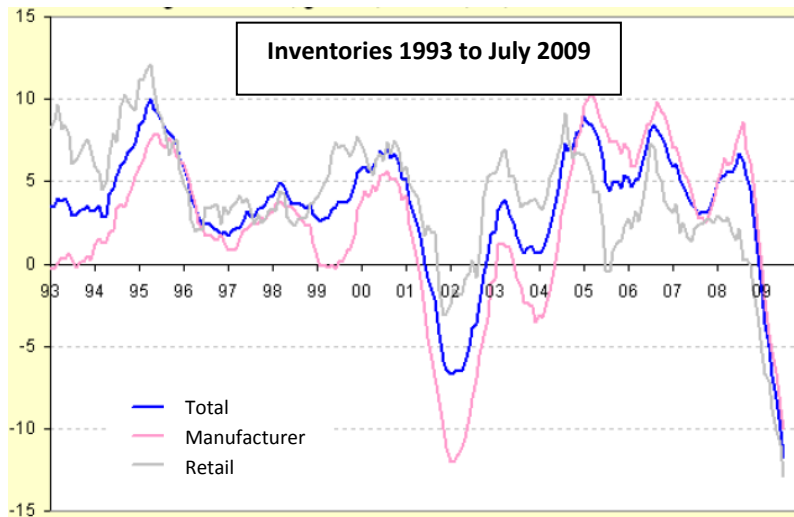




Quarterly Report as of September 30, 2009

Economic Environment

The global economy bottomed out in recent months. Certain emerging economies reported double-digit growth in GDP for the second quarter, while other countries such as the US have yet to achieve a turnaround. The continued contraction of GDP in the US in the second quarter was attributable to the dramatic destocking occurring at businesses. The latest stock figures indicate that the widespread reduction

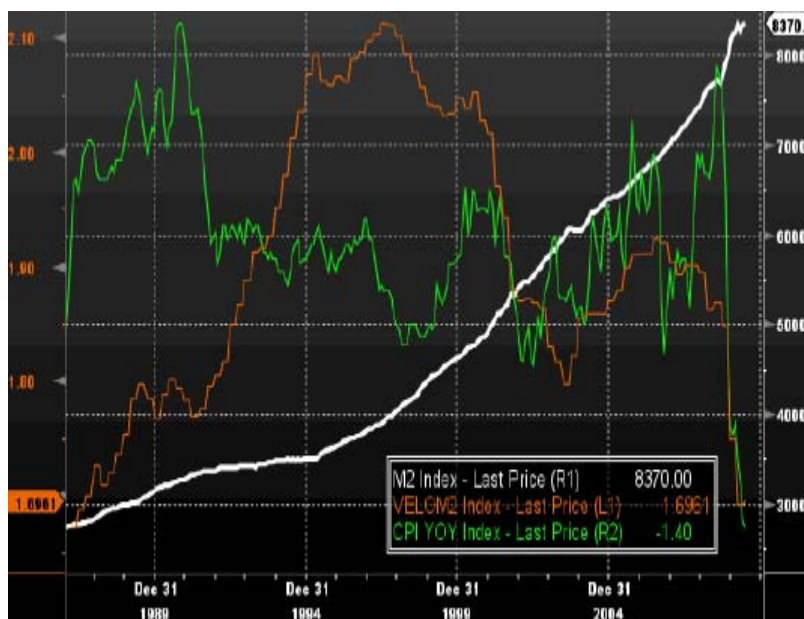


in stocks is gradually reaching an end and that restocking will commence again slowly. We therefore predict possible fourth-quarter growth for the US. The global economy could grow next year, buoyed by the massive stimulus packages worldwide. We are still convinced that government economic stimuli on such a large scale do not have a permanent effect. When the monetary and fiscal policy stimuli begin running out in early 2011, the upturn in the US in

particular will run out of steam. The prospect of a much larger money supply will probably lead to a period of stagflation in the longer term.

Bonds

Governments across the globe have been fighting potential depression or deflation with inflation, which



they consider to be the lesser evil. Inflation equals money supply times the velocity of money (readiness of the banks to lend money). The chart to the left illustrates this situation. The white line shows the US money supply, now reaching historic highs. Inflation is not occurring in the current environment because money is circulating at an extremely slow velocity (see orange line). The banks are not passing on to consumers the money supply they are receiving from the national banks. So inflation, too, declined (green line). We do not expect higher inflation rates in the



short term. (Refer to our last quarterly report.) Banks are still quite restrictive in extending loans and US consumers will need a long time to whittle down their debt. Moreover, the jobless rate continues to rise and the production gap will remain negative for quite some time. But the large money supply will push the prices for various asset classes upward and could fan the fires of inflation. The fast-growing mountain of debt in the industrialized countries poses a problem of gigantic proportion which remains unsolved. The true stress test is yet to come, however, with the explosion in spending due to obsolescence.

We therefore abide by our preference for investment-grade corporate bonds with short term maturities. Given the economic recovery, we also expect the spreads to continue narrowing in the months ahead, albeit at a slower pace than in the first half of the year. We therefore see potential for corporate bonds to continue performing positively, although this potential is much smaller than it was in the first half of the year.

Equity Markets

Country	Index	Performance 3rd Q09	Performance Year (YTD)
World	MSCI World	17.55%	25.32%
North America			
USA	Dow Jones	15.82%	13.49%
	S&P 500	15.61%	19.26%
	Nasdaq Comp.	15.91%	35.59%
Canada		10.61%	30.04%
Europe			
EU	DJ EuroSTOX 600	18.33%	26.89%
Germany	DAX	18.02%	17.98%
France	CAC	21.16%	22.48%
Switzerland	SMI	17.25%	17.90%
Asia			
Japan	Topix	-1.49%	7.71%
Hong Kong	Hang Seng	14.74%	49.66%
Australia	S&P / ASX 200	21.50%	32.53%
Emerging Markets			
China	Shanghai Comp.	-5.77%	54.78%
Taiwan	Taiwan	19.86%	68.19%
India	Sensex 30	18.82%	78.04%
Russia	Russian RTS\$	27.14%	103.83%
Argentina	Merval	30.81%	94.53%
Brazil	Bovespa	19.53%	63.83%
Mexico	Bolsa	20.42%	32.12%

With business results better than expected and investors' cash positions at a high level, the global equity markets chalked up major gains, too, this last quarter. We already indicated this situation in our last quarterly report. The price gains in recent months have been massive, with the MSCI World having risen by nearly 60% from the market low. An increasing number of investors are asking whether this rally can sustain itself. A downward movement lasts an average of 29 months and results in an index loss of 57%. It is followed by a recovery that lasts an average of 17 months and sees prices increase by 70%. Applied to the current situation, the loss recorded from 2007 until March 2009 and the strong upsurge exactly match

the pattern of earlier experiences (refer to the quarterly report for December/March). An upturn is generally followed by a correction of 25%. Corrections in the past were often set off by the start of a new cycle of interest rate increases. We do not expect to see the first interest rate increase in the US until the third quarter of 2010. Historically, the equity markets still have some room for upward movement. We therefore believe the current rally has further potential in the medium term. There is also still substantial liquidity in the market. But our short-term assumption is that the equity markets could see a slight correction in October because most investors are euphoric again, as sentiment indicators show. By historical comparison, the markets are also slightly overvalued.



Commodities

Commodity prices tended to move sideward this last quarter. We attribute this decline mainly to profit-taking following the significant advances of recent months. We view the current slump in commodities as a good opportunity for longer-term investors to enter the market. Stocks in various commodity markets are



reaching their peak levels or have already passed them. Demand is gradually beginning to outpace supply. The price of oil is in a consolidation phase because of ample stocks of heating oil. The medium-term outlook for oil is positive, given the supply restrictions imposed by OPEC and the upcoming winter. Oil could also benefit from a weaker dollar and rising inflation in the US. Gold rose in value by 8.8% this past quarter, benefiting from the weaker dollar and fears of inflation. The decline in Chinese imports brought the upward trend in base metals to a stop. Farm commodities

came under pressure because of better-than-expected harvests in the US and profit-taking. We assume prices for farm commodities will be higher in the long term due to climate change and higher demand from developing countries.

Currencies

The US government and the Fed are taking extraordinary steps to avoid persistent deflation and started aggressive quantitative easing. The conclusion of the market is that currencies of “Quantitative Easing (QE)



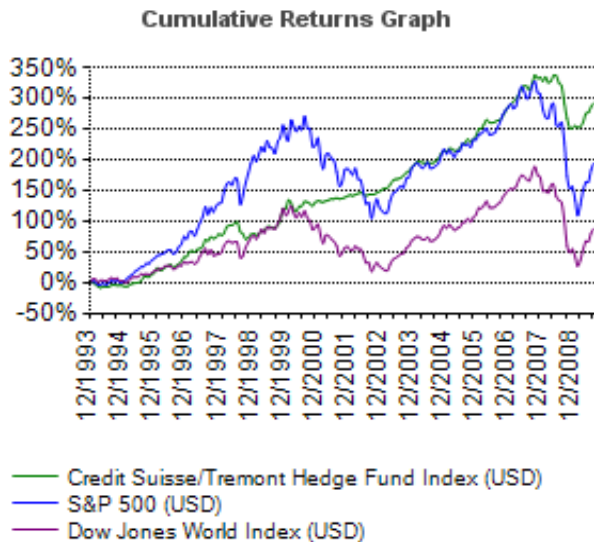
countries” (UK, Switzerland, Japan) will tend to weaken against non QE countries like Euro. Therefore non QE countries like Euro outperformed the US Dollar in recent months. High debt levels add further pressure on the US Dollar. China may be looking for alternatives. In our opinion the influx of US dollars coming into the market should continue to keep the currency under pressure against the majors. If the purchasing program succeeds and inflates the US money supply, Euro and currencies from other non-QE countries should perform well as the US dollar continues to depreciate. Even if the program

stumbles, doubt would be cast on the stability of the US system. Our strategy for the next month is to remain bearish on the dollar (view our latest view dollar report) but to focus on building positions in policy divergence trades; Buy currencies where policy is likely to tighten: AUD and NOK. As GDP grows in Australia and Norway, interest rates will increase. In a world of low returns, high rates of return will see portfolio and direct investment flows into Australia and Norway increase, causing the AUD and NOK to strengthen. Furthermore the AUD shows high correlation with commodities prices.



Hedge Funds

Hedge funds have fared well in 2009, being up 11.57% YTD as of August 31, 2009. Convertible Arbitrage is still leading the way, as CB's lend themselves particularly well to tailored risk/reward profiles in times of



market stress; and short biased equities, as expected due to bear market rally, is the worse performer (-18.68%). Among Best performers YTD are: Emerging markets with +18.79, enjoying stronger bounces and volatility than developed markets; Event Driven and Fixed income Arbitrage, where many current opportunities exist (e.g. distressed debt), with a respective +11.48 and +18.66; and Long/Short equity at +13.03%. As we had mentioned in an earlier report, the lack of directional volatility in Commodity markets has resulted in poor performance for Managed Futures with -3.59%, as most CTA's are trend followers and need sustained directional movements to be profitable. Here as well, we expect more of the same going forward with perhaps a slowdown in CB

Arb, and an improvement for short-biased equity and Long/Short Equity, should we see a short to medium-term correction in the equity markets. Hedge funds, in spite of last year's problems, have continued to play their role in outperforming broad equity markets or "hedging" by declining significantly less in times of stress. A hedge fund allocation of 10 to 15% of overall portfolio, provided managers are expertly selected, continues to be a value-added component by contributing significant alpha.

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