What was 2007 like – and which trends do we see for the markets in 2008?

January 2008

Dear Clients,
Ladies and Gentlemen, Dear Friends,

We would like to take this opportunity to offer our sincere thanks for the trust you have placed in us during the year just ended. We are again pleased to be able to offer you our services in connection with your assets in 2008.

We are looking forward to the new year with some excitement. We have pleasure in presenting our assessment of the forthcoming year on the stock markets.

Our own firm: retrospective and prospects

2007 will go down in our company's history as a year of radical change and development. Our company passed several milestones in terms of staffing as well as logistics: in Berne, we relocated from the Spitalgasse to the Bundesgasse on 1 May 2007 and in Zurich, we doubled our office space at the existing location. We have substantially expanded our range of services thanks to the integration of the property management firm F+Partner AG. We are now in a position to offer administration and management of real estate assets to our clients as a professional service from one single source. As of fall 2007, our clients can benefit from the newly-established **Helvetic Trust Estates AG** as a vehicle for real estate investments. Our real estate portfolio currently totals some CHF 25 million. You will find it worthwhile to visit our homepage at www.helvetictrust-estates.ch. We more than doubled our workforce in 2007, bringing us up to a total of 15 persons at present. We also established our **presence in London** at the start of 2008 with our own representative office near Victoria Station.

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We have worked to professionalize our services in order to meet our clients' requirements in every respect. The sound performance of our China Fund during 2007 (33.49%) was a source of much pleasure, excellently complementing the professional management of our range of services.

From the entrepreneurial viewpoint, 2008 will be a year of consolidation and modest growth. Consolidation will focus mainly on increased utilization of the new synergies linked to our real estate services. The real estate services sector is sure to report the strongest growth in 2008. In the classical asset management business, we shall use the structures that have been created to make our presence known in more cities and to continue our growth.

The markets: retrospective

In terms of performance, forecasting and probability of occurrence, last year was a total success.

Our forecast for 2007 could not have been better, and this is reflected in the performance that was achieved. We brought 2007 to a brilliant close in the gold, energy (oil, gas and uranium), base metals and soft commodities sectors, together with the Chinese market and selected emerging markets. We have focused our investments on these sectors ever since our company was founded. Over the years, we have become very familiar with the various investment sectors, which differ completely in terms of timing, volatility and development.

Consistent avoidance of the financial sector was also a firm asset allocation decision, albeit one which was not always easy to explain. Our clear commitment to commodities of all sorts – focusing on gold – has yielded superb added value for our clients over recent years. The performance attained underscores the far-sighted nature of our investment decisions. We are very proud that we were again able to achieve **a double-digit performance percentage** in 2007 thanks to this approach.

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Prospects for 2008

Especially in the first two quarters of 2008, the problems in the financial system will keep us in suspense, and these concerns are unlikely to be allayed very quickly. As we have seen with other market phenomena which are not easy to comprehend, this financial crisis will have to take the blame for any and all events that cannot be explained directly. Global financial systems are being brought to the brink of collapse by the combined effects of the enormous sums written down by the banks (running into billions), and the recession that was already starting to emerge in the USA at the end of November 2007 (although it is not yet acknowledged as such because the definition requires two consecutive negative quarters). We are directing our attention towards equities that are directly linked to commodities. In 2008, we shall basically back the same sectors as we did in 2007. Within the energy segment, we shall pay particular attention to investments in the gas sector, focusing on the LNG (Liquid Natural Gas) industry and on uranium producers. Physical gold and gold mine equities will be a fixed element of our portfolio in 2008 - and this is not merely in order to hedge the portfolio and the US dollar currency risk.

We shall also add base metal equities to our portfolios by way of diversification. We are expecting these sectors to show a long-term upward trend during the year, so we shall focus on the gold, energy (oil, gas and uranium) and base metal sectors, together with all plant-based raw materials or soft commodities, as they are known. This combination of various commodities leaves us feeling very comfortable in the certainty that we shall be well able to withstand the storms that will rage during the first two quarters of 2008. In our view, the sectors just mentioned are numbered among the clear favorites for 2008. We assume that these sectors will significantly outperform the traditional markets. As regards country-based investments, we very definitely favor Hong Kong, Taiwan and China or the Greater China economic region, and selected emerging markets. We shall primarily cover these countries and markets with ETFs (Exchange Traded Funds).

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The global economy

The situation of the global economy is nebulous: in Asia, the economy is growing at an utterly unbridled pace. On the other hand, the USA – with its largest and most faithful allies (the UK and the rest of Europe) in tow – is sliding into a recession on account of the crisis in the real estate and banking sectors. After all the billions of write-downs already disclosed by the banks and even more sums that are highly likely to be written down at the start of the new year, the international banking system is threatened with collapse and appears to be on the verge of breaking down. Appearances at the moment suggest that most market participants will make their way through the financial fog with no sense of direction, but at great speed, trusting blindly that the central banks will overcome the crisis.

We find that confidence in official and 'reputable' bodies is extremely stretched at present, to say the least. As things stand at the moment, nobody really knows what is going on. Good advice seems to be in short supply. It seems as if even the responsible top managers at the banks are no longer able to assess the risks involved in their commitments, let alone to arrive at a correct evaluation of the scope. We find it striking and most astonishing that despite all the hundreds of billions of US dollars that are being pumped into the international currency system on a coordinated basis in order to prevent the worst from happening, the rating agencies – which are so quick to act in other circumstances – are not present on the market. In our view, at the very least, they should have long since placed the ratings of the world's largest banks on the watch list. We would point out that the same agencies reduced their ratings immediately in comparable cases of announcements and write-downs involving a fraction of the sums written down so far – for instance, in the case of the pharmaceutical and telecoms industries. So why is nothing happening now as regards the banks, given that the write-downs have already gone far beyond the realms of common sense? Active participants in the financial markets ought to be shaken by the absence of any demands – let alone expectations – of downgrading for financial institutions which have already been forced to write down several billions. There is only way of explaining why the afflicted financial corporations still have the

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same ratings as they did before this huge write-down crisis: the rating guidelines which are otherwise applicable must have been rejected in this case.
It is our opinion that the crisis is worse than we are being led to believe. There are too many market participants who do not want to believe the true scope of the crisis and are simply ignoring it. We identify various beneficiaries from the combination of circumstances just described. These include the Asians on the one hand, as well as some selected emerging markets. For the USA, the UK and parts of Europe, however, this state of affairs bodes no good.

The international financial system is at risk of running out of control, and even of collapsing. Until now, the central banks were able to prevent the worst thanks to strict organization, concerted efforts and the injection of liquidity. The direct consequence of printing new money will be an increase in inflation. Confidence is the commodity that is being negligently squandered. Consolidation and revaluation of the US currency is required in order to emerge from this financial and liquidity crisis. Current uncertainties are merely leading to a continuation of the battle for resources.

Despite the dark and gloomy prospects at present, we also regard it as possible that the USA itself will emerge with new strength at the end of this crisis, albeit at the cost of third parties. So it is not our intention to paint a picture of doom, but rather to find a way through and out of this financial fog. This path consists of asset allocation focused on the goal – an approach that we have referred to as 'trend allocation' ever since Helvetic Trust was established. **In 2008, we shall back our investment trends (described above) even more firmly, and we shall not follow in the footsteps of the mass of market participants.**

Equity markets

The outcome of our scenario will be that we shall focus even more strongly on equities in commodities, gold, energy (oil, gas and uranium), base metals and soft commodities, and we shall selectively increase the representation of these sectors in our portfolios during phases of weakness. The economic growth

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emanating from the Asian region (Greater China and India), together with rising interest in the resources of the emerging markets, will ensure that trends for commodities of all sorts will remain vigorous again in 2008. We do not expect the US real estate crisis – and its effects on global financial and commodities markets – to hit bottom until mid-2008.

Despite all the firefighting actions, the USA – or at least so it would appear today – is at serious risk of meeting the criteria for a recession in March/April 2008. We note that the US economy has already satisfied the criterion for a recession since the end of November 2007 due to the dramatic downturn in consumption. If this is followed by five equally bad months, the recession will be a reality. Despite massive interest cuts, we assume that the FED will not succeed in averting a recession. The tremendous expansion of the money supply dramatically increases the danger of a move toward global inflation. The effects of this recession and of burgeoning inflation have been evident in the value of the US dollar for some considerable time. There is a serious danger that the era of the US dollar as the key global currency is slowly but surely drawing to an end. First signs of this can be discerned on the market even now: on several occasions, Arab and Russian groupings have already launched discussions on abandoning the US dollar in favor of the Euro to quote the price of oil.

In 2008, we shall cover country commitments via ETFs in most cases, and we shall focus on current trends. We regard the attractiveness of traditional share indices as mediocre, in view of their composition. In the short term, we would much rather attempt to achieve added value by skilful sector rotations within our trends.
In 2008, we shall again concentrate clearly on physical gold, gold mine equities, energy (focusing on gas (LNG), oil and uranium), base metals, emerging markets and the Greater China economic region, together with soft commodities.

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Swiss equities

As viewed at present, the SMI will become attractive for us again once it achieves a correction of a good 15-20% (7500 points). We shall avoid investments in financials (banks and insurance companies) until the crisis has been fully overcome. At least in the first two quarters of 2008, the SMI is not really attractive as far as we are concerned.

Currencies

Correct assessment of the US dollar is increasing in importance due to our focus on commodities, because virtually all commodities are still traded in US dollars at present. We expect the US dollar to weaken in the first half of 2008, because interest rates will have to be cut significantly in order to avert even worse developments for the time being. We forecast that it will reach the 1.05 mark by mid-2008. If, contrary to expectations, the US$ climbs above the 1.22 barrier, we shall consistently hedge the currency. From our viewpoint, the Can$, the Aus$, the NZ dollar and the yen are more interesting.

Asia

We are standing by our commitments in the Asian region. We are expecting very volatile markets and we recommend our clients to buy up when this economic region shows weaknesses. Equities in the Greater China economic region are an essential component of every portfolio in 2008. They give investors a guarantee of participating in the booming Asian market. With our **Helvetic Trust Greater China Fund,** we have created a fund that is optimized for performance and is administered by one of the best fund managers for this region.

Energy equities

We think that the price of oil will shortly rise to 107 US dollars, and we expect a price per barrel of between 100 and 120 US dollars by the end of 2008. Demand for 'black gold' will not fall so quickly, and there will be no serious alternatives apart from gas in the near future. The past has clearly shown us that lower oil prices ultimately motivate increased consumption. Alongside oil equities and service providers, we shall therefore focus on investments in gas equities during 2008, specifically on shares in the Liquid Natural Gas (LNG) sector and on uranium investments. We shall only purchase investments in solar, hydro and wind energy equities through energy funds.

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Gold

Gold mine shares already delighted investors in 2007. The price of gold could pass the mark of US$ 1,000 per ounce for the first time in 2008. We expect shares in gold mines to benefit from considerable impetus in 2008 – in fact, 2008 could even be <u>the</u> year for gold mine equities. For this reason, physical gold and gold mine shares will again be included in our Core Holdings this year.

Commodities

Numerous mergers will take place among base metal mines this year. A major wave of consolidations is developing due to increased prices, so these securities should also be included in every portfolio in 2008. The demand for base metals seems to be insatiable and demand is still outstripping supply, especially in economic regions with high growth rates. The prices of the commodities obtained are well out of line with the enormous capital-intensive efforts needed to extract or produce them.

It is our firm expectation that the price per unit of a commodity will continue to adjust to the costs of production and extraction, i.e. that it will become more expensive. Plant-based or 'soft' commodities are still at a fifteen-year low, with the exception of wheat. We shall therefore continue to expand this sector in our portfolios during the coming year. We regard this as a favorable time to invest in soft commodities.

Interest and bonds

We are expecting drastic interest rate cuts in the USA at an early stage in 2008. They could prove to be more significant than the reductions we saw in 2007. The Federal Reserve (FED) will not hesitate and in fact will make every effort to avert even worse developments by tightening interest rates. At least in the first months, this strategy will not support the US currency.
In terms of bond investments, we shall therefore focus on the Canadian dollar, the Australian dollar and the New Zealand dollar.
In the year just started, we shall also give preference to investments in real estate, selected equities and bonds.

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About ourselves

Visit our homepage at www.helvetic-trust.ch to learn about the latest developments in our company. We would also draw your attention to the opportunity for indirect real estate investments. They yield stable returns and are tradable through us at any time. If we have aroused your curiosity, you can visit our web site at www.helvetictrust-estates.ch to obtain more details.

2008 will be a difficult year on the stock market. A purely "Buy and Hold" approach is unlikely to win through. We firmly expect to realize the first profits during the first quarter of 2008. We shall actively track market events in order to make the right investment decisions for you. We regard the greatest challenge as overcoming the US real estate crisis and the faltering US economy, with the consequence of rising inflation rates all over the world. Both aspects will require our full attention. However, we are certain that we shall be able to react rapidly and efficiently to changing circumstances thanks to our trend allocation. If events on the markets become excessively dramatic, we shall inform you via suitable channels and make our assessments known to you.

We are looking forward to tackling the market challenges in 2008 in order to achieve the optimum for you. Do not hesitate to contact us if you have any questions. We are always ready and willing to answer them. We shall make every effort to use all our know-how and abilities to offer you personal assistance in 2008, to advise and support you in order to achieve above-average service quality and performance that ensures your fullest satisfaction.

We would like to thank you sincerely for the trust you have placed in us, and we remain,

Yours sincerely,

Dr. Georges Bindschedler   Kaspar Grob   Domenic Parli

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