COMMENTARY

January 23, 2009

Dear clients and colleagues,

The banking sector took a hard hit this week on concerns that the second stimulus package introduced by European countries might not be enough to sustain their capital ratios. In the U.S., financials started to report their quarterly results, drawing an overall miserable picture as many reported weak Q4 numbers. The UK economy continues to deteriorate at a faster pace than expected, while housing activity and employment data in the U.S. are still declining

In our portfolio, five out of six companies reported better-than-expected quarterly results. Homeserve (Industrials, UK) reassured investors that it is in good position to deliver at least the same level of gross new policy sales as last year. Monro Muffler (Consumer, U.S.) reported double-digit net income growth and the probability of a 15% increase in its January same-store sales. Raymond James and Federated (Financials, U.S.) managed to present decent numbers under the circumstances. Federated's total assets under management reached $407bn, up 35% from last year, due to a significant increase in investors' appetite for money-market products. Raymond James posted a negative 16% gross revenue growth, mainly because of its private-client activities, despite a 12% growth in its capital market business and an increase of 9% of its overall net income. Interwoven (IT, U.S.) announced its quarterly sales had risen 11% while its non-GAAP net income had improved by more than 30%. Its takeover by Autonomy, a large UK software company, at a 37% premium therefore came as no surprise. First Midwest (Financials, US) was the only stock reporting a bigger loss than anticipated, like many other U.S. banks.

Last week, I attended a Swiss Equity conference in Zurich and I was very impressed by the high attendance rate compared to the same event last year and the overall interest from investors. The small/mid to large company ratio was very high as 75% of the guest companies have a market cap of less than CHF3bn. I had the opportunity to meet with the management of top-quality companies such as Bucher, Kuoni, Sika, Sulzer, EFG, and Bachem. Each shared a similar concern: the strategies to carry out in this challenging environment, until the economy recovers.

We like the fact that several companies have factored in the possibility of very pessimistic outcomes, and implemented severe cost reduction plans over a year ago, when inflation peaked. Those that did are now in good position to navigate through the tough times. Our portfolio already contains a fair number of such companies, and we remain on the look-out for more.

No changes were made to the portfolio composition this week, but we are in the process of re-evaluating some of our holdings. We are very comfortable with the underweight in Financials and overweight in the more defensive areas

Regards,

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