

ALPHACAPITA SA

Global Asset Management



JANUARY 2012 NEWS LETTER

2011 - ANNUS HORRIBILIS

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Outlook

Firstly, we at AlphaCapita SA we would like to take this opportunity to thank all of our loyal clients and readers, for the support during the year of 2011. The financial markets have been a nerve wrecking place in 2011, but we expect and hope that 2012 will be a little less turbulent and rewarding for all. We want to wish you all a prosperous and happy new year and we are all looking forward to meeting you all soon.

Another year has gone by and what a year. We cannot ever remember a year with more uncertainty than the one we have just experienced. Let us just recap on some of the biggest events in 2011. Two earthquakes, a tsunami, nuclear accidents, high political uncertainty in the U.S regarding debt ceiling, the U.S credit downgrade, the tension in the middle east and last but not least, the expansion of the European debt crisis. All these events have had an impact on the financial markets and also on AlphaCapita strategies.

Volatilities have never been higher – during the period from August to October a normal day could easily see a trading range of plus or minus 5% - percentage moves that we normally would see over a period of 1 to 3 months. At AlphaCapita, it has always been our primary target not to take part in these big moves but instead look at our strategies with high focus on the asset allocation. This approach has had the disadvantage of giving higher volatility over the short term compared with our experience of the last two years, but we believe the strategy over the longer term will deliver more steady returns. We have in this

period tried to reduce this risk by implementing new hedging strategies in Q3 and we are happy to say this has worked satisfactorily.

In April of 2012, the AlphaCapita balanced strategy will have been up and running for 3 years. Our primary return target at the beginning of this strategy was to deliver an annual return between 5% and 8%. We can announce that we have come very close to this return target with an average of 4.82% over the last three years. This has been difficult to achieve as our asset allocation within risk terms has not given us much room to navigate in. To explain that further, within our strategy we have to have an allocation of funds in high rated government or mortgaged bonds for example, and by this our returns are highly influenced on the low yields that bonds give, approximately 2%.

2011 has also in AlphaCapita terms been an exciting year. We started the year by

moving to our new address in Balsberg, and likewise have recently signed up with a new partner Mr. Simon Evans in London. Simon will in the future be our partner for advising clients on wealth planning issues and the setting up of Trust and offshore companies. Simon comes to AlphaCapita with a fantastic pedigree within this field and we are very proud to welcome him into our company. *(For more detail about Simon and our new services please take a look at PAGE 5 and also on the web site.)*

In 2012 AlphaCapita will also look to hire two to three new portfolio managers – the process has already started and we expect to be able to announce this during Q1 of 2012. We are also happy to announce that the AlphaCapita balanced strategy will also now





Outlook Continued

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be available through a fund . Timeline for the launch will also be Q1. Our Balanced strategy has for year 2011 a return of -9.38% and our equity portfolio -11%

What to expect in 2012.

It is our view that 2012 will start out with the same uncertainty that we have witnessed over the last two quarters. As we have stated in most of our newsletters of 2011, we need the politicians to take the necessary steps to prevent the economic crises spreading further. At the latest summit, we did however see some moves in the right direction and we strongly believe that there is a common finance policy, however a common tax and working policy is also needed. This could be the starting point for moving more power to Brussels, but it must be clear to everybody by now that the EU has not been good enough over the last eleven years, and to keep the Euro

project together, more common standards are needed. With this in mind we do see some light at the end of the tunnel.

By this we are not saying that we will soon see a bull equity market in Europe, but we will see more cash being reinvested in equity. The cash sitting on the side lines is enormous and to buy more government bonds in U.S and Germany does not in our minds pay a big enough risk premium. So investors therefore have only good quality corporate bonds and blue chip stocks with measurable dividend yield to reckon with. And it's exactly these two areas of investment, that will at these levels, pay out some good returns in 2012 in our opinion.

We have all used the last couple of months to deliberate how the economic unrest can play out within the EU. In our opinion, too much is at stake both politically and economically, with a split up we will see high social uncertainty in a lot of the EU countries. **So in our view , letting the “PIGS” leave the EURO, is unfortunately not the right long term solution as the effect financially and socially could be catastrophic.**

So our overall view is:

A slowdown in U.S but not a recession. Europe will probably not escape a recession in the short term due to the cuts that need to be taken. This will also add to a weaker Euro and the ECB will continue to cut rates, maybe down to 0.50%. Therefore the impending importance of getting solutions for the EU debt crisis and careful management of contagion as without the much needed growth in the EU zone the recession could take a longer time than first imagined.

In the U.S we do however see signs of stabilizing growth. GDP growth in 2012 is not expected to be high, but around 1.6%. We also have the presidential elections to look forward to and this is normally good for the equity market. However, we believe political clarity is needed in the U.S in general, during 2011 we have seen many embarrassing attempts by the U.S parties to come together over fiscal policies. Hopefully soon the voter can have more impact on the future. We still have not seen any solutions for the U.S debt situation and they need to be addressed rapidly. In regards to the emerging markets we still have a good feeling and we do believe the growth will continue. We have seen signs that the measures put in place to take down the rapid growth of China have been successful. We now expect some of these measures to be lifted, so growth will stabilize at a level of around 7% GDP. In general we see good opportunities in the emerging markets, in our minds equity is still favorable, but of course can be impacted by the EU debt crisis if not contained.

*“taking home profit
on “Intel” and
“Vodafone”*

Strategy

In Q4 we decided to reduce some of our equity exposure. We did this by taking home profit on “Intel” and “Vodafone”. As in many of our other sells in 2011, this was done to secure a good profit, but also because we wanted to reduce our equity allocation based on our risk parameters for market volatility.



Both stocks have done very well over the 3 months even though the market had been tough with “Intel” lately issuing a profit warning for Q4. The performance without dividend was 18.5% on Intel and 12% on “Vodafone”. It is now the second time we have made a good return on “Vodafone” and we will monitor both stocks and re-buy if conditions and price return to the levels we find attractive.

We have also reduced our exposure to corporate bonds, namely “ING Bank” in The Nederland’s which we had doubts in regards to the uncertainty and trouble of European Banks in general. We therefore decided to sell the position with a loss of 5% after “ING” offered to buy back at a level 72. Revenues for this transaction have been placed on the cash account. We do however expect to have these funds reinvested in the beginning of the New Year.



ON CURRENCY

The CHF has, since SNB introduced the floor against the Euro at 1.20, traded from 1.22 to 1.25. Rumors in the market had set the investor expectation for yet another move up to 1.25. This was not done at the SNB meeting in December. It is our opinion that a strong CHF is still going to have a huge problem for the Swiss economy in the future. We therefore expect that SNB move the floor to at least 1.25 but we would not be surprised if we see it move up to 1.30 during 2012. Our 12 month price target would therefore be 1.30 EURCHF.



We have also in seen in Q4 big moves in the EURUSD cross. At the time of writing this EURUSD is trading at around the 1.30 mark, which means we have to go back to the beginning of the 2011 to see these levels. With all the uncertainty in Europe we will not be surprised if we could see EURUSD trading down to 1.20. This will happen, in our opinion, if no real long term solution for the European debt crisis is found and if the politicians in the U.S cannot find some sort of compromises in regards to their fiscal policies. If these two issues are not addressed we believe that we will see a much stronger USD, as we have stated many times, that the USD is still the only safe haven currency in the world today.

ON STOCKS

We have again in the last quarter of 2011 re-bought ThyssenKrupp at €21.8. We very much like the recovering case in ThyssenKrupp, also that growth in the Steel sector is reaching higher levels than the market is expecting right now. We have once again set a price target at €30.00.

As we head into 2012, we must also admit that all has not gone well. We have three positions right now which are to blame for 80% of the return of the portfolio. Wind turbine producer "Vestas", "Renewable Energy" and an ETF US t-bond 20 years yield. For both stocks, both in the alternative energy sector, the market momentum has not been favorable. Orders have not come through and the companies own expectations have been too high in our opinion. With falling margins and profit





ON STOCKS CONTINUED

warnings, downgrades have therefore been issued, taking down the stocks by 50% to 75%. This is of course not satisfactory at all. For 2012 we see a big issue and that is the end the US PTC tax agreement. Without this we will see further loss of orders coming to the alternative energy area in the future.



However, we cannot help believing that the alternative energy sector is going to be the coming years popular trend. Politicians all over the world are setting new and higher targets for alternative energy. We also often hear that the alternative energy sector cannot survive without government support, this is very true as this is still a young sector. According to the International Energy Agency support for alternative energy was in 2011, \$66 billion. For fossils this amount was \$406 billion. With oil trading over \$100 per barrel, wind and solar are now becoming cheaper energy sources. Both stocks are trading well below price to book and if calculated the price to sales key figures we see this figures coming out well below 0.75 which means in our opinion value.

ON BONDS

We have also in Q4 seen a flight to safety, meaning more assets flooding into U.S and German bonds. We did however also witness in December after the EU summit that some of the bond auctions in Spain had taken the yield down from 5.23% to 4.04%.

Unfortunately we have not yet found a level on the Italian bonds, we therefore still see fluctuations with high levels of up to 6% to 7%. 7% is a crucial figure, as this was the level

where we witnessed Portugal and Ireland giving up and seeking help with the EU rescue programs.

It is also important to note that Italy is the third largest European country and one of the world's biggest bond issuer. It will take more than the current EU rescue package to support Italy if it starts to sink into the Adriatic. We do however expect with the new technocrat government that the cuts needed to bring Italy back on track will be implemented, but probably not without a lot of noise from the Italian people.



Interesting enough, we also witnessed some problems in the last tranche of German bond sales. This shows us, yet again, the pressure of finding a solution in the EU, and the growing risk of Germany not performing well in the future.

Our view in regards to U.S yield to start moving up soon, has here in the short term been wrong, with the FED now promising a low yield into 2013 and the GDP growth still not impressive. However, we see patience being the prudent option here, as it is only a matter of time before these positions are performing well.

“It will take more than the current EU rescue package to support Italy if it starts to sink into the Adriatic ”



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AlphaCapita Launches new services

AlphaCapita SA has been working hard to expand its broader advisory capabilities and provide a broader platform for its "trusted advisor" positioning with clients and we are pleased to announce that Simon Evans an English barrister with over twenty five years experience in the offshore world has joined the team.

AlphaCapita SA can now advise clients on the optimal holding structure for existing and new acquisitions across all asset classes and geographies. The structures can be engineered to ensure tax efficient; confidential and controlled transfer of assets across multi-generations of a family.

The age old adage of "rags to rags in three generation" is one that still holds

true today and the inability to preserve wealth is generally not associated with bad investments or taxes although both these factors can play a significant role in wealth dissipation; but more to do with poor governance and poor asset protection.

The risks to wealth take many forms and the most successful families seek to identify, manage, price and plan against these risks by ensuring that asset protection is foremost in their thinking.

The judicious selection of legal vehicles and jurisdiction as well as an advisor who is well versed in cross border generational planning is as important today as it ever was. SA's newly enhanced capabilities to work

with our clients to achieve the optimal asset holding and transfer strategy now compliments our asset management capabilities in a way that can provide a one stop service that includes not only, advice on how to design the architecture of a strategy, but also its execution and ongoing management through its own trustee and corporate management service.

Providing the legal framework that accommodates all client assets also facilitates a consolidated reporting and management structure that is the key to transparency, cost management and risk sensitive performance attribution without which investors cannot hope to navigate the investment landscape effectively.

ON SIMON

Simon Evans - After qualifying as a barrister, Simon joined the HSBC group and worked as a banker on their international division for six years in Hamburg, Qatar, Bahrain, Egypt, India and Hong Kong. In 1989 he focussed on private client tax and trust work with Citigroup where he was general manager of their trust company in Zurich.

In 1991 Simon returned to Hong Kong when he joined JP Morgan as head of Asian wealth advisory where he remained until he joined Goldman Sachs London to establish their global wealth advisory practice. He was then asked back to JP Morgan London where Simon was head of wealth advisory for Asia, the Middle East and UK onshore. During this

time developed and expanded the bank's capabilities by advising families in the field of family office establishment and administration. Simon left JP Morgan to found Nean Wealth Advisors in 2002.

Nean Wealth Advisors is a boutique multi-family office that provides a range of wealth preservation and governance solutions to families from Asia, the Indian sub-continent and the Middle East who face generational, tax and wealth transfer challenges across geographies and all asset classes

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