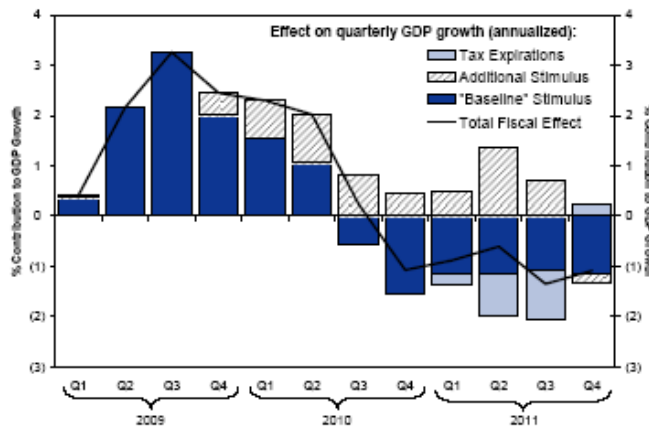




Quarterly report, December 31, 2009

Economic environment

The global economy further improved in Q3 2009, thanks to the massive stimulus packages put in place by governments and restocking by companies (see chart). The key factor for 2010 will be whether

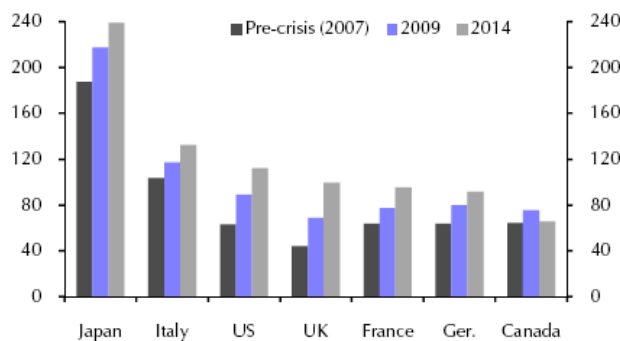


Source: Goldman Sachs Global ECS Research.

governments, especially in the USA, succeed in converting the state-driven upturn into a self-sustaining recovery. Private consumption, which accounts for 70% of GDP, will play a key role. Consumer spending is likely to be adversely affected, for some considerable time, by the need of US households to reduce their heavy debt burden and by the high unemployment level. That being so, the US economy may well lose ground again in the second half of the year as the fiscal policy incentives are due to expire in mid-2010 and inventories will have been rebuilt by then.

Similar setbacks threaten other countries, including Great Britain, Spain and Ireland. The short-term economic outlook in Asia is better, but too weak for the time being to bring about a sustainable recovery of the world economy. Governments must therefore decide whether the economy is to be stimulated further at the cost of high debt levels. Well known professors of Economics, Carmen Reinhart and Kenneth Rogoff,

CHART 8: PUBLIC SECTOR DEBT (AS A % OF GDP)



Source – IMF

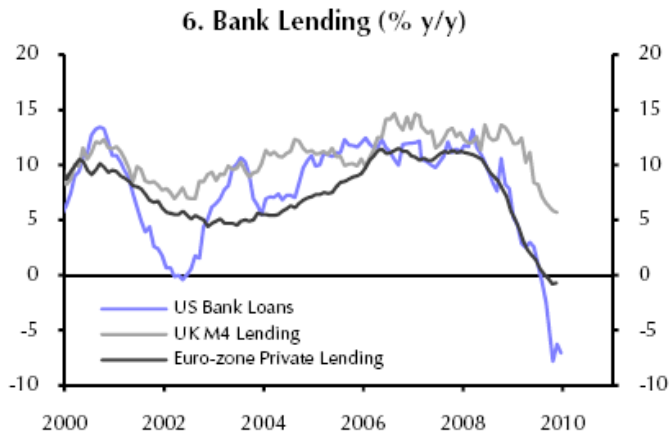
believe that the probability of state bankruptcy caused by excessive debts is not as low as might be thought by many market participants. The debt level which has preceded such events in the past amounted to around 60% of gross domestic product (F&W 19.12.2009). Among the developed industrialized countries, only Australia reports a lower figure than this for the time being. The governments are in the same situation as Japan back in 1997 and the USA in 1938, when the economy grew strongly thanks to massive stimulus packages and the

governments withdrew their economic support measures because of the high level of national debt, fearing state bankruptcy. In the following year, the economy did indeed collapse again both in Japan and in America when the stimulus passages were terminated. Thus we continue to believe that such massive stimulation of the economy by governments is not sustainable.



Bonds

In view of the low rate of capacity utilization, high unemployment and sluggish demand for lending, inflation is likely to remain low in most industrialized countries in 2010. Moreover, the support programs of most governments are due to expire in mid 2010; this is likely to weaken the economy. The high level of money supply might cause prices for the different asset classes to rise (asset inflation). A potential asset



bubble can already be observed on 10-year government issues as the banks are investing in medium- to long-term state bonds instead of passing on the money (see chart). The central banks must therefore decide whether interest rates will need to be raised because of a possible asset bubble, which would in turn weaken the economy. Referring to asset price bubbles, Bernanke recently commented that the lack of state supervision of the property market, rather than expansive monetary policy, was responsible for this house price bubble. In addition, Bernanke must still be well aware of

the situation prevailing in Japan in 1997 and in the USA in 1938. Bernanke and Milton Friedman have repeatedly called attention to the fact that the central banks raised their interest rates too soon and were therefore responsible for the economic downturn in Japan in 1998 and the USA in the 1930s. Bernanke therefore regards inflation as the lesser of two evils, a luxury problem in comparison with further economic weakening. Since early March last year, we have massively reduced the share of state bonds in our portfolio. As government debt levels have assumed astronomic proportions, we will give consideration to the total removal of government bonds from our bond portfolio. As an alternative, we would consider corporate bonds in defensive sectors such as food or pharmaceuticals issued by companies with a low debt level and stable cash flow.

Equity markets

Region	Index	Total Return Q4 2009	Total Return 2009
World	MSCI World	4.20%	30.57%
North America			
USA	Dow Jones	8.09%	22.70%
	S&P 500	6.04%	26.47%
	Nasdaq Comp.	7.20%	45.36%
Canada	TSX Composite Index	4.31%	35.00%
Europe			
EMU	EuroSTOXX 600	2.58%	28.84%
Germany	DAX	4.97%	23.85%
France	CAC	4.32%	27.68%
Switzerland	SMI	3.52%	21.99%
Asia			
Japan	Topix	-0.17%	7.60%
Hong Kong	Hang Seng	4.67%	56.30%
Australia	S&P / ASX 200	3.38%	36.87%
Emerging Markets			
China	Shanghai SE A Share Index	17.92%	82.53%
Taiwan	Taiwan TAIEX Index	9.04%	83.20%
India	BSE Sensex 30	2.21%	83.21%
Russia	Russian RTS Index \$	15.15%	132.19%
Argentina	Argentina Merval Index	12.18%	118.06%
Brazil	Brazil Bovespa Stock Index	11.49%	82.66%
Mexico	Mexico Bolsa Index	10.65%	46.15%

Following initial losses, the equity markets have been able to make headway thanks to the continuing economic recovery and the positive trend of corporate profits towards the end of Q409. In March last year, we rightly predicted massive gains on the equity markets. Following the huge price rises in 2009 - the MSCI World has risen by more than 71% from its low point – a growing number of investors are wondering whether the rally can continue. A recovery (bear market rally) lasts for 17 months on average and prices rise by an average of 70%. Applied to the present case, the strong growth of the equity markets since March 2009 coincides precisely with previous experience (see quarterly report March/September). The gain is generally

followed by a 25% correction. This correction has often been triggered by the start of a new rising interest rate cycle or the end of an expansive fiscal policy. For the early months of 2010 we are assuming that the business climate might improve further with a favorable impact on equity prices. Investors' nervousness and market volatility may intensify because of speculation over increases in central interest rates and an end to the expansive fiscal policy in the first quarter of 2010. The inflation (base effect) and employment



market data (newly created posts following the census) will make the economy look more robust in the spring than it in fact is. This might be sufficient to trigger a stock market correction which would see price losses of up to 20%. In addition, US money market funds have reported very heavy outflows in recent months and are now at a level which has not been seen for two years.

Commodities

Commodity prices advanced in the last quarter based on hopes for a stronger global economy in 2010. So far, the recovery of commodity prices has been led by the emerging countries, foremost among them China.



Some commodities such as cocoa have reached an all-time high. As inventory build-up has largely come to an end, especially in China, the price rise can be attributable solely to demand from the industrialized countries or further US dollar weakness. With abundant heating oil stocks, oil is currently in a price consolidation phase. Medium-term prospects for oil are favorable because of the supply shortage organized by OPEC and the winter weather. Oil may also be regarded further as a hedge in the event of a Middle East conflict. Gold made substantial gains in the last quarter until early December. Towards the end of the year, gold weakened on dollar strength. In view of global

warming and stronger demand from the emerging countries, we expect agricultural commodity prices to rise in the longer term. Further signs of economic recovery and expansive monetary and fiscal policy will continue to favor commodity prices. The monetary policy pursued by central banks is likely to be key for commodity prices.



Currencies

In view of growing speculation surrounding the possible insolvency of Greece, the US dollar gained against other currencies towards the end of Q409, as investors sold Euros. Moreover, many investors realized their



gains on their currency positions against the US dollar. We remain negative on the US dollar in the long term as the high US debt level is increasing pressure for USD devaluation. Similarly, the rating agencies are envisaging a downgrading of the USA's credit rating because of this high indebtedness. China, on the other hand, is looking for alternative investment opportunities to the USD with corresponding negative impacts on the USD. In the course of the H110, the US dollar might tend to gain in the short term if speculation arises on the market over a possible Fed hike. The US government might, in fact, be interested in a weak US dollar as this is

beneficial to exports and may have a positive influence on the economy. However, a weak US dollar increases the risk of imported inflation. The future parity of the US dollar will be determined in large measure by the point at which the FED adopts a more restrictive monetary policy. However, with an unemployment rate of 10% this pressure should not arise in the immediate future.

Author: Silvio Clavadetscher, 11th January 2010

This publication has been drawn up by VVT Asset Management on the basis of information in the public domain, internally processed data as well as information sources which we consider reliable. Nevertheless, no warranty can be accepted for its accuracy, precision, comprehensiveness or topicality. Investors need to be aware that the information and recommendations provided by VVT Asset Management may be altered at any time as a consequence of a change in the economic environment. The positive performance of a security in the past is no guarantee for a similar positive performance in the future.

This publication may not be reproduced or distributed directly or indirectly to citizens or residents of Canada, the United States, Great Britain or other countries in which distribution is restricted by law. Any person receiving this publication needs to be aware of this restriction and must adhere thereto.

This publication has been drawn up solely for information purposes, and does not contain any recommendations, solicitations or offers to buy or to sell any possible currency, security or other financial product. We wish expressly to state that this publication is not a substitute for comprehensive advice and consultation tailored to the particular needs of the respective investor. For this reason we kindly ask you to contact us in respect of any such decisions