REYL
WEALTH MANAGEMENT

MARKET INSIGHT

FEBRUARY 2011

WEALTH MANAGEMENT

Market analysis

Global economic conditions

Invest in the emerging world: a strategic rather than a tactical choice

After a difficult year for emerging country equities in 2011, the first weeks of 2012 brought a change of climate. Fund flows and manager surveys point to fresh interest, which some are qualifying as excessive. Is it time for profit-taking? This first begs the following question: should one adjust exposure to emerging countries as part of a tactical approach, or favour the strategic argument that any fall brings an opportunity to boost the weighting of emerging assets in a diversified allocation?

Where currencies are concerned, a loss of confidence against the main currecies (USD, EUR) is inevitable, and changes in the balance of economic power suggest a durable revaluation of emerging currencies, Asian in particular.

As regards bonds, solid public finances, reduced constraint in current accounts and the financing requirements of local companies are all underpinning public and private emerging country debt. The wave of interest in this asset class over the last 18 months nevertheless warrants greater selectivity, without tarnishing the appeal of a portfolio of emerging country corporate debt with a medium-term allocation.

Emerging equity valuations are attractive after the 2011 correction.

Is this an opportunity to increase exposure? We do think so because the weight of these countries in the global economy is set to increase. In this regard, the growing likelihood of a soft landing for the Chinese economy is reassuring. The more expansive monetary policies being implemented in many emerging countries are also a positive factor over the next 18 months. Lastly, we cannot ignore the fact that deplorable public finances in Europe and the US will weigh durably on growth potential in the G7.

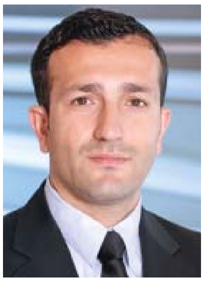
> « Is it time for profit-taking ? »
>
> **François Savary,** Chief Investment Officer, Reyl & Cie

While we should bear in mind the volatile nature of investing in emerging equities, a strategy of boosting their weight within overall exposure to the stock markets nevertheless seems like a good idea over the long term. In fact, the risk/return makes it worthwhile given the more limited upside on equities of developed countries over the coming 12 months. For investors warier of risk, an investment favouring a long/short strategy may be an interesting substitute. Generally speaking, beefing up positions in emerging assets is still a valid approach for investors with a three to five-year investment horizon. It's not time for profit-taking.

REYL
WEALTH MANAGEMENT

Focus

“ Resurgence Fund ”



Hasan Aslan
Co-manager of the Reyl Resurgence fund & co-head of alternative funds investment research, selection and advisory at REYL & CIE.

Nicolas Roth
Co-manager of the Reyl Resurgence fund & co-head of alternative funds investment research, selection and advisory at REYL & CIE.

What are the specifities of the Reyl Resurgence fund?
Reyl Resurgence is a diversified fund of hedge funds that has the advantage of being an opportunistic and thematic product. The focus is placed on finding «best of breed» managers with exceptional pedigree, and strong risk management skills.

Why investing in the Reyl Resurgence Fund now?
Reyl Resurgence will protect capital in difficult times and deliver positive performance over the long-term. The selected managers operate in the most liquid markets and have the ability to produce uncorrelated returns with limited downside risk. Due to a tactical trial and a strategic allocation, we are not afraid of recycling managers displaying unexpected behavior.

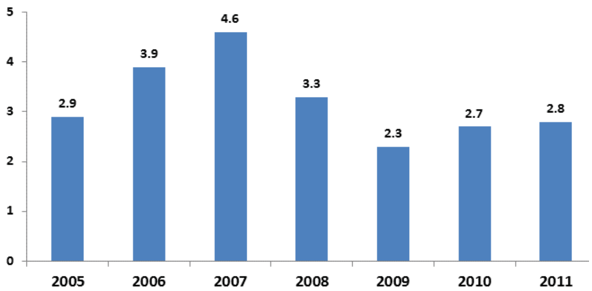
What are the main themes in 2012?
We are positive on event driven strategies, more specifically on merger arbitrage. Numerous companies around the world have cash rich balance sheets while some of their competitors are struggling to survive. We tend to favor managers that add a trading component to their strategy. We also closely track the European distressed situation which should provide ample opportunities in the future. We are selectively positive on global macro managers making extensive use of derivatives to implement their views. Finally the systematic non-trend and very short-term trend followers should take advantage of markets suffering sharp intra-month reversals.

IN A NUTSHELL

Merger arbitrage strategy

Merger arbitrage is the process of profiting from the spread between the spot price of the target company and the price at which the deal will be closing. During the life of the deal, the spot price will converge to the acquisition price.
The size of the spread reflects the risks of the deal not closing (due to potential anti-trust issues, counter offers, etc). A hedge fund active in this strategy must evaluate the risks of the deal not closing as well as the attractive-ness of the spread conditional to the expected time until closing.

Announced Global M&A Volume (in $tn)



Source : BarCap Research, Dealogic, Factset

Despite smaller deal volumes than pre-2008 levels, we are convinced that merger arbitrage will be a profitable strategy in 2012. However, we will be cautious and invest with managers that also have the ability to operate in mid and small caps deals.

WEALTH MANAGEMENT

INVESTMENT TEAM

François Savary - Chief Investment Officer

Cédric Özazman - European Equities & Advisory
coz@reyl.com Tel. : +41 22 816 81 64

Daniel Steck - North American Equities

Luc Filip - Funds Selection

Nicolas Roth - Advisory Hedge Funds

Hasan Aslan - Advisory Hedge Funds

Kinan Khadam-Al-Jame - Structured Products

Daniel Racine - Discretionary Management

Sales Bischofberger - Senior Relationship Manager, REYL Zurich

Daryl Liew - Head of Portfolio Management, REYL Singapore

Inglina Juvalta - Management Assistant
iju@reyl.com Tel. : +41 22 816 81 44

www.reyl.com

IMPORTANT INFORMATION