.4 | 9.8 | 10.2 | 1.0 | 0.4 | 4.8 | 4.8 | 5.0 | 5.4 | 5.8 |
| ALLIANZ | EUR | 88.4 | 18 | 8.2 | 1.0 | 0.4 | 4.6 | 5.0 | 5.4 | 5.9 | 5.9 |

Source Bloomberg: 27.04.2010

# LET'S GET REAL

## REALUNIT SCHWEIZ (CHF) – A NEW TYPE OF FUND FOR SAVERS

The underlying concept of the RealUnit fund goes back to my grandfather. When he retired, he sold his pig slaughterhouse to my uncle not for a fixed amount, but rather in exchange for the monthly counter-value of a pig. The reason: my grandfather had little faith in the long term value of money, and wanted to receive his pension payments in a commodity whose value was certain and lasting. This was in fact a smart move, since most pension fund depositors have lost money and have not been able to benefit from inflation. This prompted us to launch «RealUnit Schweiz CHF», a new FINMA approved fund. Its investments are structured according to Switzerland's GDP, i.e. two thirds consumer-related, one third investment related.

**Close to reality and preservation of value**

This strategy enables this fund to invest according to the actual performance of the Swiss economy, in a manner reflecting reality and, to some extent, securitized by real assets. This means that this fund should provide a long term hedge against inflation. Although money was once the instrument that was used to exchange goods and preserve asset value, today it is used far less for the latter purpose. For example, the purchasing power of the Euro has declined nearly 20% within ten years, while the US Dollar's purchasing power declined by nearly 90% over the past fifteen years. Hence, the question as to how savers can preserve asset value is more imminent than ever. Even Switzerland, traditionally a haven of financial stability, is bound to be affected by the fiscal and currency turbulence that is in the offing. High government debt and the glut of money may provoke severe inflation in many national economies having a ripple effect on the Swiss economy.

**FUND FACTS**

| | |
|---|---|
| Name | RealUnit Schweiz (CHF) |
| Reference Currency | CHF |
| Domicile | Switzerland |
| Category | Other Funds for traditional Investments, OPP2 conform |
| Investment Manager | Reichmuth & Co |
| Fund Management | PMG Fonds Management AG |
| Custodian | Swissquote Bank SA |
| Trading | weekly |
| ISIN | CH0106390138 |

**An «independent currency» for the prudent saver**

Affluent investors can adopt a strategy of spreading their assets across various classes so that the value of their assets is preserved. In the case of normal savers, inflation has a devastating effect on their assets since they normally only hold nominal assets such as savings accounts or bonds. For such investors, the RealUnit Schweiz CHF fund offers an «independent currency» whose value is partly covered by real assets. The great advantage is that its value will not only remain stable, but will also benefit from Swiss economic growth, despite fluctuating market and economic conditions.

**Based on the Swiss GDP**

The fund is based on the structure of the Swiss GDP. Accordingly, the fund invests two thirds of its assets in consumption-related instruments and the remaining one third in investment related instruments. The consumption-related portion of the fund reflects the transaction function of money, and invests in the following instruments: bonds, consumer price-based investments, liquidity and commodities. The value conserving instruments comprise real assets, such as stocks and real estate.

In view of the international orientation of the Swiss economy, approximately thirty percent of the fund's assets are invested abroad. In lieu of direct investments, passive instruments, e.g. ETFs are prioritized – allowing for a high level of liquidity.

**PORTFOLIO BUILDING BLOCKS**

| GDP basis | Consumption/ Investments | Foreign interdepence | 31.3 2010 |
|---|---|---|---|
| Consumer-Price Index | Consumption | Domestic | 31.2% |
| Fixed Income CH | Consumption | Domestic | 13.8% |
| Equities World | Investment | Foreign | 11.4% |
| Commodities | Consumption | Foreign | 11.3% |
| Equities Switzerland | Investment | Domestic | 11.1% |
| Real Estate Switzerland | Investment | Domestic | 11.0% |
| Liquidity | Diverse | Diverse | 10.2% |
| Money Market World | Consumption | Foreign | 0.0% |

**Cost optimized structure**

The fees of the fund are approximately half those of comparable funds. The management fee amounts to maximum 0.7% per annum. Units of the fund are sold directly, without any retrocessions, and are available at any bank.

**Interested?**

To learn more about the RealUnit Schweiz CHF fund, visit www.realunit.ch or give me a call.

*Remy Reichmuth, CFA*

# TEN YEARS OF ADDED-VALUE PENSION FUND SOLUTIONS

## AN INTERVIEW WITH JÖRG ODERMATT ON THE TENTH ANNIVERSARY OF PENSEXPERT

*Jörg, PensExpert is celebrating its tenth anniversary and is currently the market leader in the field of pension fund individualization. What do you attribute this success to?*

As is often the case, PensExpert resulted from a coincidental meeting of various innovative individuals who had similar ideas. By working with Reichmuth & Co, our goal was to introduce the concept of individualization into the pension fund industry and offer customers a revolutionary option to manage pension fund assets based on a personalized strategy, providing greater transparency for each individual pension fund member.

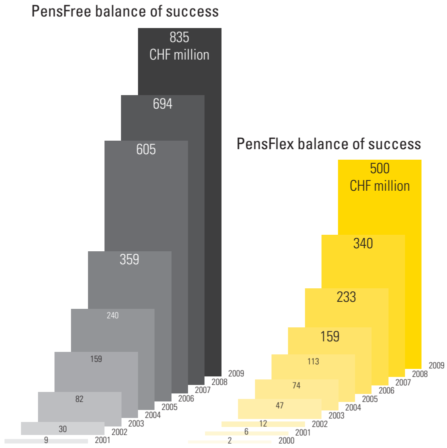
*Did you find that there was a demand for this type of solution?*

Yes. Back in the 90s, executives, managers and self-employed persons were expressing dissatisfaction with the level of transparency and the manner in which pension fund earnings were being allocated to pension fund payments exceeding the statutory minimum. Following the collapse of the dotcom bubble and the initial reduction in the statutory pension payment in 2003, this dissatisfaction became palpable among other pension fund members as well. The high media coverage of the so called pension theft debate additionally supported the case.

*Is implementing innovative solutions always fraught with difficulty?*

The startup phase of PensFlex was quite difficult since in 2000 the legal requirements in this sphere were still unclear. Thus we had to negotiate with the competent authorities, which meant spending a great deal of time persuading these to accept our ideas. The concept of pension fund individualization was incorporated into Switzerland's main pension fund law in 2006. This allowed us to make huge progress over the past four years, during which time we acquired numerous new clients.

The PensFree and Pens3a pension funds achieved rapid success right from the start since regulations governing these funds have always been clear. Many customers with high pension fund balances welcomed the concept of individualized management.




*What are the advantages of your solutions?*

We eliminate the most severe system errors. The option to define an individual strategy helps the customer to avoid having their pension fund strategy be determined by a third party. Since our customers are used to taking responsibility, we can tailor each customer's pension fund strategy to his individual circumstances.

The increasing tendency towards apportionment procedures can be avoided by applying a dual pension fund strategy. PensFlex obviates the need for pooled fluctuation provisions to cover scenarios such as in the case of retirement or a change in employment. Individualization also eliminates the risk of coverage shortfalls. This in turn means that customers are not subject to restructuring surcharges.

Each customer receives an annual account statement indicating, inter alia, his personal pension fund balance, the investment strategy, and performance. The latter is fully attributed to each individual member allowing for full investment transparency.

*Who is this kind of pension fund solution suitable for?*

«The PensExpert solutions are ideal for managers, executives, and self-employed persons. However, we also recommend PensExpert for Swiss nationals who relocate to another country, as these products provide tax advantages. In a nutshell, PensExpert offers genuine private banking solutions for pension funds.»

*What are your plans for the future?*

We assume that our individualization paradigm will come into wider use. In advising our customers, we can now draw upon ten years of experience – a huge competitive advantage. The labor market is becoming ever more international and dynamic. Our goal is to provide our customers with pension fund solutions on a worldwide basis. Our PensGlobal product offer just such solutions for PensFlex members who are posted abroad.

*Jörg Odermatt*
*CEO PensExpert*

For further information, visit www.pensexpert.ch or subscribe to our customer newsletter, PensCheck. To do so, contact Gaby Grossbach at gaby.grossbach@reichmuth-co.ch, or give us a call.