ECHO FROM THE ALPS

2nd Quarter 2012 Investment Update
By Daniel Zurbruegg, CFA / Alpine Atlantic Global Asset Management AG

Q1 / 2012 POSITIVE MARKETS - VOLATILITY DOWN SIGNIFICANTLY

SAILING INTO CALM WATERS OR ANOTHER STORM?

Global financial markets had a very positive start to the New Year, the situation today is in sharp contrast to what investors were facing at the end of 2011 when almost all asset classes, including precious metals, looked very vulnerable. It was the U.S. Dollar that benefitted from all this trouble last year. However, in recent weeks the market has started to take a slightly more positive view on the state of the global economy again, this was mainly because the sovereign debt problems in Europe are being dealt with. Will it be enough or is it too little to late?

(2012 - Sailing in calm waters or another storm approaching?)

It would be an illusion to think that the sovereign debt problems in the western world can be solved quickly and fully, it is still going to be a long and painful process until things improve, most likely this problem will be with us for the whole decade. While the long-term problems are not fixed, at least in the short-run it looks like the outlook for the Eurozone has improved somewhat. Only a few months ago, many investors had expected Greece or one of the other troubled countries in Europe to default. On several occasions we said that we regard such a scenario as highly unlikely, at least in the short-term, but there is a price to be paid for holding things together and that price will be paid over a long period of time. Looking at most major central banks today, it becomes very obvious that they have been enlarging the size of their balance sheets in a very significant way, this will ultimately have a destructive effect on the purchasing power of savings. Inflation therefore will eventually become a problem, for now it is just impossible to say when inflation will emerge and how strong the inflationary pressure will become.

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Talking about inflation, I think it is crucial to understand the different types of inflation and how they interact. In order to avoid a collapse or at least a severe liquidity squeeze of the global banking, central banks are providing the banks with enormous amounts of liquidity. This massive liquidity injection from central banks will in the beginning have little effect, most of the banks are placing the funds back with the central bank and are not using them to make new loans. Some of the capital might find its way into investments, therefore this is starting to create asset inflation (or a bubble?), and we believe that bond markets, especially certain government bonds, are already in bubble territory. In a later stage, as the economic momentum picks up, more and more of the excess liquidity will find its way into the real economy, that's typically a phase when real estate prices are picking up. With some delay, eventually, consumer prices are also going up. With the Euro and the U.S. Dollar being both structurally weak currencies, we feel that inflation could eventually be much stronger than expected, because it takes more Dollars and Euros to import goods from abroad (such as oil and commodities). We are going to look into this in a bit more detail later in this issue.

Are stocks due for a big comeback? Stocks have not been a good investment in the past decade but stocks have recently started to recover and were the best performing asset class in the first quarter of this year outperforming bonds, precious metals and commodities. The strong performance was not due to better than expected earnings but can be attributed to a general increase in risk appetite on the back of a slight improvement of the European debt situation. In our view, the investment case for stocks is becoming more compelling based on a number of different factors. Generally, investors worldwide are still holding a lot of cash and many are underinvested in stocks. Given the fact that yields, especially short term yields, are so low, equities seem to offer more value with the dividend yield of many quality companies now being significantly above bond yields. Also, precious metals as well as other alternative investments seem to become less appealing on a relative basis, in part because of the strong price advances in recent years (especially precious metals). The outlook for global growth and therefore for corporate profits might not be all that positive, but we think it is essential that investors hold positions in quality stocks, because stocks in our view are one of the very few investments that actually let investors participate in real economic value creation. Stocks also give investors at least some protection against the future threat of inflation which has been one of the main drivers behind precious metals in recent years. While we regard precious metals as an excellent storage of value, we think prices will not move to new highs in the next months.

In an investment climate like we have at the moment, it is quite easy to get frustrated and confused. The fact that equities were so strong in Q1 surprised many, while the recent strength in the U.S. Dollar seems to go against logic given the still weak fundamentals. While long-term decisions seem to be hard to make, many feel uncomfortable to make investments even in the short-term. There are a lot of conflicting signals and possible scenarios for the future, that's why many people don't invest at all and decide to keep a lot of cash on their accounts. While this is fine in the short-term, it might be one of the worst places long-term, especially should strong inflation eventually emerge. So it is natural that many investors are confused and if that was not already enough, the media and the so called investment "gurus" are creating even more "noise" in the market, thereby creating excess volatility. A number of studies have recently looked at the impact of media and the almost never ending news flow (or information overload?). These studies showed very clearly that there is a direct impact on market volatility which in turn causes even more stress for investors. The point I want to make here is that investors should always have a well thought out investment plan and an idea of what the future might bring. Implementing such a plan takes discipline and requires an investor to remain calm even when markets are very volatile. A lot of the media today is about making a big story. Writing press articles or making a "50 hot stocks in 10 minutes" type TV show is one thing. Writing about these things and then working with real clients and make real investment decisions is quite another thing.

This is also not always easy for us, but we always try to take a longer-term approach when making investments. We also use market hedges to protect portfolios and to smooth out short-term volatility. Therefore we think it is absolutely critical that investors have a clear plan and stick to it even if prices might move in the wrong directions short-term. That's basically what we spend a lot of time doing with our clients and that's what a successful long-term investment partnership is all about.

Thank you & Gruss from Switzerland

Daniel Zurbrügg

Daniel Zurbrügg, CFA

Market Update

PRICES AS PER APRIL 20TH, 2012

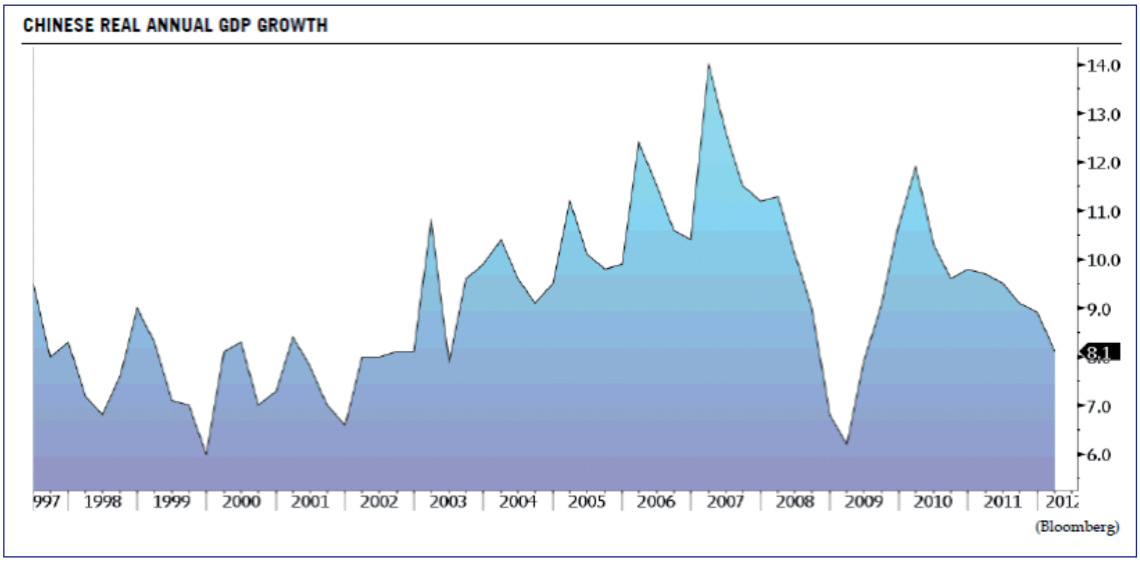
Global Equity Indices	Last Close	YTD %
Swiss Market Index	6'141.91	3.5
Swiss Performance Index	5'690.88	6.5
Eurostoxx 50	2'386.52	0.7
German DAX Index	6'581.23	11.6
FTSE 100	5'772.15	3.6
CAC40 Paris	3'129.47	-1.0
Standard & Poors 500	1'378.53	9.6
Dow Jones Industrials	13'029.26	6.6
Nasdaq 100	2'676.04	2.9
Nikkei	9'542.17	12.9
Topix	811.94	11.4
Hang Seng	20'624.39	11.9
All Ordinaries	4'444.40	8.1
Government Bond Yields 10Y	**Last Close**	**YTD%**
USA	1.92	-2.0
EUROPE	1.66	-18.2
U.K.	2.12	1.9
SWITZERLAND	0.75	0.4
JAPAN	0.92	-6.1
Libor 3 Months	**Last Close**	**YTD%**
USA	0.47	-19.9
EUROPE	0.73	-45.9
U.K.	1.01	-6.2
SWITZERLAND	0.11	116.1
JAPAN	0.20	0.0
Exchange Rates	**Last Price**	**YTD%**
US Dollar / Swiss Franc	0.9150	-2.6
Euro / US Dollar	1.3131	1.3
US Dollar / Japanese Yen	81.11	5.5
Euro / Swiss Franc	1.2011	-1.3
Pound Sterling / Swiss Franc	1.4656	0.4
Commodities	**Last Price**	**YTD%**
Crude Oil	103.05	4.3
Gold	1642.7	4.7
Alternative Investments	**Last Price**	**YTD%**
Dow Jones Hedge Index	94.4	2.2
Goldman Sachs Commodities	671.5	3.8
LPX Private Equity	910.3	11.1

MACROECONOMIC UPDATE

The global economy is currently experiencing a sharp slowdown, this slowdown can be witnessed in almost every major economy out there. Lower growth in western economies is also affecting other regions and while growth in some emerging markets still remains solid, we have also seen a slow down in those markets. What we have been witnessing in the last couple of months shows exactly how the world in today's age of globalization is connected. Lower growth in the west will eventually also affect growth in emerging economies such as China. Global GDP growth has been falling below the 4.5 percent mark in recent months and we remain concerned that growth in the west will continue to be below trend for a longer period of time. The sovereign debt problems that many of the western countries have today will take years if not more than a full decade to be reversed. The obvious reaction now is to cut spending in many different areas in order to balance the budget. Unfortunately, the slower spending of governments will also have a dampening effect on the economy, which in turn results in lower income and tax collections for the government. Currently it looks like the European countries are much more willing to address their debt problem. In the U.S. on the other hand no real action has been taken to control the growing amount of debt. However, debt problems can't be solved by cutting spending alone. These measures need to be combined with fundamental restructurings that will eventually allow for higher economic growth and a more efficient use of resources. The current situation with Greece is an excellent example for this. The country needs to make dramatic spending cuts, no doubt about this, but the country also needs to reform its economy and this will include for example, among other measures, privatizing many of the state owned enterprises. It will also require the reduction of government jobs and making the overall system more efficient. Greek GDP is currently falling at around 5-7% annually and it might even get worse in coming months. This means that more and more people are suffering from the economic contraction and this is increasing social tensions and unrest, a truly vicious circle. We remain pessimistic about Greece's government and their ability to implement spending controls and restructurings long-term. The recently agreed bailout package for Greece will help stabilize the situation for now, but long-term we don't think it will be enough. On the other hand, we feel that the European leaders are very reluctant to exclude any member country from the Eurozone because that would mean failure in a much larger context. In our view, the most likely scenario will be that no country will leave the Eurozone in the coming year or two. Longer-term this is possible but the political willingness to "hold things together" should not be underestimated. After all, dealing with the European debt crisis has more to do with politics than economics and since we know that political decisions are almost always some sort of a compromise, the recent developments should not be surprising. In the United States, things look a bit more positive, at least by looking at economic data in the past few months but the fundamental situation remains fragile. Also, looking at the different individual states in the U.S., it becomes clear that the situation is actually not so much different from Europe. In the U.S. too, the transfer payments from the federal government keep many states alive, without this money, the lights would go out in some states pretty quickly.

The debt problems in Europe and the U.S. are not so much different. There seems to be less talk about this problem in the U.S. right now as it seems that the upcoming election has already taken centre stage. Regardless of the outcome of the presidential election there are big challenges ahead and dealing with these problems will demand very unpopular measures. Who would like to announce such measures prior to an election?

The most likely scenario in our view will be that we are going to see only moderate growth in the west but that we are seeing a slight improvement in the second half of the year. Growth momentum could pick up in countries like China again, in sharp contrast to the west as these countries have the ability to promote economic growth.



The recent slowdown in China and other emerging markets should not be surprising and this might even be a healthy development. The growing size of China's economy will make it harder and harder to achieve the same level of growth because of an increasing base effect. This slowdown is something that China wanted to achieve for quite some time as the slower levels of growth will help them to better control inflation, which has been one of their main concerns. Should growth be at risk of falling too low, China has several options how it could stimulate and revive growth, the country still holds the largest amount of currency reserves.

China's central bank has recently announced an important change in its currency strategy. They have increased the trading band of the Renminbi to 1 percent, it is a small step but a further indication that China is going to position its currency for the future and the Renminbi will most likely become a major world reserve currency in this coming decade. It remains to be seen by when their currency will become truly international, that is only the case once it is freely tradable. It will take time but we expect China to reach this goal by 2018. The road to this ultimate goal is still long and there are several challenges that need to be dealt with on this journey. Many countries today are pressuring China to let its currency appreciate, in their view China is keeping the value of their currency at an artificially low level, which seems to make sense given the fact that China continues to be heavily dependent on exports. How much their currency is undervalued is a difficult situation, but it is probably not as much as some politicians believe. In the last couple of years, the Renminbi has appreciated by roughly 30% against a number of major currencies. Also, China's balance of trade has recently become negative, a clear indication that export growth is slowing down and imports are rising quickly. This perfectly matches the reports we are hearing from many western companies that are active in China. Domestic consumptions is growing very rapidly and with millions and millions of Chinese moving up to middle class, the outlook for strong consumption growth remains positive.

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So far we talked about the U.S., Europe and China and we see several challenges in these countries in the coming months and years. This is also true for most of the other parts of the world. While Japan is still recovering from the annus horribilis, the latest economic indicators point to a further stabilization of the situation. Also growth in Latin America will be nowhere close the numbers we had in 2010. Brazil, the most important economic force in Latin America, saw its GDP falling to less than 3 percent last year, after growing by 7.5% in 2010. There is some reason to become a bit more positive on the outlook for this year, but the country still needs to make more structural reforms.

In a nutshell, looking at all regions of the world today, the current status of the world economy is stabilizing and we see a good chance that economic momentum is starting to increase again in the second half of this year. However, we don't expect world GDP to reach prior levels for another two years. For many countries, this means that growth is too slow to produce a significant amount of new jobs. Job growth or a lack thereof will be one of the major battlefields in this year's multiple elections and it becomes more clear now that governments will not be successful if they just focus on spending cuts, it will take a well thought out economic development plan, one that includes careful spending cuts in many areas but a plan that will also make the necessary investments and adjustments so that the economy can prosper again.

The road forward for the global economy is not an easy one with many bumps and curves ahead. The center of economic activity continues to shift to the East and Asia, China and India in particular, are becoming more important. Two hundred years ago, half of the global economic activity came from this part of the world, then it fell back to less than 10 percent about 50 years ago. We are seeing a reversion now, that has the potential to result in a more even and overall better balanced global economy.

INVESTMENT PERFORMANCE AND GLOBAL MARKET UPDATE Q1/2012

After a very strong performance of +16.23% in 2010, our core model finished 2011 down by 4.35%. The performance rebounded in the first quarter 2012 by 4.95%, therefore reversing the slightly negative return from 2011. All investment classes contributed to the positive performance with global equities, bonds and precious metals all generating positive returns in the first quarter. Global stocks even had the best first quarter in a number of years. The strong performance of stocks surprised many market participants, especially after such an eventful and challenging 2011.

While our job last year was primarily to play defense, protect capital and hedge against different market and event risks, we have been a little more on offense going into this year. We removed our currency hedges and were selectively adding to our investment positions, especially in equities. Despite the strong rebound in equity markets it is important to understand that this has not been a very broad based rally, at least not yet as indicated by the relatively low volumes. There seems to be great value in many investments today, however, given the still fragile overall economic situation, most investors are not comfortable enough yet to take on new investment exposures.

For now it seems like the worst is over, especially with regards to the sovereign debt problems. These problems are not solved but the risks associated with it seem to be contained

for the moment. We think there is a good chance that these problems will surface again sometime next year. So while we are careful with regards to the long-term outlook, we think the chances for a temporary rebound in markets this year are quite good. The recent correction at the beginning of the second quarter needs to be seen in light of the sharp rally in the first quarter, it is completely understandable that some investors are taking profits and that market volatility is on the rise again after falling to very low levels during the first quarter.

(Volatility is down significantly since the end of 2011 – Source Bloomberg)

Our game plan for the rest of this year is to keep selectively adding to our equity positions, especially in emerging markets where we are continuing to see compelling opportunities. We still focus on a number of individual sectors such as commodities and energy (especially drillers) and at the same time are staying away from financial companies, especially western banks. We feel that this sector will still go through a difficult period as banks generally need to improve capitalization. Most of them are doing this by shrinking their balance sheets which will in turn weigh on profitability. We also think that we are going to see some very active M&A activity for the rest of the year. The recent acquisition of Canadian grain trader Viterra by Swiss based Glencore is a typical example that cash rich companies find a lot of good acquisition targets.

With regards to fixed-income investing, we focus on short-term maturity bonds and try to keep our overall duration below 3 years in order to control the interest rate sensitivity of our portfolios. We still think that rates at one point have to go up and therefore we are not willing to take the risk of holding longer maturities. We continue to prefer high quality corporate bonds and are not willing to move money into weaker credits for a higher yield. There might be a time in the not so distant future, where the lower credits become attractive but for this to happen we still need to see a more significant and broad based recovery in the global economy.

While we remain positive for precious metals in the long-run, we don't expect gold and silver to reach new highs in coming months. The metals market was clearly disappointed when Federal Reserve chairman Ben Bernanke said that a QE3 program is not in the making. Also inflation has so far not become a real issue, although some signals point to higher inflation in the future.

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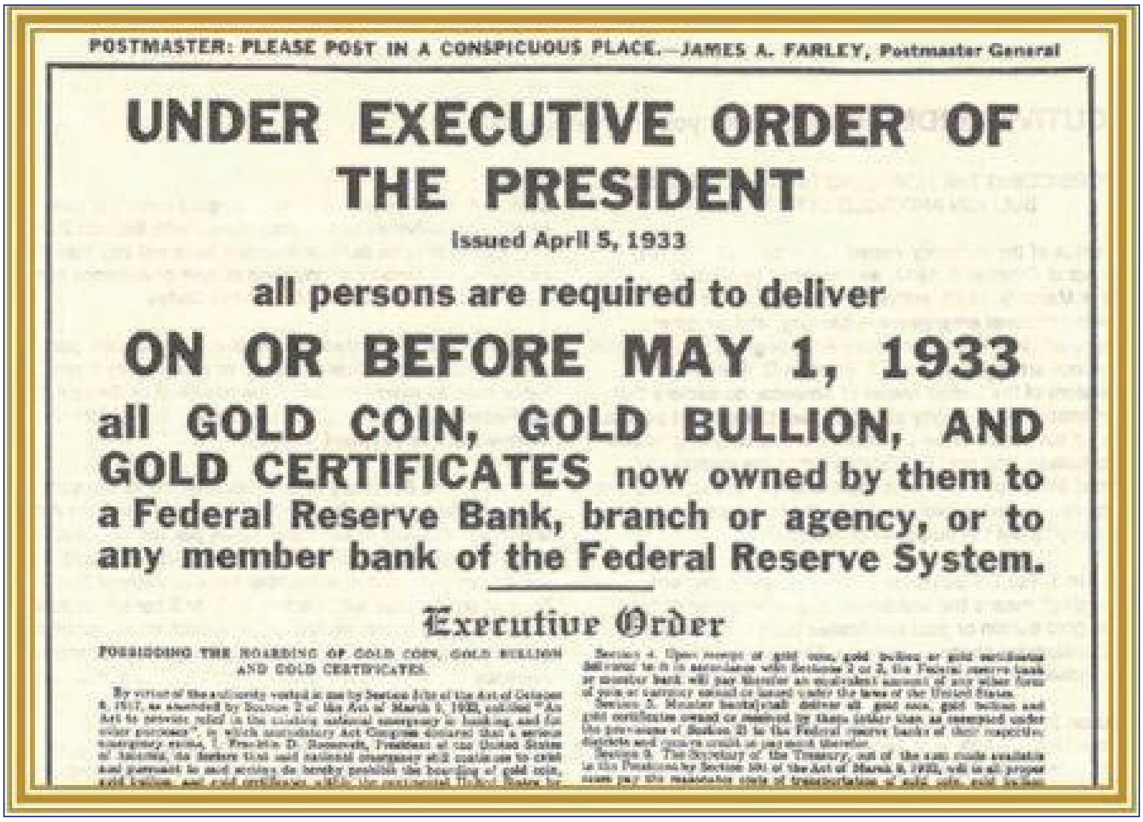
POSTMASTER: PLEASE POST IN A CONSPICUOUS PLACE.—JAMES A. FARLEY, Postmaster General

UNDER EXECUTIVE ORDER OF THE PRESIDENT

Issued April 5, 1933

all persons are required to deliver

ON OR BEFORE MAY 1, 1933

all GOLD COIN, GOLD BULLION, AND GOLD CERTIFICATES now owned by them to a Federal Reserve Bank, branch or agency, or to any member bank of the Federal Reserve System.

Executive Order

FORBIDDING THE HOARDING OF GOLD COIN, GOLD BULLION AND GOLD CERTIFICATES

(Gold confiscation like in 1933 is very unlikely, but additional taxes are very likely)

Unless we see a significant enough jump in inflation, we think it is not going to be enough to drive precious metals prices to new highs. We think precious metals will be taxed in different ways and at higher levels in the future. Some people even think that there will be another gold confiscation like in 1933. We don't believe in this at present, but the regulatory environment will certainly make precious metals holdings less attractive. In our view, however, they should still be an important component of a well diversified global investment portfolio.

We remain concerned that the enormous liquidity creation by central banks around the world will eventually cause a significant jump in inflation although it is too early to tell. In our view inflation is only one variable in this equation, interest rates are the other. Inflation is currently above short-term interest rates, which means we have negative real yields and actually have had that for quite some time. This is a very good support for precious metal prices right now, but how will prices react once real yields are turning around? Also, the political and economic problems, such as the European debt crisis, will most likely not cause prices of precious metals to move to much higher levels. Again, the sovereign debt problems are not solved and it will take years to fully control the situation, but the problems are presently contained to the point where it doesn't really bother markets too much.

We will therefore most likely not increase our exposure to physical precious metals and would consider using temporary price rallies to take some profits and reallocate funds to precious metals mining companies. The valuations for a lot of precious metals miners are significantly overvalued in our view and unlike the physical metals, their prices should move up even if the price of gold and silver remains at about current levels. We did a first investment in the sector earlier this year and prices have gone down since then. This actually makes the overall investment case for these companies even more interesting. Since we expect the spot prices to range trade for some time, we think the currently low prices for the miners present a very attractive entry opportunity for the long-term investor. We are also currently reviewing some additional investments that would further optimize the risk/return relationship of our investment portfolios.

Despite our cautiously optimistic outlook, we remain alert for a possible renewed increase in market volatility and a potential correction in financial markets. We continue to manage such situation by applying market hedges where it is appropriate.

"OUTLOOK AND FORECASTS FOR 2012"

We expect the following market trends / economic developments for 2012:

- Economic growth in the western world to remain sluggish, mild recession in some countries. Slight improvement in economic sentiment in the second half of the year.
- Economic policies to focus more on growth again, especially China could see a significant policy shift this year. Global GDP growth to stabilize and recover somewhat in the next 12 months.
- Equity markets to become more attractive on a relative basis, since fixed-income market look very unattractive, yields are at very low levels and precious metals prices look capped to the upside for now.
- We think there is a good chance that share prices will finish the year higher but also expect some increased volatility, especially in late spring/summer (renewed European debt worries?), therefore, investors need to be ready to hedge market exposures quickly. We would see corrections as temporary and as buying opportunities for long-term equity positions.
- USD and EUR to remain structurally weak. USD could suffer losses in the event of increased risk tolerance (risk on trades). EUR vulnerable to weakness in the event of more negative news regarding Spain and Italy. Investors should be ready to hedge currency exposures.
- Gold and other precious metals to range trade in coming months. For Gold this trading band is currently between USD 1545 and USD 1900. No new highs seen for the time being. However, stocks of precious metals miners have a good chance of outperforming spot metal prices.
- Oil prices remain well supported and might accelerate in coming months of the back of an improving global economic outlook. Upside risks due to potential conflicts (such as Iran and Sudan).
- Interest rates to remain at very low levels for the time being, in some markets these rates might be kept at artificially low levels for another 2 years. Longer end of yield curve is around a potential turning point and these yields could move up later in the year.

INFLATION REDEFINED

Central banks around the world are reacting to the global financial crisis in a very similar fashion and that is to keep rates low (too low) and generate enormous amounts of liquidity. While this does not create any direct inflationary pressure in the short run, it creates the groundwork for future inflation, possibly hyperinflation. In the short run, the main purpose is to provide the global banking system with sufficient liquidity. The Federal Reserve as

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well as the European Central Bank have both flooded the banking system with liquidity and made it clear that short-term rates are going to remain at record lows for at least the next 2-3 years. The signal that central banks are sending out is clear, they will not allow a liquidity squeeze in the global banking system. According to the latest statistics, inflation is starting to become a real issue in western countries. Consumer prices in the U.S. for example rose by about 2.9% year-over-year, in Europe prices are up only slightly less but are also close to 3%. In the U.K. consumer prices are up by more than 4% and in many emerging economies inflation is between 6-9%. In sharp contrast to these numbers, inflation in countries such as Japan or Switzerland, is virtually zero because both countries have recently had very strong currencies.

(Continued destruction of purchasing power remains a key concern for the coming years)

While many people expect those numbers to moderate in the course of the year, we remain concerned. The rise of oil and food costs has been a significant driver of inflation and we don't think that costs for these goods will fall anytime soon. That is also the reason why we don't like looking at core and non-core CPI data. At the end of the day people need to eat and need gas for their cars, which, in turn, increases the cost of living. The peak oil theory has turned into a cheap peak oil story which means that we have ample supply of oil and gas for a very long time but the production costs are increasing quickly. More and more of today's oil is produced from deepwater drilling or production in politically or economically unstable regions, this in turn raises the production cost. The same is true for food prices, where global production can hardly keep up with rising demand, supply disruptions can quickly cause prices to spike. Our concern is that inflation numbers are too high already given the relatively weak levels of growth we are seeing today. What if, eventually, economic momentum is picking up and only some of the excess liquidity is finding its way into the real economy? So far the banks have kept almost all of it and placed it back on deposit with their central banks. A very clear indication for the ongoing deleveraging that is going on in the global banking system.

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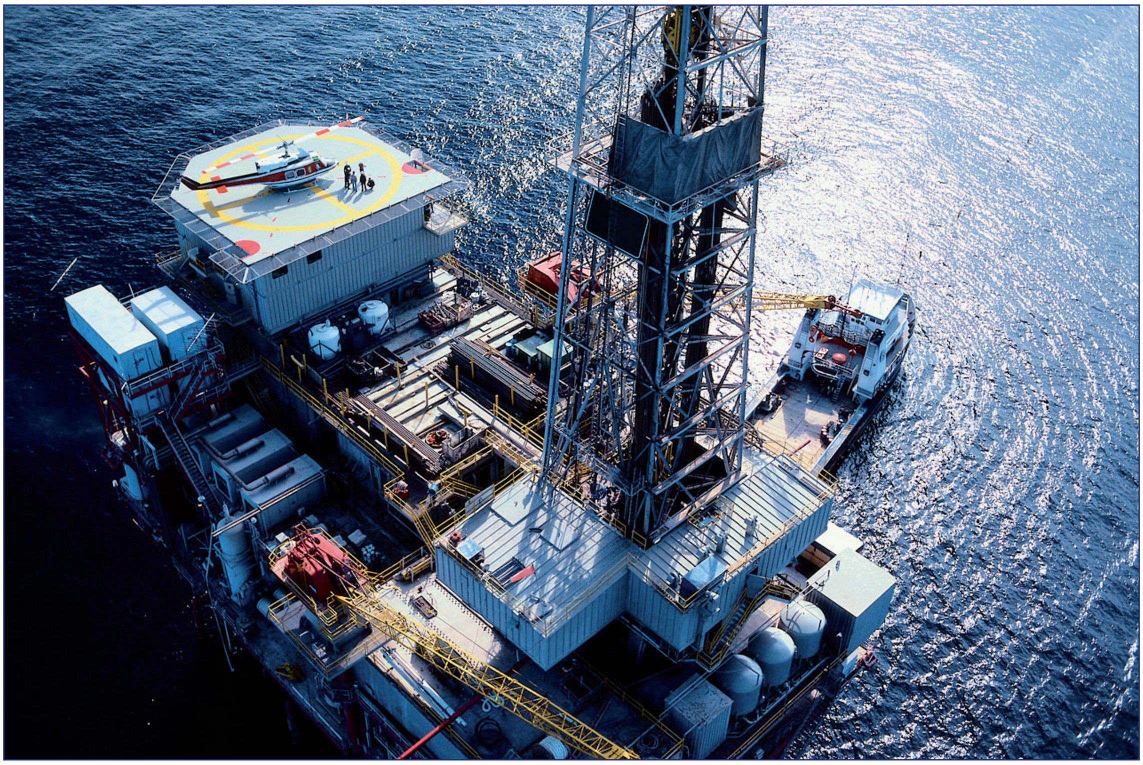
Measuring inflation by looking at consumer and producer price statistics gives some insight but these numbers are never an accurate measure of inflation. Besides consumer and producer price inflation we should be concerned about asset inflation, which is very obvious today in certain markets (bond market, certain international real estate markets). These markets are also driven by cheap money, at least to some extent. There are a number of very important conclusions that need to be drawn from this. For now the excess liquidity is stabilizing asset prices, especially bonds and precious metals. Once central banks are starting to withdraw liquidity, and they have to do this at some point, the party for bonds and precious metals might be over. Investors will need to put more money into investments that are producing real economic cash flows, for example stocks of quality companies or real estate that produces income. What is the most likely scenario in coming years? We remain highly skeptical that central banks will start to withdraw liquidity on time, they will start eventually, but it will probably be too little too late. On the back of these we might see inflation in the western world approaching higher levels, possibly even doubling from today's levels. In some emerging economies this means that inflation could hit double digits. When eventually inflation becomes enough painful, central banks will start to fight it more aggressively and that means they will have to hike rates at some point. All of this will not happen tomorrow or in the next few month, but it is a very realistic scenario for the coming years.

PEAK "CHEAP OIL" / INVESTMENT IMPLICATIONS

After reaching record prices of USD 150/barrel in 2008, oil prices fell sharply in the second half of 2008 and eventually bottomed out at around USD 60/barrel in early 2009. This represents a 60% correction within less than one year and shows the rather unique supply/demand relationship for energy prices. However, analyzing energy prices and trying to anticipate where prices are heading in coming years is not only a function of supply and demand. The question to ask is what kind of supply and what kind of demand are influencing prices. Oil prices have pretty much doubled from the lows seen in early 2009 and moved up sharply at the start of 2012 due to the increased geopolitical tensions between Iran and the western world. Although a military escalation looks unlikely at the moment, the risk premium for oil has moved up sharply. This comes on the back of already increased production costs for global oil production as a growing percentage of oil is coming from high cost production (deep water drilling) or politically unstable areas (Venezuela, Iran). It is true that modern drilling technology (fracking) has significantly increased global reserves and therefore the world is not going to run out of oil anytime soon (and probably not for another 100 years). However, the main concern today is the increased cost to produce oil. Many of the prime production locations are depleted and the industry is now increasingly turning to deep water drilling or production in rather "exotic" locations, places that tend to be very unstable.



(There are still plenty of oil reserves but cost of production is rising)

The well known "Peak Oil" theory therefore needs to be adjusted. Peak oil is the maximum production of oil after which the rate of production enters a terminal decline. Originally, the peak oil theory predicted global oil production to start falling after 2005. More optimistic projections anticipated the point of peak oil to be around the year 2020. With new production technology, the point of peak oil is probably shifting out many more years. In recent years even U.S. domestic oil production has been on the rise again after declining for many years. The U.S. Energy Information Administration lifted its production estimate for 2025 to 6.4 million barrels a day, that's about 1 million more than total daily production in 2010. There is a growing number of experts that think that actual production could be significantly higher than the prediction from the EIA. The forecasts go as high as 9 million barrels by 2015, this is more than 40% above the official forecast from the EIA. This would make the United States less dependent on foreign oil, which has been a political priority for some time.

While it is impossible to forecast the exact increase in global production, it is obvious that increased investment in drilling in combination with new technologies (such as fracking) will probably result in higher growth of global oil production. A rise of prices would further encourage new investments in production and we therefore see prices capped on the upside. While short-term, an event such as an escalation of the Iran conflict could cause oil prices to jump up towards USD 200/barrel, we think it is highly unlikely that prices would remain at such high levels for a long-time.

Improving production efficiency, due to new technologies, will help increase global production and we think that technological advances could also keep global demand in check. For investors the main question today is where can the best investment opportunities be found in the energy sector. While we recognize the potential of technologies such as fracking, we expect increased political resistance to support such onshore projects. There are a number of issues, especially environmental concerns, that will limit the potential for such a technology. However, we expect a significant increase in offshore drilling and production activity.

There are obviously a number of environmental concerned to be addressed, but, new and safer drilling technology can help limiting most of these risks. That is the reason why we believe that drilling technology companies, especially those with a focus on deep water drilling, will be very successful in coming years. In our view these companies have entered a prolonged industry "super" cycle.

LUXURY GOODS INDUSTRY – POSITIONED FOR MORE GROWTH

We regard the luxury good industry as one of the most attractive sectors in coming years and have also added investment exposure in this area recently. The fundamental investment case for companies in the sector is basically identical. The rise of the East or more specifically a rapidly growing middle class in emerging markets such as China and India. While sales in matured markets still grow around 10-15%, sales in emerging economies were up around 30% last year and some companies in the sector even saw their revenues growing by 40% or more. It is clear that growth in coming years can't always remain at these levels, but the industry looks to be in the early stage of a strong, multi year cycle and therefore these companies seem to have a very bright future ahead of them.

A typical example are the luxury watch makers and fashion labels that are highly successful in emerging markets. People in these markets like to have what people in the west already have and these people do not want to buy "no name" products but want to own strong brands such as Cartier, Gucci and Louis Vuitton. China has surpassed the U.S. as the world's second largest market for luxury goods. Japan remains the largest market for now but not before long, China will become the biggest market for luxury goods. People in emerging markets are especially hungry for luxury products such as watches, jewelery, clothing or cars. Watch makers and luxury car makers have doubled their sales in China and other emerging markets in recent years and the trend remains strong despite weakening economic growth. While the market for luxury goods in the western world is stagnant, the market in emerging markets is set to double again in the next 2-3 years. Stronger economic growth, the raise of a new middle class and a general desire to adept to western lifestyles will most likely cause strong growth for luxury goods companies.

(Shoppers in Asia are particularly keen on luxury goods)

This is more than a temporary phenomena and we expect the market for luxury goods to be one of the fastest growing sectors in coming years. From an investment perspective, this offers a number of very compelling investment opportunities and we have recently starting to buy into this sector, still, we are planning to increase our exposure in coming months. We are looking at investment opportunities in the area of watchmakers, jewelers, car makers and even wine makers. Yes, this sounds like a very exotic investment idea, but demand from emerging markets for premium wines have started to push up prices already and will most likely continue to do so as demand is growing about three times faster than supply.