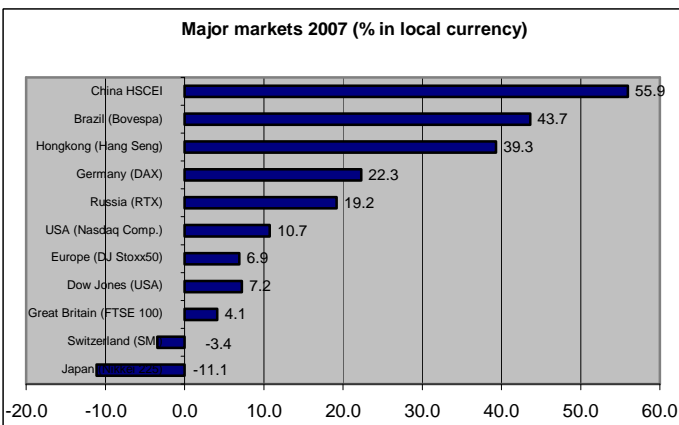


Review of the year

The past year was characterised by sharply differing developments on the international stock markets. The sub-prime crisis in the USA emerged as the heaviest burden for the markets. Falling real estate prices in America had, in fact, been widely expected. But that some of the biggest banks had to write off double-digit billions on their credit derivatives (particularly securitised mortgages and corporate loans) came as quite a shock for most investors. It was astonishing how, for the first time in economic history, the emerging markets were able to de-link themselves from the turbulence in the international financial system. Prices last year on the Chinese, Indian and Brazilian stock markets recorded rises in two or even three digits. Another positive surprise were the high price rises in exotic markets such as the Ukraine (+135%) and Nigeria (+71%). Generally in 2007, investments in riskier markets and industries were rewarded with a strong performance, one example being the strong price rises in the sector of renewable energy. A further element of this picture is that technology shares generally celebrated a comeback, as evidenced by the price developments on the NASDAQ and the German TecDax Index (+30%).

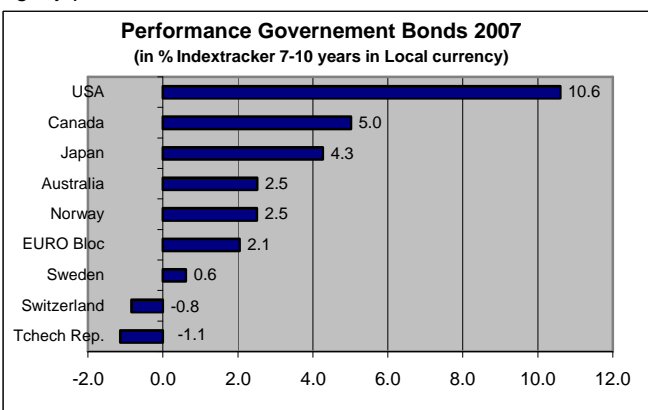
sharply downgraded as a reaction to the turbulence on the credit markets.

2007 also brought a great deal of movement on the commodities markets. If one uses the change in the commodity indices from Goldman Sachs, which are based on rolling futures contracts, as a benchmark, the agricultural commodities of wheat and soy beans recorded even higher price rises than crude and heating oil. One of the reasons is the additional demand for those agricultural commodities for the production of bio-fuel.



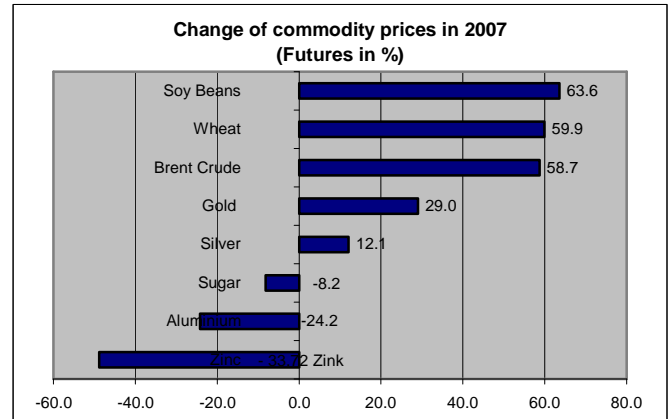
Source: Bloomberg

There was little to be earned last year on most of the bond markets. The consistently strong economy in Europe and repeatedly budding fears of inflation led to further interest rate hikes by the Swiss National Bank as well as the European Central Bank. The long end of the interest rate curve did not remain unaffected, and the bond yields increased significantly, particularly in the first half of the year. The result was that the overall performance (price development + coupon) of CHF treasury bonds with terms of 7 to 10 years was slightly negative, whilst in Euro bonds, the higher interest rate level enabled slightly positive returns.



Source: Bloomberg

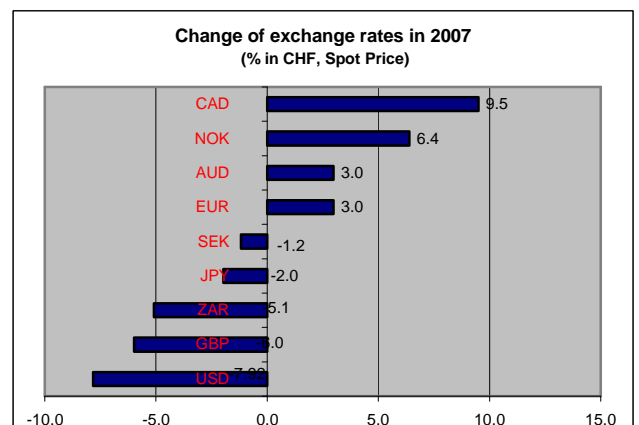
By far the highest overall yields were achievable in the USD thanks to a veritable price rally for treasury bonds as a consequence of the sub-prime crisis. Significantly weaker was the performance of corporate bonds which, at least in part, were



Source: Bloomberg

Among the strongly demanded industrial metals, the prices of nickel and zinc came under heavy pressure, having recorded extreme price rises in the previous year. Other industrial metals too, such as aluminium, suffered price declines despite consistently high demand from China. No doubt as a consequence of the weak Dollar and revived fears of inflation, the gold price boomed in the past year, rising for once much more strongly than that of silver.

The centre of activity on the currency markets was the downhill ride of the US Dollar. The US base rates which were rapidly screwed down as a result of the sub-prime crisis and budding fears of a recession placed the American currency under heavy pressure. Although the Greenback managed to recover at the very end of the year, the loss for the year of the most important global currency was about 11% against the Euro, given that numerous major dollar investors (China, Russia, leading oil producing nations) are increasingly looking for alternatives to what has been the world's leading currency until now. As a consequence of large-scale "carry trades" (loans taken up in low-interest currencies and then invested in high-interest currencies), the Japanese Yen and the Swiss Franc performed very weakly. As in earlier years, the so-called commodity currencies such as the Canadian Dollar, the Norwegian Kroner and the Australian Dollar recorded particularly strong gains against the Swiss Franc.



Source: Bloomberg

2008 – Prospects and forecasts

Significant economic weakening

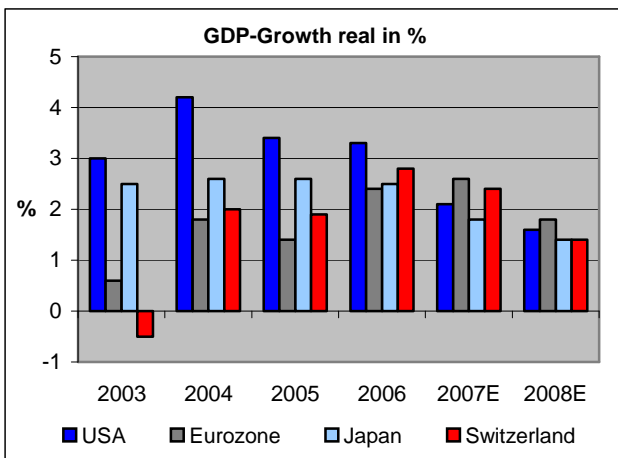
In 2007, global economic growth, at about 4.6%, was slightly higher than that of the previous year. Weaker growth in the USA was more than compensated by the surprisingly strong economic dynamism in Europe and - even more importantly - in the emerging markets. In the USA at the moment there are conflicting opinions about whether or not the country is going to slide into recession because of the frail condition of the real estate market. Even if the clear slow-down of the US economy is impossible to ignore, the chances are good that the current economic crisis will remain limited to a few individual industries (banks, construction, individual consumer goods etc.) and things will start pointing slightly upwards again as early as 2009.

Almost more important than the US economy appears to be the economic development in the major emerging markets. If China were to record a significant economic slow-down, it would have a decelerating effect in most of the other Asian countries too. Until now, on the other hand, numerous interest rate increases decreed by the Chinese National Bank in order to reduce the risks of inflation have had little influence on the actual development, given that most Chinese corporations are financing their investments out of current earnings. In general terms, the economic situation in the BRIC states (Brazil, Russia, India, China) is stable. In the last 10 years, enormous progress has been achieved in every respect (a positive balance of trade, reduced national debt, lower inflation, etc.). In Europe too, the weakness of the US economy does not seem to be fully impacting. In this connection, it is worth remembering that exports from Europe to the USA represent a comparatively low 3% of the gross national product. In addition, the tentative structural reforms are beginning to produce their first effects.

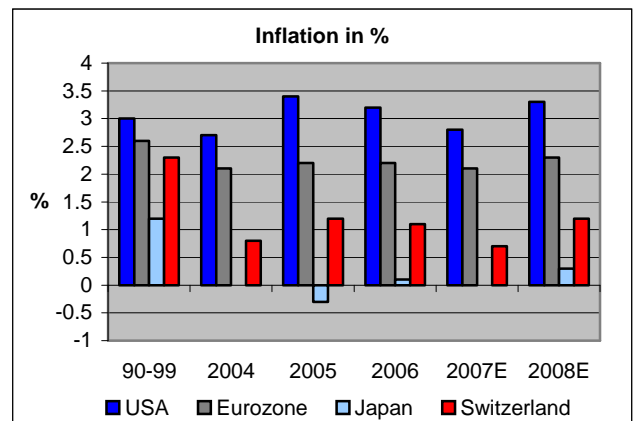
Budding fears of inflation

Even if the weak real estate markets and the credit crisis tend to have a dampening effect on inflation, voices have become louder in recent weeks warning of stagflation (low growth combined with high inflation) in the USA. It is a fact that the inflation rates are showing a rising tendency due to the sharply higher prices of energy and foodstuffs, whereby even the core rates of inflation (without energy and food) cannot entirely avoid that trend. The fear is that the central banks will sow the seed for a new round of inflation if, because of the credit crisis, they involuntarily have to reduce the interest rates or are unable to increase them as planned.

Nevertheless, extreme fears of inflation appear to be unjustified. If the central banks are currently injecting high liquidity into the commercial banks, they are only doing it temporarily in order to avoid major turbulence in the banking system because of the high liquidity mindset. In addition, it is becoming apparent that the central banks do not wish to reduce the base rates too quickly in order to help those market participants affected by the real estate crisis out of trouble. Selective measures such as limited interest rate increase moratoria for those real estate owners who are suffering most and generous compensation in the case of bottlenecks in the interbank credit market appear to have priority. The higher food and energy prices have not yet impacted fully on the rest of the economy because companies are able to compensate a part of the increases thanks to gains in productivity. Working on the basis that the most important commodity prices are hardly likely to continue rising at the rhythm recorded in 2007, the USA, above all, is likely to record significantly lower inflation rates as early as 2009.



Source: Bloomberg, own forecasts

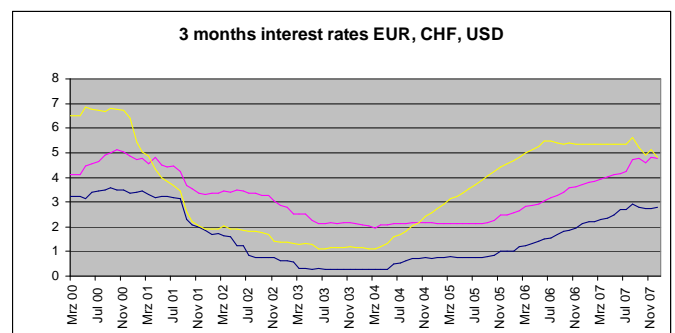


Source: Bloomberg, own forecasts

Central banks at the ready

In the opinion of some observers, the US Federal Reserve has reacted very quickly indeed to the warping in the credit market and reduced the base rates from 5.25% to 4.25% in three steps. As the further consequences of the sub-prime crisis for the financial system as well as the economy in general can only be foreseen with difficulty, the expectations of market players with regard to developments of the money market rates vary considerably. Whilst the US investment bank Merrill Lynch is forecasting further massive interest rate reductions to 2% by the end of 2008, other experts believe that the leeway of the Fed is seriously limited because of the renewed expectations of inflation. In the recent past, and viewed in retrospect, the Federal Reserve made the mistake of at least partly causing the sub-prime crisis by a number of rapid interest rate reductions, followed by sharp increases in the rates. We believe that the Fed's chairman Bernanke will adopt a more cautious approach unless there is an emergency. We therefore foresee somewhat lower money market rates of

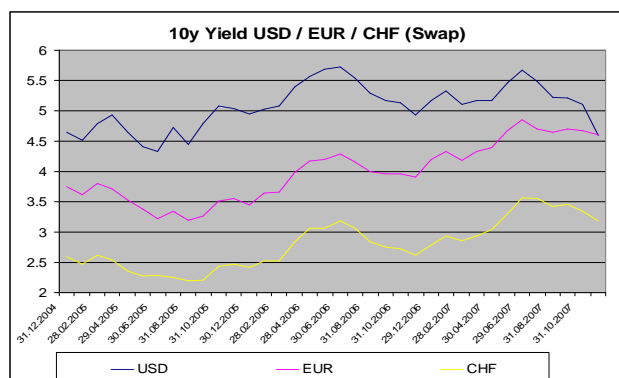
about 4% (3-month Libor) in the USA at the end of 2008. Due to the high exchange rate of the Euro, the European Central Bank seems to have its hands tied, so we believe that by the end of 2008, the corresponding rate will be at around 4.25%, as already predicted by the market in the forward rates.



Source: Bloomberg

2008 – Prospects and forecasts

We do not expect any dramatic changes in the long-term interest rates either. After the major rally of US treasury bonds in recent months as a reflection of an exodus into safe investments, we see, as part of a possible normalisation of the situation on the credit markets, a return to



Source: Bloomberg

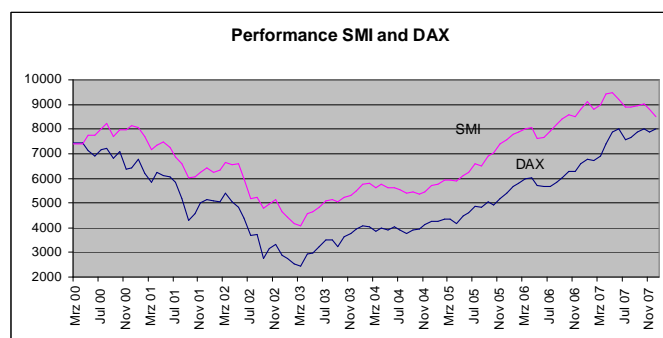
slightly higher bond yields. We also expect rising bond yields for the Euro in 2008, meaning that the interest rate curves in the Dollar and the Euro will again show a somewhat stronger rise.

		Dec 04	Dec 05	Dec 06	Dec 07	Dec 08E
USA	3 months	2.56	4.54	5.36	4.73	3.75
	10 years	4.25	4.41	4.78	4.14	4.6
Eurozone	3 months	2.16	2.49	3.72	4.69	4.25
	10 years	3.67	3.27	3.91	4.34	4.6
Japan	3 months	0.1	0.07	0.56	0.90	0.7
	10 years	1.44	1.44	1.59	1.49	1.75
Switzerld.	3 months	0.72	1.01	2.1	2.76	3.0
	10 years	2.28	1.89	2.46	3.06	3.3

Source: Bloomberg, own forecast (28.12.2007)

Stock markets – Price increases fundamentally justified

When one considers that the US real estate market is currently suffering its worst crisis for decades and the US economy is at the edge of a recession, the performance of the stock markets in 2007 is quite amazing. Is the stock rally going to continue in a moderate manner this year or do we have to reckon with a major correction on the most important stock markets because of the restrained economic prospects? Noteworthy is that the fundamental valuations (measured by the anticipated price-earnings ratios) have remained roughly at the level they had a year ago, despite price rises on most of the markets, i.e. the prices have largely gone along with the profit dynamism of the companies. Fundamentally even somewhat cheaper are the shares traded on the NASDAQ, the price-earnings ratio of just under 30 having come back to about 28 thanks to the dynamic profit development of the companies included in the index.



Source: Bloomberg

Even if one takes historical valuations into consideration, one cannot speak of an overvaluation of stocks today because the price-earnings ratios tend to lie at the lower edge of the long-term bandwidths. Unless corporate profits unexpectedly slump, one can therefore expect a further moderate upward movement on the most important stock exchanges in the current year.

Last year, our rather cautious attitude towards stock markets in the emerging nations turned out to be wrong. Due to the splendid development of the indices in the BRIC states, the valuations of those markets, measured by the price-earnings ratios (PE), currently at about 20 for India and China (shares listed in Hong Kong) are clearly above the comparative values of the "old" stock exchanges. In the meantime, a number of western corporations have taken up activities in the BRIC states and are only valued at half the level of their competitors from those same countries. We are therefore somewhat more cautious with regard to particularly the Chinese and Indian stock markets. Based on the significantly lower valuations, we tend to favour Russia and Brazil, particularly because Brazil, with low exports to the USA, would only be affected to a limited extent by a US recession. For investors who can take on high risks, a part of the portfolio mix could be comprised of selected African countries which provide the possibility of potential development in the long term (Botswana, Nigeria, etc.). Unless the financial stocks are subject to further high value corrections, this sector could provide potential for catching up.

Key stock market figures

	Index Dec. 07	Performance 07*	Performance 06	Corp. profits 07E**	Corp. profits 08E***	PE 08E***
S&P 500	1478	4.24%	14.04%	80	90 (+11%)	16.50
NASDAQ	2674	10.73%	9.99%	70	97 (+38%)	27.95
DJ EuroStoxx 50	4404	6.91%	15.12%	351	352 (0%)	12.49
DAX	8067	22.29%	21.98%	587	593 (+3.1%)	13.55
SMI	8484	-3.43%	15.85%	626	521 (-17%)	16.43
Topix (Japan)	1476	-12.22%	1.9%	52.28	46.98 (-10%)	31.93

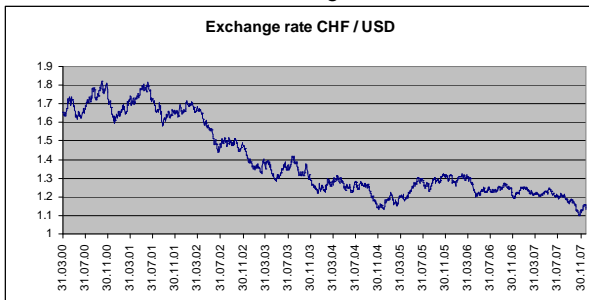
* Performance in local currency
(Status 28.12.07, closing prices)

** weighted, aggregated (current) profits of companies included in the index

*** expected PE ratios for 2008 (Source: Bloomberg)

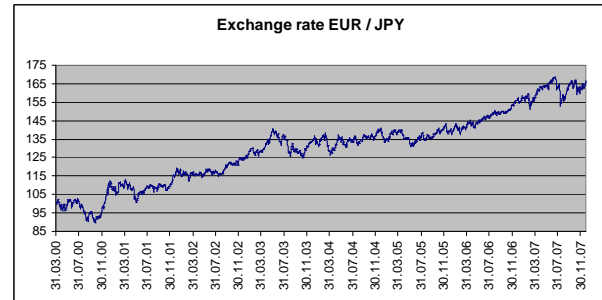
End of the weak dollar?

2007, like the previous year, was characterised by a weak Dollar. The US currency lost just under 8% against the Swiss Franc and about 11% against the Euro, whereby the losses in the course of the year were temporarily even higher. The weakness of the Dollar can be attributed largely to the sub-prime crisis in the USA and the significantly shrunken interest rate difference to the Euro and the Swiss Franc. Rather less weak against the European currencies was the Yen which was the main "victim" of the so-called carry trades. The very low Yen interest rates encouraged many investors, such as hedge funds but also Asian commercial banks, to take up "cheap" Yen loans and invest them in currencies with significantly higher interest rates. Until now, this investment strategy, practised in grand style, has worked out because the currency speculators have had the additional benefit of the weakness of the Yen, which it partly caused itself. However, there is a threat in this strategy, namely that a sudden re-strengthening of the Yen would cause massive dissolution of "carry trades" which would lead to high volatility for the affected currencies. Due to more hesitancy about investment strategies financed by borrowings, we believe that this year, fundamental factors will be taken into stronger consideration, meaning that we do not reckon with a further weakening of the Yen.



Source: Bloomberg

In 2007, the strengthening of the Chinese Renminbi (RMB) against the Dollar continued by about 6.7%. This marginal higher valuation is however not enough to sustainably reduce the imbalances in foreign trade between the USA and China. One must therefore anticipate that after the Olympic Games in China, political pressure for a significant revaluation will strengthen.



Source: Bloomberg

Unless there is a factual collapse in US consumption, the weakness of the Dollar against the currencies of the old continent should not accentuate further. Not least of all due to the weakness of the American economy, the US balance of trade deficit will reduce in this coming year to about 3.5% of the gross national product, having reached about 7% at the beginning of 2006.

Exchange rate forecasts					
	Dec 04	Dec 05	Dec 06	Dec. 07	Dec. 08E
USD/YEN	102.6	118	119.13	112.01	115
EUR/USD	1.36	1.18	1.3165	1.4732	1.40
EUR/YEN	1.39	139	156.84	165.03	160
EUR/CHF	1.55	1.55	1.6074	1.6575	1.65
USD/CHF	1.14	1.31	1.2209	1.1249	1.18

Source: Bloomberg, own forecasts (status 31.12.2007 08.00 a.m.)

Cautiously positive for shares

As there is not likely to be much to earn with bonds in the forthcoming year either, we recommend a slight overweighting of shares despite the higher stock prices.

Within the framework of share investments, we recommend, from a valuation point of view, a somewhat higher concentration on European as opposed to American and Japanese shares. Since we are not reckoning with major price setbacks without large-scale geopolitical crises, we continue to regard structured products with conditional capital protection (bonus products) as an ideal investment to provide protection against limited price losses without simultaneously and unnecessarily limiting the profit potential. Investors who enjoy and can take on risks can remain invested in shares of companies in the emerging markets as part of their portfolio, whereby, as mentioned above, we favour Russia and Brazil. Those who are fond of Chinese shares should primarily hold the "cheaper" shares listed in Singapore.

For investments in fixed-interest papers, we prefer from the point of view of European investors, and in view of the not quite negligible currency risk of the Dollar, Swiss and European shares with a mix of treasury and corporate bonds, mainly with medium terms. As a supplement, we continue to offer selective investments in hedge funds which, with a comparable risk to that of bonds, provide the possibility of significantly higher earnings. For investors who use the Euro and Swiss Franc as their reference currency, we recommend until further notice that the Dollar risk should be limited by partial coverage with forward contracts.

Attractiveness		
Interest rates	Bonds CHF	-
	Bonds EUR	neutral
	Bonds USD	neutral
	Corporate bonds	neutral
	Structured interest-rate products	+
	Shares	Switzerland
Europe		++
USA		+
Japan		-
BRIC		+
Structured stock products		++
Commodities, precious metals		+
Alternative investments		Fund of Hedge Funds (FoF)
	"FoF" with low risk	neutral
	"FoF" long/short shares	+
	"FoF" Managed Futures	+
Currencies	CHF/EUR	neutral
	EUR/USD	neutral
	USD/YEN	-