ALPINE ATLANTIC
GLOBAL ASSET MANAGEMENT AG

ECHO FROM THE ALPS | 2/2014

MAY 2014 INVESTMENT UPDATE & OUTLOOK

By Daniel Zurbrügg, CFA, Alpine Atlantic Global Asset Management AG

CREATING VALUE IN A WORLD OF NEW NORMALS

Dear Readers,

In our last investment update (January 2014) we wrote about the „New Normal" in global economics and its implications for investments in the future. The „New Normal" as we describe it, is the current status of economics, politics and socio-economic developments that can be found in many areas in the world. The situation is characterised by a number of factors that will make it harder and harder to achieve faster economic growth as seen in the past; especially before the banking crisis.

More than five years have passed since the global banking crisis hit and despite massive stimulus by central banks around the world; global GDP growth is still disappointingly low. While we are currently seeing some signals that the situation is improving, a sharp rebound in global economic activity can't be expected. We anticipate a rather slow and uneven recovery. While the massive liquidity injection from central banks during the banking crisis did prevent a collapse of the global banking system, it is a concern to see that the economy has still not recovered enough.
While liquidity injections and „easy money" can help to manage a temporary crisis, it is not a suitable method for stimulating an economy in the long run. There are other factors that are more critical to long run economic success. Those need to be understood and monetary and fiscal policies need to take all of these factors into consideration. An excellent example is the current situation in the United States with the Federal Reserve trying to end its easy money policy and having started to wind down its quantitative easing program. After the Federal Reserve announced these plans last year, financial markets were preparing for higher interest rates and for a few months, interest rates did indeed go up; U.S. 10 year Treasury Bond yields moved from a level of 1.85% to around 3.00% within a couple of months. But in recent weeks, we have witnessed a renewed decrease in yields and currently the 10-year yield in the U.S. is back around 2.65% .

The increase from 1.85% to the current level of 2.65% looks impressive, however, it needs to be understood that this yield level is still extremely low by historical standards and the economy has still not recovered enough to move the job market back to full employment. Federal Reserve Chair Janet Yellen recently talked about this and noted that the current economic recovery still feels like a recession to many people. In our view there is something much bigger going on here, much bigger than just a temporary weakness in the economy.

The much bigger story in our opinion is structural imbalances, changes and trends that have nothing to do with the current price of money and the level of interest rates. Most developed nations face the exact same problems. Let me list a few of the problematic trends that are at work here. Clearly, one of the biggest problems is a structural issue that is facing most developed nations and that is the aging of populations in these countries. The baby boomers have started to retire and every year a huge number of people are dropping out of the work force. While they all can hopefully enjoy a well- deserved retirement, the economic consequence is typically a loss of productivity and spending (lower consumption and investing). This is troubling enough short-term, however, the long-term situation looks even worse. Every year fewer and fewer actively working people have to support more and more older

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and retired people. This includes coming up with the tax money to support government activities that were previously funded by many more gainfully employed tax payers. Another problem is the fact that we are over regulating many areas of the economy today. This is a direct reaction to some of the economic problems of the past but also often an overreaction. Unfortunately, it seems that we are moving from no regulation at all to over regulation in many areas. What needs to be understood is that more regulation comes at the expense of higher costs and lower productivity. To put it differently, things simply become too difficult and complicated to make economic sense. These challenges, together with a few other, lesser factors, combine to reduce animal spirits among individuals, which in turns makes people less productive and less willing to spend and invest. This reduces economic activity no matter how low interest rates are. People are only spending money for consumption if they feel optimistic about the future, people are only investing money if they see a good chance for a positive return and people are only productive if they have the right incentive to work and earn money.

Understanding these structural problems is essential in order to see what investment opportunities are created as a direct consequence of such developments. It is critical to consider these factors today when defining an investment strategy that is supposed to preserve and grow capital in the future. Simple benchmarking isn't going to work anymore. What is needed is an independent and critical analysis of things as they are now to understand where the opportunities will be in the future. From an investment point of view, this methodology offers enormous potential for future profits.

We strongly believe that our Global Macro investment strategy is going to be hugely successful in an environment of "New Normals". Despite a good year for U.S. markets last year, people need to be careful not to become a victim of the normalcy bias, just because markets were positive last year and the U.S. Dollar was up, doesn't mean that this will continue. In today's environment, just managing investments is not going to be enough. It is about managing and protecting assets against various risks and this needs to be done from a domestic and international point of view. We certainly continue to recommend a strong global diversification. Diversifying investments globally, understanding structural changes and identifying the value drivers created thereof is the main focus of our work every day.

We would like to thank you for your interest in our latest investment update and wish all our readers a beautiful summer.

With the very best regards from Switzerland,

Daniel Zurbrügg

MARKET UPDATE

PRICES AS PER MAY 16TH, 2014

Global Equity Indices	Last Close	YTD%
Swiss Market Index	8656	3.6
Swiss Performance Index	8505	6.6
Eurostoxx 50	3023	3.1
German DAX Index	9618	0.9
FTSE 100.28	6844	1.8
CAC40 Paris	4456	4.5
Standard & Poors 500	1876	2.1
Dow Jones Industrials	16‘446	-0.1
Nasdaq 100	3554	-0.4
Nikkei	14‘096	-11.2
Topix	1178	-9.1
Hang Seng	22‘712	-0.3
All Ordinaries	5425	1.8

Government Bond Yields 10Y	Last Close	YTD%
USA	2.65	-11.4
EUROPE	1.26	-34.0
U.K.	2.60	-12.5
SWITZERLAND	0.71	-40.3
JAPAN	0.58	-17.1

Libor 3 Months	Last Close	YTD%
USA	0.14	225.6
EUROPE	0.21	-19.2
U.K.	0.52	0.0
SWITZERLAND	0.01	-50.0
JAPAN	0.15	3.6

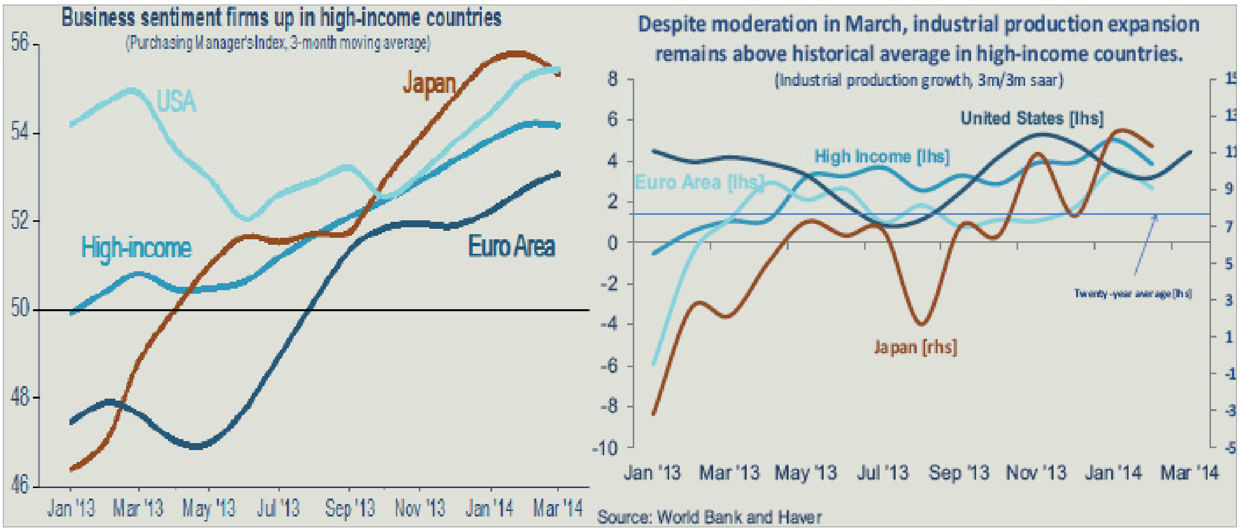
Exchange Rates	Last Price	YTD%
US Dollar / Swiss Franc	0.8910	-1.8
Euro / US Dollar	1.3640	0.2
US Dollar / Japanese Yen	101.5200	-6.0
Euro / Swiss Franc	1.2210	-1.4
Pound Sterling / Swiss Franc	1.6890	12.9

Commodities	Last Price	YTD%
Crude Oil	102.03	9.2
Gold	1290	5.0

Alternative Investments	Last Price	YTD%
Dow Jones Hedge Index	535.8	1.9
Goldman Sachs Commodities	691.0	12.7
LPX Private Equity	1407.9	-2.8

GLOBAL MACROECONOMICS UPDATE

The world economy continues to slowly recover and we expect this to continue for the rest of the year and to improve further next year. However, it needs to be understood that the current recovery will not move us back to the growth levels we were used to in the past. The pace of the recovery will be slow and uneven and it will not be strong enough to move the job market towards full employment, even worse, for the time being household income will be flat and th erefore growth in consumption will remain below the levels of previous recoveries.

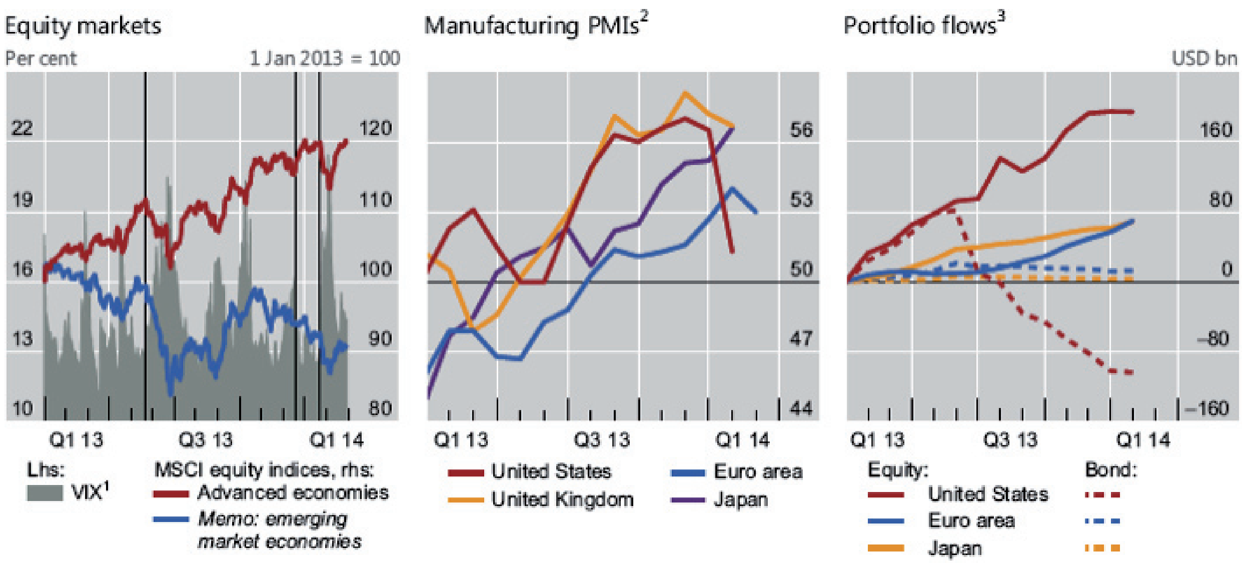


Global economy is slowly recovering as recent economic data suggests

Developed markets have seen enormous amounts of stimulus from central banks in the last couple of years and while this was a much needed support during the global financial crisis, it is not going to be enough to drive the economy beyond the point of stabilization. Developed countries are all experiencing structural headwinds which are deflationary, this influence will be with us for at least the next 15-20 years and therefore we do not expect the global economy to move back to the growth levels seen historically. The current situation has similarities to the situation of Japan, which has been experiencing deflationary headwinds for more than 25 years and despite the huge quantitative easing program launched in 2013, the Japanese economy has so far failed to show signs of a sustainable pick up.

While emerging markets are now responsible for about 80% of global GDP growth, developed nations can't depend on emerging markets to act as the lone growth locomotive in coming years. Emerging markets certainly continue to have very promising fundamentals, but pretty much all of these nations are also facing some degree of imbalance that needs to be corrected somehow in the coming years. While we expect emerging markets to continue to outperform developed markets in terms of growth in coming years, the pace of growth will most likely be slower than in recent years. This creates new problems for some of those markets since they require a certain amount of minimum growth to create enough jobs for their increasing labour force.

So where do we stand today and where are the global economy and financial markets heading in the next couple of years? While we are seeing enough evidence that the global economy is normalizing, in the short-run there are a couple of challenging factors. The biggest concern currently is the developing Ukraine/Russia crisis. These socio-political tensions have failed to have a strong impact on financial markets thus far and the popular believe seems to be that this situation will not escalate further and we tend to agree with this. From an economical perspective, Russia's strategy is not sound. While the attempt to regain influence in the former Soviet republics is very popular among a relatively large part of Russia's population, the recent move is changing the relationship between Russia and many other countries, it is destroying a lot of goodwill that was build up in the last twenty years. Russia is already paying a very high price and the recent sanctions, the selloff in Russian equities and the downgrade of Russian government debt are just the start. Eventually foreign direct investments into Russia will also suffer and the damage to Russia's economy is enormous. Russia is also isolating itself from the rest of the developed world and it looks like they have even lost the support of China. The most likely scenario is that the situation in the Ukraine will remain unstable for months, maybe years but a Russian invasion in the Ukraine would completely isolate Russia and throw it back for many years. So we think the potential of this to escalate further is limited in our view.



Improving outlook continues to support equity markets

The impact on the global economy and on financial markets would most likely be small, maybe aside from some increased volatility. The global economy is still set to recover somewhat from last year and we currently expect global GDP to be around 3.8% for 2014. Therefore the outlook for the remainder of the year is not bad at all as the global economy continues to recover. It is a slow recovery but certainly trending in the right direction. That is going to be the case for most major economies including the U.S. and Europe, also emerging markets should see a further improvement. There are currently concerns about the slowdown in China and the recent economic data shows that the Chinese economy is only growing around 7 percent, which is about the slowest pace in almost a decade. With China's growing importance and significant contribution to global GDP, this is certainly going to be one of the most important factors in coming months. While we remain concerned about the softening in China's economy, we are very realistic about future growth and the trend, which is in our view a trend which points to even lower growth in coming years. Over the next couple of years, China's growth will likely decrease to below 5 percent, simply because it will get harder and harder to grow the absolute size of the economy. The base effect will almost automatically produce lower GDP growth numbers but its relative importance for the world economy will greatly increase in the coming years. China has communicated its official strategy on a number of occasions and their main goal is to steer the economy in the direction of sustainable and higher quality growth. Short-term this will mean that any significant slowdown will be countered by government investments and other measures of stimulus but in the long run lower growth rates will become the reality.

So while the current global recovery is set to continue, it will move at a slow pace despite very low interest rates almost everywhere and government directed stimulus programs. The recovery will gather steam but it is in our view unlikely to see growth rates that were considered normal just a few years ago. Emerging markets are becoming more important but they will not be able to fully offset the chronically slow recovery in the western world where many economies are about to fight deflationary tendencies being created from structural changes such as the aging population.

INVESTMENT PERFORMANCE AND FINANCIAL MARKET UPDATE

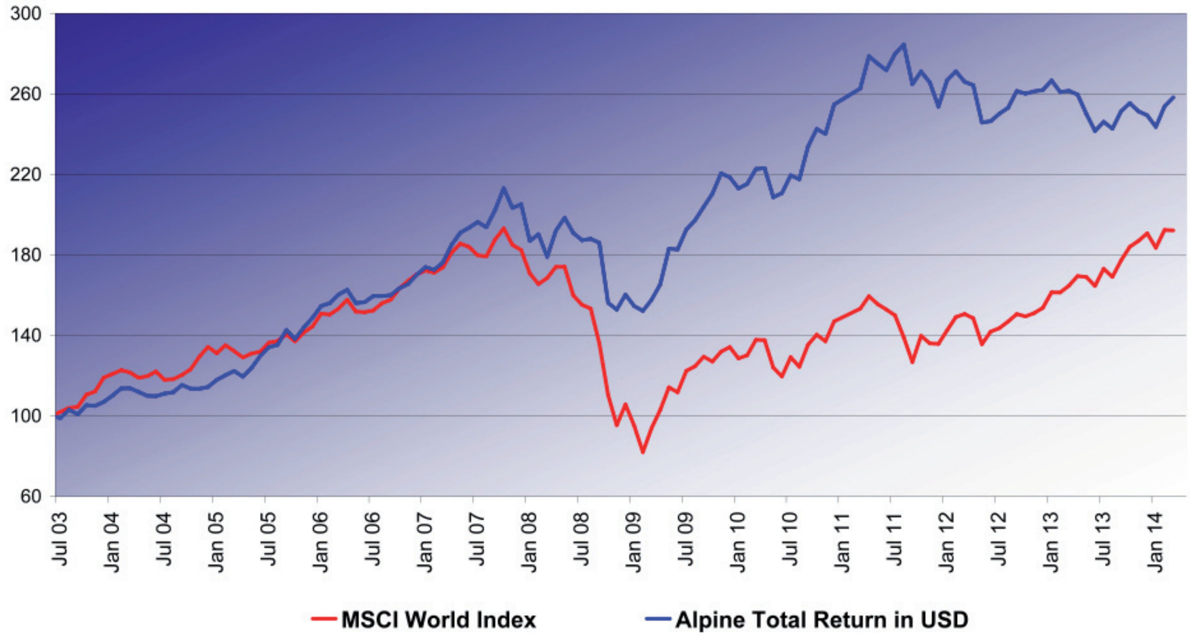
In the first four and a half months of this year, our Global Macro strategy had its best start in years and is up around 5% so far, therefore reversing the negative performance from last year. For the last two and a half years, our main priority was to preserve capital and steer our clients' portfolios through very difficult markets. While we always wish for positive results, sometimes we have to play defence and we think we were successful at preserving value and setting the stage for a renewed uptrend in performance going forward.

With the world economy expected to further recover in the coming years, we expect our strategy to get some additional momentum because international capital flows are set to increase again and that should help international investments.

The first four months of this year saw some very interesting developments. Despite a small emerging market correction at the end of January and the problems surrounding the Ukraine/Crimea story, market volatility remained very low and equity markets continue to outperform. This came as a surprise to many that had expected markets to correct sharply in view of the geopolitical tensions in the Ukraine but these events so far had almost no impact. This is remarkable. Also, for the first time in a long time, the U.S. Dollar was not able to benefit from such events. Typically considered the safe haven currency no. 1, it not only failed to move up, rather, over the last few weeks the U.S. Dollar has lost ground against every major currency. This has not become a story that is talked about a lot, but we want to stress how significant this could be. We are unsure what the implications of this are and what it means for the coming months but it makes it even harder for us to be bullish on the U.S. Dollar.

A common argument to explain this development is to highlight the link between the U.S. Dollar and interest rates. At first glance this makes sense because after a sharp increase last year, U.S. Dollar yields have fallen in the last couple of weeks. In our view, the story is a bit more complex than that. Why are yields in the U.S. falling after all the talk lately about the Federal Reserve winding down its QE bond buying program and many people projecting a faster recovery of the U.S. economy, which seems to be under way with the unemployment rate now back down to around 6.5% (from a level of 10% at the peak of the recession). Something does not make sense here.

Alpine Global Macro Model Portfolio Return in U.S. Dollar



We believe that the recovery is much slower than many want it to be. Also in our view, it doesn't really matter what the Fed does with regards to ending the QE program as that action is already priced in by markets. The chair of the Federal Reserve, Janet Yellen, recently said that the current recovery still feels like a recession to many people. How true this is and one just needs to look a little closer at unemployment numbers and information that can be found "between the lines". The truth is that the economy is creating jobs but most of them are typically low quality jobs with low pay, so low that many need a second job just to make ends meet. Businesses and entrepreneurs face a lot of uncertainty and increased regulation and taxation make it even worse.

The western world is dealing with a lack of "animal spirits" which is even worse now as many developed countries face structural headwinds such as an aging population. A lot of people don't feel optimistic about the future and increasing regulatory burdens are making things even worse. People have neither the right incentives nor the right mental state to be more economically productive. At the end of the day, making an investment, creating a job or spending money on something depends largely on the inner motivation to do so. This is something that can't be fixed by low interest rates, more is needed.

We are not seeing much higher interest rates on the horizon, not in any of the developed markets. Of course it is possible that yields might move up just a little bit, but the current state of the economy is such that absolutely no one would benefit from higher yields. Quite the opposite, higher yields would make it even harder to encourage investments and spending in an already challenging environment. On top of that we now have many governments that are left with large debt, so rising yields would make it even more expensive to service that debt and eventually this would make an already challenging situation almost impossible to solve.

With higher rates not on the horizon, the implications for financial markets are that we continue to see a good climate for equities just as we had it in the last couple of months. We only see change in the sense that the U.S. equity market which initially outperformed international markets is now starting to lag and other markets are starting to outperform. We see here a lot of potential in Europe and in emerging markets. In a world of low or moderate growth and low interest rates, there is even going to be a higher premium for economic profits generated by successful, well managed companies. Our approach remains that we prefer companies that are well positioned and that continue to benefit from structural changes such as changing demographics. This means we are trying to take advantage of some of those structural changes that are typically negative for economic growth. While they might be challenging for many companies, they are also creating a couple of very lucrative opportunities. We typically search to find companies in exact those niches.

With the positive outlook for equities we feel that bonds will show a very low performance over the next couple of years. We were also a bit surprised to see long-term yields come back so much in the last couple of weeks, but unless there is some very serious event, we can't see them going much lower. Every major central bank in the world is now concerned about deflationary tendencies in the global economy and if anything, we should be prepared for more stimulus and liquidity in an attempt to avoid deflation risks.

These expected developments are probably going to be supportive for precious metals as well (please see following section for more detailed precious metals update). The opportunity cost to hold precious metals remains low and further stimulus, while helping to avoid deflation short-term, will eventually lead to devaluation of money and thus real monetary inflation. Nobody knows how far out this is from today, but before we see it, we are going to see central banks becoming a lot more focused on combating deflation, trying to avoid a Japan type deflationary spiral that could last for decades. We now have a situation globally where nobody wants a strong currency and nobody can afford significantly higher rates. The consequence is that we are creating asset inflation in an otherwise deflationary world. To sum it up, we expect the following specific market trends for the coming months:

- Global recovery to continue, slow gradual improvement towards 3.8% level;
- Positive market environment for global equities to continue, maybe lacklustre markets in the summer but after that a very high chance for major equity markets to climb towards new all time highs;
- Emerging markets to catch up and reduce performance gap to developed markets, U.S. market to be positive as well but underperform international markets;
- Volatility to remain very low for the time being because of market support by central banks;
- Precious metals to remain flat for now but in our view, good chance for a renewed uptrend in the second half of the year. After building a good support level at current prices, precious metals look much more interesting again;
- Bond markets are not really interesting, only specific and selected opportunities in certain markets and currencies;
- Energy prices to remain flat for now but improved outlook for most other commodities.

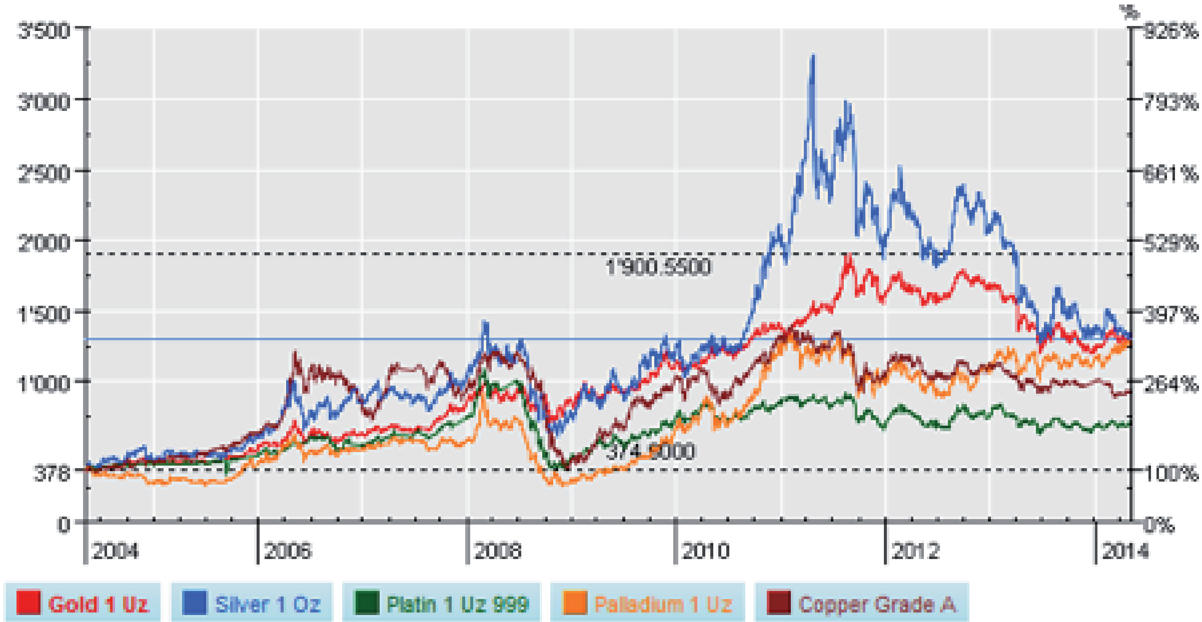
Based on the above mentioned reasons, we continue to hold our positions. This means we continue to overweight global equities, underweight bonds and keep a significant exposure in precious metals. We also continue to hold a lot of non-U.S. Dollar currency.

GOLD & PRECIOUS METALS UPDATE

Readers who have been following our newsletter for a longer time already know that we regard precious metals and other hard assets as an integral part of a well constructed investment portfolio. Precious metals have been a very important contributor to our long-term performance, however, with the correction we have seen over the last two years, their impact on our strategy performance was negative, despite some support from us hedging our exposures. The price development seen in gold and silver in the last couple of years is nothing unusual; markets always overshoot to the upside and the downside. The correction in the recent past was significant but in our view gold and silver prices could have gone even lower. The positive news is that we have been seeing stabilization in the last couple of months and the current bottom building in the price is encouraging.

factors influencing the risk premium, which is always a part of the price as well.

Let's first look at the fundamental factors and see how they have been changing in the recent past. The fact that gold had a correction from USD 1900 to USD 1150 is a clear sign there was a lot of selling pressure but in precious metals markets any price action needs to be analyzed in a more detailed manner. The selling primarily happened through liquidation of speculative positions (ETF's and futures) and the selling pressure originated mainly from North American markets. The physical market was and is a different story, especially when looking at markets like Asia. There is a very large shift taking place with phys-



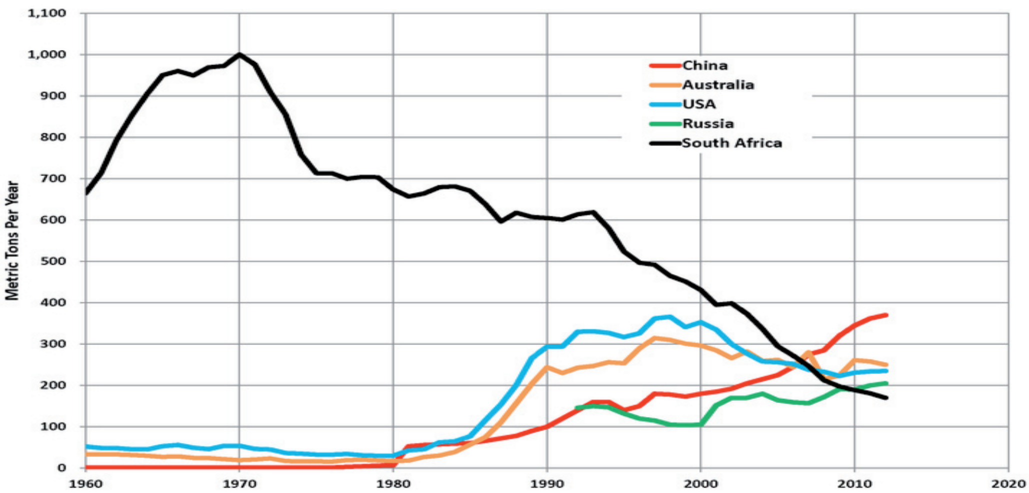
Precious metals are starting to find good support after strong correction seen in 2011/2012

Gold has been able to recover some ground but had a few pull backs as well. Now it seems that the support level is around USD 1'280 as on several occasions there was good support seen at this level and the longer this support holds the more likely it is that this is a price range from where the next move to the upside can start. So much to the technical picture but what about the fundamental developments and what about the

ical precious metals being sold from the West to buyers in the East and there is no reason that this should change anytime soon. China and India now account for almost 50% of the world's global gold demand and the trend continues. This story is by now well known in the investment community. However, what most people don't understand are the reasons why gold is so popular in these markets. It is very simple; markets like

China and India both have economies with large imbalances and thus risk. For example, the banking system in China is relatively weak and the uncertainty about bad credits on the balance sheet of those banks is very large. This also means that there is significant counterparty risk that needs to be managed. Physical gold is the perfect hedge versus this counterparty risk. Also other fundamental demand and supply factors point to further support for precious metals. On the demand side there continues to be good demand from central banks, again typically from central banks in the East and especially the emerging markets. On the supply side we do not expect a lot of change since it is becoming more difficult and more costly to mine precious metals. This is having a strong impact on companies in the mining sector and many will just not survive. The sharp increase in M&A activity in the sector likely confirms that.

price cycle because with a normalization in investment demand, continued strong demand in physical markets and an only slowly changing supply, the market forces should tend to drive precious metals higher in the future. What role do central bank policies play in all of this? Short-term this factor certainly creates some excess volatility but long-term it does not matter too much since it is hard to believe that the confidence in the world's financial system is increasing again.



Gold production remains flat in most areas, production in South Africa has collapsed

One can look at it from different angles but the fundamental situation is relatively clear. Unless there is some magic technical invention, gold mining remains expensive and the potential output is limited to some 2'500-2900 tons per year. In 2013, the world's demand for gold was at 3'756 tons, after setting a record of 4'415 tons in 2012. Global demand was down because of the disappearance of investment demand as prices were correcting, such corrections usually develop some self dynamics. It seems that the massive correction of precious metals prices is over and the market looks pretty stable right now. We regard this as the first phase in the next upward

And what about factors that are influencing the risk premium and the opportunity costs of holding precious metals. We can't see much change there either. Short-term it might be possible that a de-escalation of the tension in the Ukraine could have a slightly negative impact on prices but we believe it should be fairly limited. Medium and long-term the main factor is going to be the monetary policies from the leading central banks in the world. While we eventually might see some reduction of stimulus programs and slightly higher interest rates, we feel that such a move will be very moderate and therefore continue to be highly beneficial for precious metals.

So where will gold and silver prices be at the end of the year? We do not know but we have an idea, we feel prices will be higher than today. On a longer-term time horizon (2-3 years) we continue to be very positive for the metals and would recommend to continue to hold a good portion oft hem in an investment portfolio.

SPECIAL FOCUS: THE U.S. DOLLAR AND ITS FADING STATUS AS SAFE HAVEN CURRENCY

We continue to be cautious for the outlook of the U.S. Dollar despite a slightly improving outlook for the economy. Our opinion is based on a number of factors that in our view continue to put downward pressure on the greenback in the medium- and long-term. We continue to be overweight in currencies of structurally "healthy" (or shall we say less sick) currencies and hold only a very low exposure in the U.S. Dollar. Towards the end of last year and then going into a new year, the general market consensus has become more positive with most forecasters pointing to the improved macroeconomic numbers, the outlook for higher rates and also some improving structural factors (such as the lower dependence on foreign energy because of the domestic boom). We share some of those views, but we believe the market has so far failed to properly understand some of the ongoing changes and risk in the market.

We believe there is a bigger story developing, in fact, we believe it is probably one of the biggest stories in the making in global financial markets. The U.S. Dollar's role as the world's reserve currency is not only fading slowly but in our view changing much quicker. This is becoming more obvious now and the recent weeks provided even more evidence of this change. It is very remarkable that since the start of the tensions surrounding the Russia/Crimea/Ukraine conflict, the Dollar has not been able benefit. The greenback is supposed to be a save haven currency that does well when there is trouble in the world. Not so now, not this time, in fact the U.S. Dollar has continued to loose ground versus most major currencies.

The chart below illustrates the changing impact of global turbulence on the value of the U.S. Dollar. In the past, there was always a strong capital flow into the Dollar and the chart illustrates the movement of the Dollar during several events in the last couple of years. We believe something is changing here in the last couple of months but we haven't really figured out what it is exactly. However, we feel it is good to be cautious at the moment and wait what will happen in the coming months.

The U.S. Dollar has not been able to benefit from the recent Russia/Ukraine turmoil

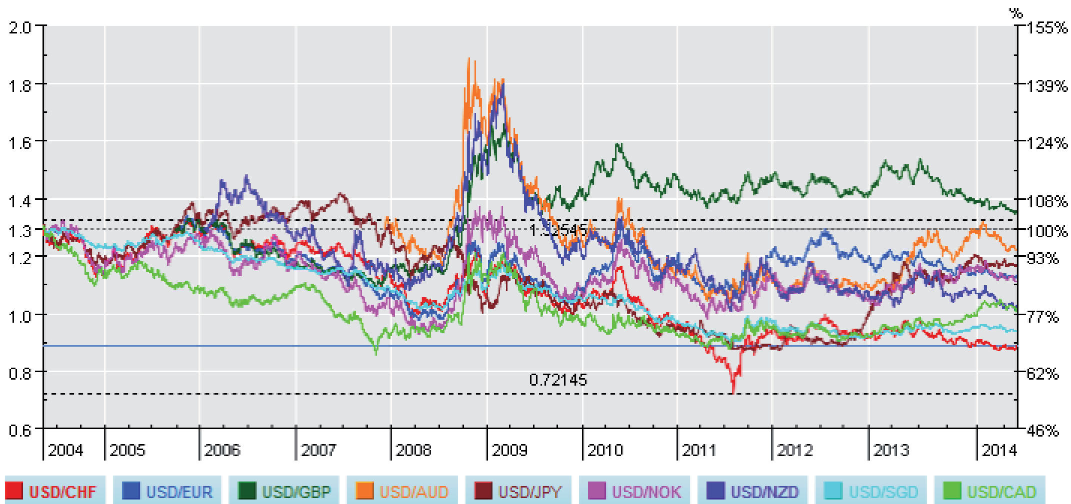
The Dollar's failure to live up to its reputation as a safe haven is further shown in the ongoing liquidation of U.S. government bonds in recent months as shown in the chart below. There was surely some selling of U.S. bonds during February when emerging markets went into a phase of

More coming?
Recently foreign investors have liquidated U.S. Treasuries

correction and several central banks of emerging countries might have sold U.S. treasuries to support their own currencies. However, the magnitude of the liquidation is way to big that this can be explained by the emerging market correction and the action taken by central banks from developing nations.

A lot of market participants tend to look at the well known Dollar Index to get an idea of how the currency market is doing, however, in our view this index fails to give a proper overview since it is mainly a reflection of the moves between the U.S. Dollar, the Euro and the Yen. In order to properly understand the global currency flows, it is essential to look at a broader range of individual currencies. This is especially important to understand the implications of powerful long-term trends and set some shorter moves (especially when against the long-term trend) in the right context. The chart below illustrates that very well, it shows the U.S. Dollar and its moves versus a basket of major currencies since in the last 10 years. With the exception of the British Pound, the U.S. Dollar lost ground against every other currency in this chart. While the losses are relatively moderate in some cases, they are very significant in most with some losses around 30 percent (such as Singapore Dollar and Swiss Francs.

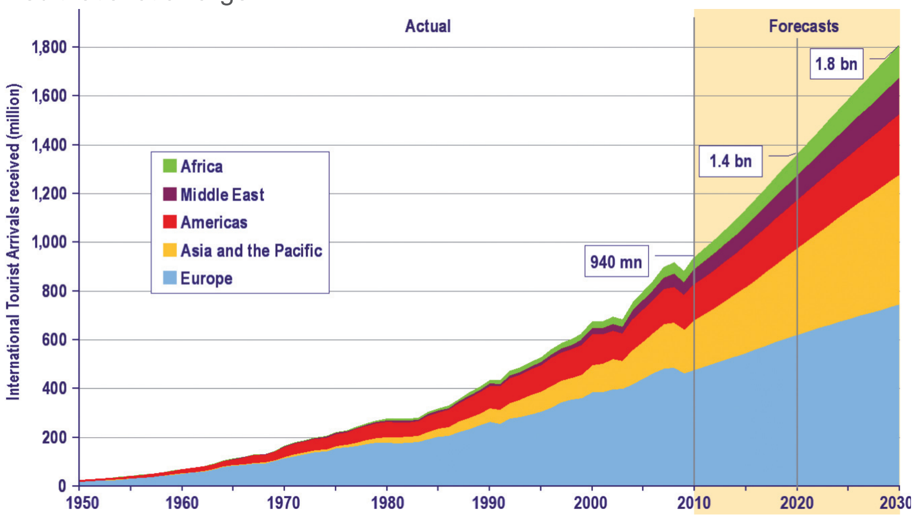
We remain concerned that this trend is set to continue in the foreseeable future and continue to be negative on the U.S. Dollar and to some extent also for the Euro. The only difference is that we see some short-term recovery potential in the Euro as the region is recovering from a rather severe recession. Investors should continue to hold a sizeable exposure to a basket of fundamentally attractive currencies such as the ones mentioned earlier in this report. This also builds an integral part of our Global Marco investment strategy.



Despite some recovery in the last two years, the recent trend for the Dollar has turned negative again

SPECIAL FOCUS: INVESTMENT OPPORTUNITIES IN THE WORLD'S LARGEST GROWTH MARKET

The global travel industry is projected to grow at a rate of 5.4% for the next decade, therefore outpacing projected GDP by a large margin. In certain areas such as Asia, the travel industry is even set for stronger growth of up to 12% per year. When we initially started to research the global travel sector, we realized that a lot of large travel companies are struggling despite the exciting growth trends globally. This industry is going through a rapid transition that is causing a lot of troubles for the established players. One does not need to be a genius financial analyst to see that many of the large companies have alarmingly low margins. Despite the fact that many of them have revenues of several billion Dollars, the net margin is very often in the area of 1% and most of them have not had much better business in the past. Competition and margin pressure is intense, no question, and it will not get much better in the future. The travel industry remains a very fragmented industry with a lot of small or medium sized players. Some of them can position themselves in a lucrative niche where they will probably continue to survive but for many of the others it will only get more difficult. The large change in the industry in recent years has been the transition to digital marketing, meaning selling over internet platforms. This business concept has a couple of unique advantages because it allows sellers to "bundle" a volume of business and manage it much more efficiently. This development has created a couple of very successful companies such as Expedia, Priceline or Flight Centre, just to name a few. So while a lot of traditional companies have not managed the transition, there are new companies being created that are growing market share very rapidly and also continue to leverage on their much more efficient model. These new companies primarily using their online platforms to market their business continue to deliver sales growth in the area of 10-15% per year and also continue to grow net profits at around the same pace. Going forward, they will even be able to increase their margin as they are experience scale effects from leveraging the existing online platforms. Investing in the travel sector and the projected growth in the sector means that it is important to differentiate which companies are making sustainable profits because of their superior structure. We believe that the online platforms could see sales growing at around 10% for the next decade and unlike many other growth companies, the scaling effect and the lean structure should allow them to grow profits over proportionally. Looking at the valuations of these companies today and considering their already profitable businesses, the outlook for the coming years looks very appealing. While we are going to see these companies rising in the coming years, we will probably also see a number of large and established players disappearing as



UNWTO Tourism Highlights 2013 Report (Projected Growth in Global Travel) they either merge with others (good case) or end up going into bankruptcy (bad case).

The chart from the United Nations 2013 report on global tourism shows the projected growth in business and leisure travel for the next two decades. Even if these numbers should turn out to be a bit over optimistic, the basic growth driving global travel remains very impressive. This is another great example of structural changes and how they are going to affect certain industries.

The global travel industry is extremely interesting from an investment point of view and one of the most interesting promising themes for the future as the industry gets driven by an increasing desire to travel, especially from consumers in new markets such as Asia. We concentrate on structural changes and the value drivers being created thereof. That is the reason why we think the “digital” travel companies are one of the most interesting investment opportunities today. Selecting the right companies is going to be key for making successful investments, however, it is a real growth story, with real companies and real profits and cash flows, however, selecting the right companies is going to be key for making successful investments.