KRAEMER, SCHWAB & CO. AG

Investment Management

Investment Philosophy

Kraemer, Schwab & Co. AG, Lauriedstrasse 7, CH-6304 Zug
Telephone +41 41 726 50 50, Fax +41 41 726 50 49
info@kraemerschwab.com www.kraemerschwab.com

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Our Investment Approach
Investment Objective

Long Term Absolute Capital Appreciation (3-5 years)

through:

- Global equity investments within our circle of competence
- Debt investments, mostly government, high yield when attractive
- **Flexible allocation to cash when equity and debt do not meet our criteria**

Our Investment Approach
Investment Style

"In the long run, the market is a weighing machine - in the short run, a voting machine"

B. Graham

- At times Mr Market behaves like a maniac depressive or is excessively euphoric: we try to be contrarians
- Sooner or later, fundamentals act like gravity on prices
- We can achieve our investment objective only if:
  - **Performance is measured on a long term basis (3-5 years)**
  - **Investment guidelines are flexible**

➔ **We need investors that are long term partners, aligned with our investment objective**

Our Investment Approach
Investment Style

- Value oriented: we require a margin of safety (avoid losses, invest defensively)
- Low portfolio turnover
- Bottom up
- We do **not** try to predict market movements over 6-12 months
- We are **not momentum** players
- Bonds provide steady income and liquidity reserves to use when corrections occur

➔ **We are not renters of stocks, but owners of businesses we understand and that we can value**

Our Investment Approach
Key Benefits

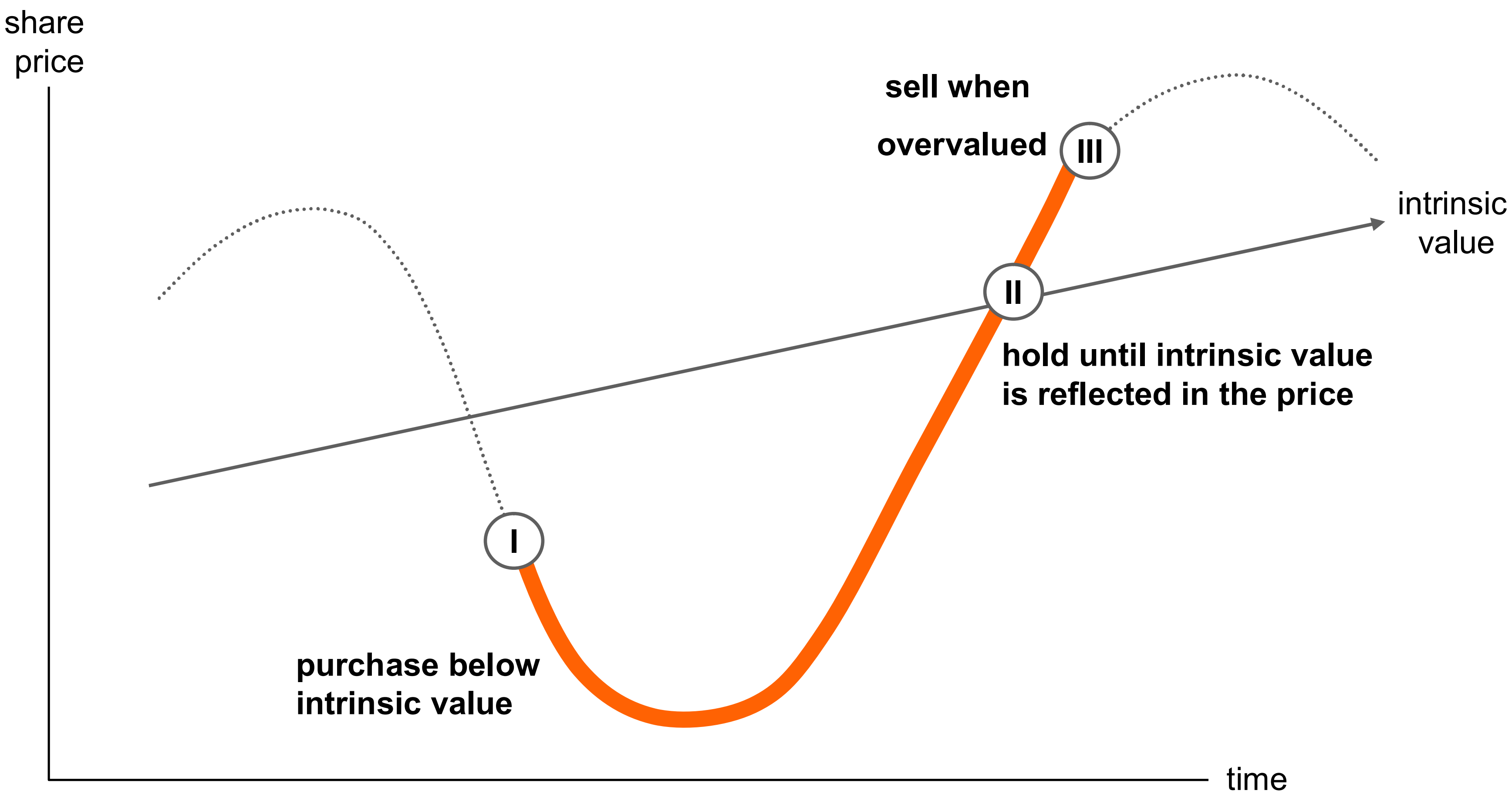
- Reduced risk of permanent losses (we typically buy good companies when out of favour, hence at reasonable prices)
- Decreased transaction costs as turnover is low
- Stable Long Term Performance

Our Investment Approach
What Is Risk For A Long Term Investor?

- **Risk:** Possibility to have a permanent loss of principal
- We try to avoid investing in poor businesses or in quality businesses at excessive prices
- **Short term volatility** is:
  - An **opportunity** to invest in quality businesses below their value

➔ **Our Priority is not to loose money and to earn a decent return over time**

Our Investment Approach
Volatility Provides Buying Opportunities



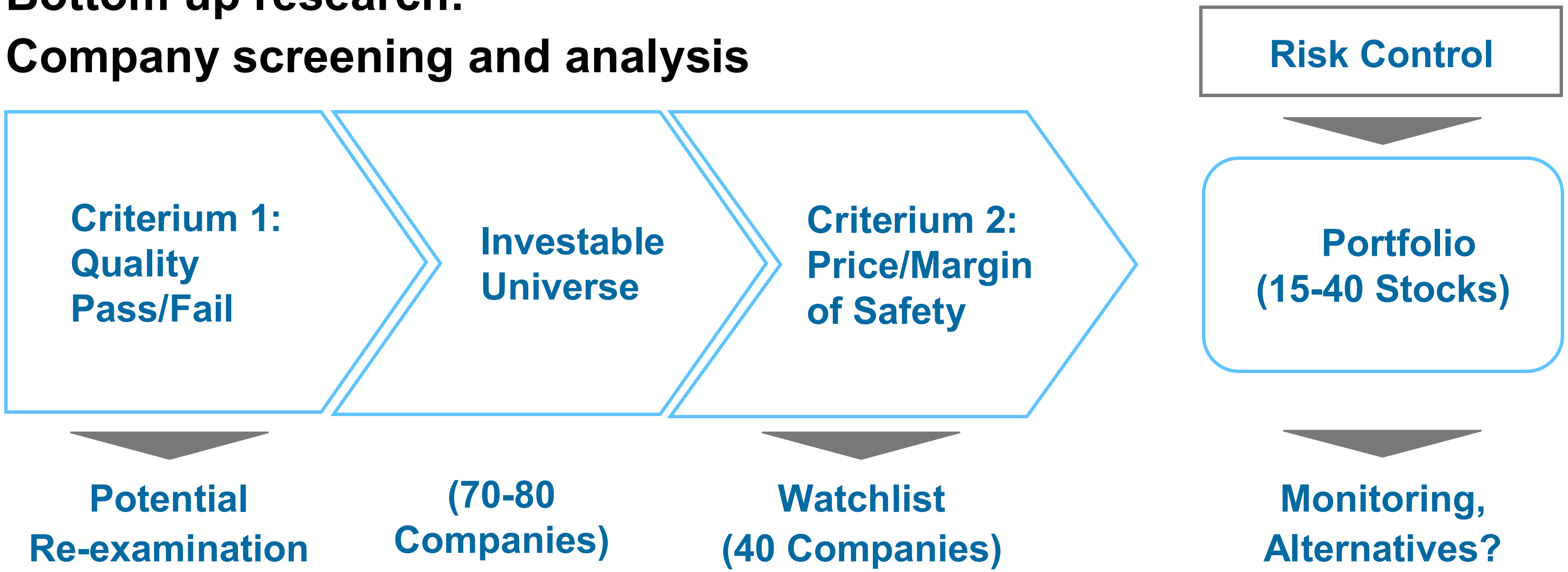
Investment Environement
Shortcomings Of Limited Investment Flexibility

Key Features	Undesired Effects
Rigid Asset Allocation	• Money not always employed in the best reward-risk propositions
Low tolerance for deviation from benchmark	• How to outperform a benchmark with a portfolio virtually identical? • Massive diversification may replace investment analysis
Short term measurement of performance	• Group behavior is encouraged: **Failing with the herd is the safest route!** • Active management is penalized: Reputation issues, client defection and frictions within the organisation

Investment Process
Investment Criteria

- The quality of the business is the first condition to be met
- Assessment of the price vs value ratio is key to proceed to an investment
- Discipline and patience are essential: The market will present opportunities

Bottom up research:
Company screening and analysis



Investment Process
Company Selection Criteria

Competitive Advantage

- Customers switching costs (banks)
- Cost leadership/scale economies (retailers)
- Intangibles (brands, patents: consumer goods, healthcare)
- Network externatilities (trading platforms, Microsoft)
- Consequence: ability to weather storms, more predictable returns

Balance Sheet & Cash Flow

- Strong cash flow generation
- Above average return on capital
- Track record of profitability

Management

- Transparency
- Commitment to shareholders (e.g. buy backs at low prices)
- Focus
- Avoid unprofitable growth at any cost

+ Margin of safety in price versus value

Equity investments for the long term

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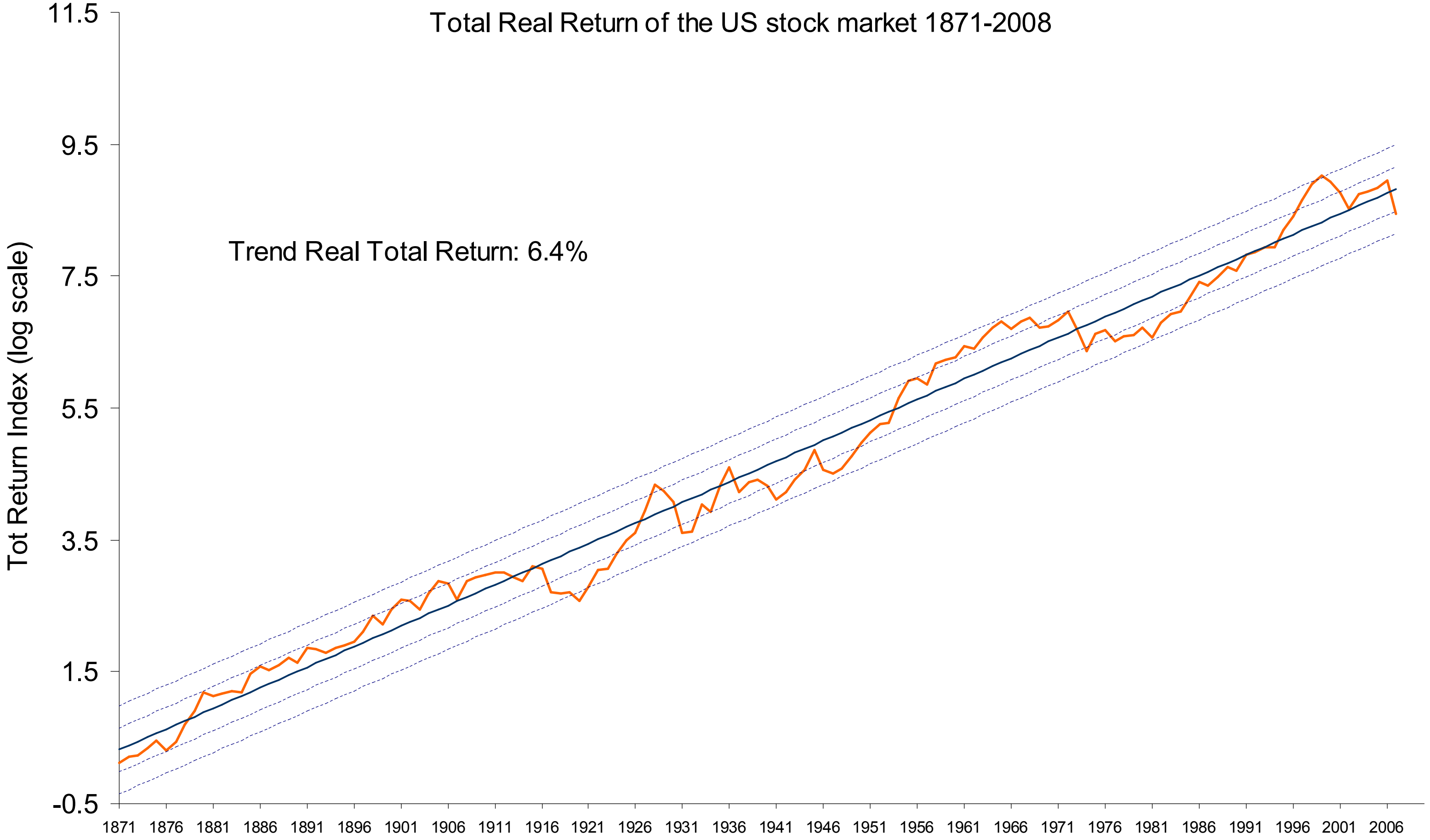
Rationale Of The Investment Opportunity
History of the US Stock Market

The most efficient stock market in the world has a successful history of long term returns



Source: Standard and Poor's, R. Shiller, January 2009 (Latest S&P level 870)

Rationale Of The Investment Opportunity
The Importance of Dividends

The bull market of the last 20 years was driven by P/E expansion and dividends, not by earnings growth

Period	Total Real Return	Dividends	Earnings Growth	P/E Change
1871-2003	6.9%	4.8%	1.6%	0.5%
1982-2003	10.1%	3.1%	2.2%*	4.8%!

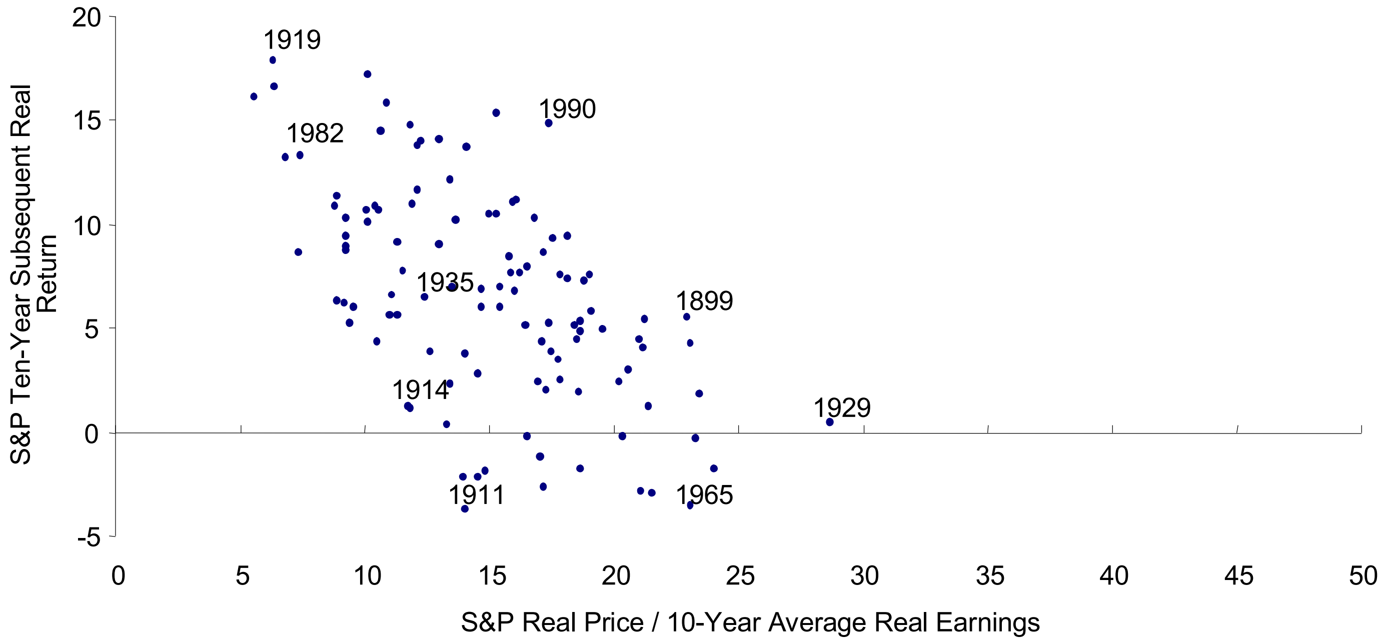
* Part of this growth is, in fact, dividend yield in the form of share buy back

Source: Standard and Poor's, R. Shiller, Bernstein, J. Siegel

Rationale Of The Investment Opportunity
Buy And Hold Indexes Not Always A Win

...attention to valuation level when investing has a significant impact on subsequent returns for many years

Price Earnings Ratio Predicting Subsequent Ten-Year Real Returns
Annual January Data, 1881-1990 (1891-2000 returns)



Source: Standard and Poor's, R. Shiller, September 2004

Conclusion

Long term performance measurement and flexible equity exposure

We can deploy capital where and when we see value

High quality businesses and margin of safety

Reduced risk of loss of principal and of no returns over the long term

Low portfolio turnover

Decreased transaction costs and increased returns

Appendix
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