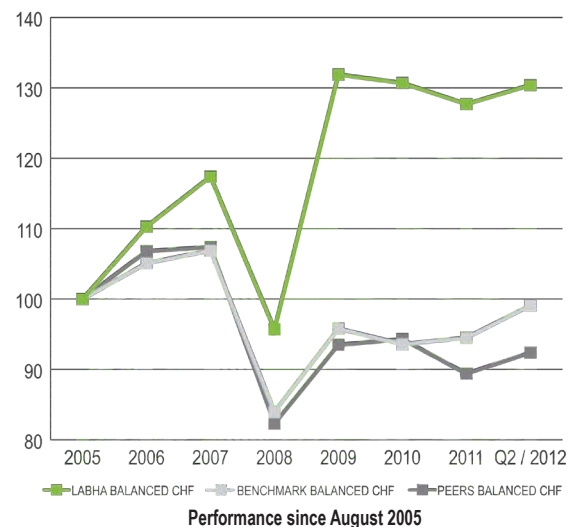
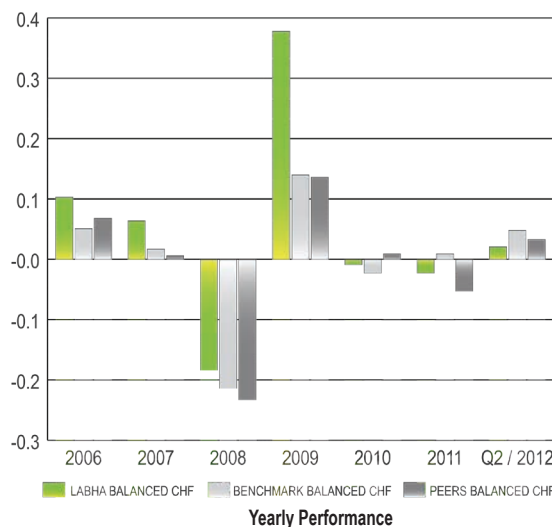


As outlined in our last quarterly report, we were expecting some consolidation in the second quarter after a very strong first quarter, and had positioned client portfolios accordingly. Actual volatility exceeded our expectations as the French and Greek elections were just the beginning of insecurity in markets. The real turbulence was caused by the sense of dissonance amongst European leaders about the future of Europe and the handling of the current debt crisis. This extreme lack of agreement and direction overshadowed any economic data that otherwise could have had a positive effect on the markets. North American equity markets were down approximately 4% on average but bigger losses were seen in the European and Emerging equity markets which fell 6% on average. The weakest asset class was commodities. Oil was down 17.5%, copper 9.2%, Silver 14.9%, and even gold fell 4.2%. Corn wheat and other soft commodities fell for most of the quarter and then recovered sharply over the last two weeks as news about weather related supply shortages started to hit the headlines.

The average performance of the CHF Balanced portfolios for the first half year 2012 was 2.1%, which is in line with our aim of taking a defensive position in very uncertain times but still producing a positive result which exceeded the return on cash or CHF bonds. In Switzerland, Syngenta was an excellent performer up 20% for the year, in the Euro area, the same is true for Allianz plus 14%. and SAP up 18%. The bond purchases implemented in the first quarter when equities were rallying and bonds were less favoured have also contributed positively to performance this quarter. However, those clients who have a preference for a higher commodity, gold or silver exposure have had less favourable results.



The performance depicted above is the average of performance achieved for CHF balanced portfolios managed by LABHA. Past performance is not necessarily a guide to future expectations. Benchmark: 50% MSCI World Equity in CHF(Net) und 50% J.P. Morgan Global Aggregate Bond Index in CHF. Peers: Balanced Strategy Funds quoted in CHF (source: Bloomberg).

Last quarter our market view was as follows: "Now that the US and European markets have rallied strongly, we are reluctant to make any major purchases and are concentrating on picking individual stocks and bonds which offer good yields rather than concentrating on the daily fluctuations in the market. We have booked profits in the US and Europe and initiated positions in the Emerging Markets." After the recent sell off in Europe, European equity markets look attractive again and we have started to add to positions. If the political news flow in Europe can be maintained, there will be renewed focus on the fundamentals of companies rather than a risk off attitude across the board. Of course the nature and flow of the political news in Europe is the main uncertainty which remains in the market but we believe that with the recent announcements, Europe has taken the first steps in a direction that should be more acceptable to investors though it will not be a smooth ride.

The recent FED announcements and the prolongation of operation twist lead us to believe that the way forward is more easing of monetary conditions. The FEDs tendency to ease has been further supported by

the benign inflation figures and falling commodity prices this quarter. Last year their decision was a lot tougher as they had to refrain from further easing in order to avoid an escalation in commodity inflation which the emerging markets were having a tough time dealing with. China and India spent most of last year fighting inflation and raised interest rates and reserve ratios several times to achieve their goal. This year both countries are easing and have changed their bias towards stimulation across the board. This includes speeding up infrastructure projects as well as affordable housing investments. At the moment the growth in both countries is below the average they are aiming for and inflation is not a threat. Therefore they are free to ease from current levels and this should be supportive of their stock and bond markets. It usually takes about six months for stimulus to show results. Therefore a positive trend for growth in these markets should become evident in the fourth quarter of 2012. Equity markets usually anticipate these moves by three to six months; therefore we believe the third quarter should be a good time to increase exposure to emerging markets, commodities and related themes. On the Currency front things have changed dramatically as well. Last year emerging markets were very concerned about the strong appreciation of their currencies. Brazil had implemented measures to dissuade inflows that were bidding the Real higher. This year the opposite is true, Brazil is reversing all the measures implemented last year as the Real has depreciated over 20% and India is concerned about the weakness of the Rupee. Therefore, we believe that this is a good opportunity to buy emerging assets at good market and currency levels.

A large part of the equity rally over the last two weeks has been a result of short covering on news surrounding the Greek elections and the European summit. Though recent developments lead us to believe that the worst case scenario in Europe has been avoided, volatility will remain elevated over the summer as there are many details related to the recent announcements that have still to be agreed upon and implemented. However, we believe that equities should outperform bonds over the next few years as they are better value at current levels. Therefore, even though we have booked profits and retained cash we are looking for opportunities to use market volatility to increase equity exposure. We believe that the long awaited transition from bond heavy asset allocation in investor portfolios towards a more neutral bond-equity positioning should start to take shape over the next two quarters.

In line with our market views, we have remained underweight bonds in the developed markets and overweight in the emerging markets and are slightly underweight equities with a bias towards increasing allocation over the summer. We currently hold about 7% of balanced portfolio assets in gold and intend to add to the position during the summer which historically has been a weaker season for gold. We believe that this regular rebalancing will produce substantially better results for our clients this year as it has in previous years.

Your views and questions are always welcome and we look forward to continued success in the second half of the year.

*Gillian Hollenstein*

#### **Important Disclosures**

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