ALPINE ATLANTIC
GLOBAL ASSET MANAGEMENT AG

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JANUARY 2014 INVESTMENT UPDATE & OUTLOOK

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

2014 – MOVING FORWARD TO THE NEW NORMAL

Dear Readers,
First of all, we would like to wish all our readers a very happy New Year and all the best for a happy and healthy 2014. The year 2013 is behind us and for financial markets it was certainly better than many had expected. At the same time last year, the outlook for the global economy and for financial markets was highly uncertain. Systemic concerns, the sovereign debt problems in many countries, caused a lot of volatility in global financial markets. While the sovereign debt issues as well as other problems have not gone away, the outlook for the global economy, and with it the outlook for financial markets, has improved in the course of the last twelve months. The strong performance of global equity prices, especially in the second half of 2013, caught many people by surprise but in our view this can be substantiated by the improving economic outlook and the continued expansionary policies by central banks around the world.

There has been a lot of speculation in recent months about "tapering" by the Fed; meaning when and by how much the central bank in the U.S. is going to raise rates in an attempt to normalize monetary policy. The initial result of this discussion was a rather strong increase of long-term interest rates in the U.S., however, the talk about higher interest rates certainly did not prevent stock prices from moving higher. In fact, U.S. equity prices even climbed to new all time highs toward the end of the year. In our view, the current policy of many central banks in the world defines the "new normal" and going forward we can't see any change to the rather generous support by the central banks. The United States, Europe as well as Japan are all in the same situ-

Scenic train ride with Glacier Express from St. Moritz to Zermatt ation in the sense that growth is low, debt is high and inflation is not a concern. Actually, it seems that central banks are much more worried by deflation these days. In the old days, central banks' main priority was to achieve price stability. In the meantime most central banks have stated that they will have certain inflation targets going forward, this is indeed a very significant change that might also have far reaching consequences on global financial markets.

Financial markets in 2013 saw a strong advance in equity prices. This was especially evident in the U.S. but in fact equities performed well in most major markets. In sharp contrast to equity prices, precious metals saw a steep drop in prices, with gold and silver falling by around 30 percent. After a long winning streak, precious metals saw their second negative year in a row.

That is surprising, especially considering the "new normal" in terms of central bank policies and the longer-term implications that this might have on inflation. Short-term, the steep drop of prices can be explained by a rotation from precious metals to stocks with fast moving "speculative" money leading the way in switching to equities. In our view, one of the most important developments took place in currency markets where the U.S. Dollar gained ground versus most major currencies, except the Euro. 2013 presented a very unique situation for currency markets. With the sovereign debt crisis in Europe and the announcement of the Bank of Japan's QE program, the incentive for investors to hold Euros and Yen was very low for most of 2013. This created a situation in which a lot of capital was parked in U.S. Dollars short-term, therefore pushing up the value of the Dollar as well as giving extra support to U.S. equities and bond markets. The rather strong underperformance by emerging markets also confirms this development. We believe this situation is going to reverse in 2014.

For 2014 we remain very positive for equities, especially in the first half of the year and we expect international markets to outperform U.S. equities. We see a lot of good opportunities in European and Asian markets. With more capital flowing to international markets, we expect the U.S. Dollar to remain flat or even slightly weaker in the coming months. In 2013 a couple of special factors were supporting the greenback but this is over now. The biggest risk for the Dollar in our view is that we get a better than expected revival of global growth in 2014, which would cause more capital to flow away from the U.S. Dollar. In such a case we could even see some more significant downside potential. We continue to be less positive for bond markets. Despite the fact that we are not yet seeing any sharp upward moves in yields but given where yields stand now, they can only move up from here. The risk/reward profile for bonds is not appealing, we only see opportunities in some global bonds, where the currency component could deliver some additional returns. The hardest call in our view is on how gold and silver prices will develop in 2014. After two years of sharp price corrections, we feel that we are not too far away from a very solid price floor. We wouldn't rule out seeing lower prices again in coming weeks but we do not anticipate a sharp correction and therefore see prices in a relatively narrow range for the time being. We continue to recommend a certain allocation to precious metals for long-term strategic reasons; in our case this is around 10-15% of portfolios right now.

We hope you enjoy reading our investment update and again we wish you all a very happy and prosperous New Year.

With the very best regards from Switzerland,

Daniel Zurbrügg

MARKET UPDATE

PRICES AS PER JANUARY 8TH, 2014 (IN COMPARISON TO 01.01.2012)

Global Equity Indices	Last Close	YTD%
Swiss Market Index	8353	16.9
Swiss Performance Index	7975	20.1
Eurostoxx 50	2933	6.2
German DAX Index	9529	9.5
FTSE 100.28	6721	11.6
CAC40 Paris	4265	12.0
Standard & Poors 500	1837	18.6
Dow Jones Industrials	16‘462	17.7
Nasdaq 100	3567	17.2
Nikkei	15‘880	31.0
Topix	1296	32.7
Hang Seng	22‘787	-3.7
All Ordinaries	5327	8.0

Government Bond Yields 10Y	Last Close	YTD%
USA	2.99	59.2
EUROPE	1.91	28.2
U.K.	2.97	40.9
SWITZERLAND	1.19	112.0
JAPAN	0.7	7.1

Libor 3 Months	Last Close	YTD%
USA	0.04	-15.0
EUROPE	0.26	-19.8
U.K.	0.52	-1.0
SWITZERLAND	0.02	66.7
JAPAN	0.14	-8.9

Exchange Rates	Last Price	YTD%
US Dollar / Swiss Franc	0.9070	0.8
Euro / US Dollar	1.3613	1.1
US Dollar / Japanese Yen	108.00	10.9
Euro / Swiss Franc	1.2380	1.9
Pound Sterling / Swiss Franc	1.4965	-3.7

Commodities	Last Price	YTD%
Crude Oil	93.41	15.4
Gold	1228	-21.7

Alternative Investments	Last Price	YTD%
Dow Jones Hedge Index	525.7	3.7
Goldman Sachs Commodities	613.0	-1.8
LPX Private Equity	1449.0	23.7

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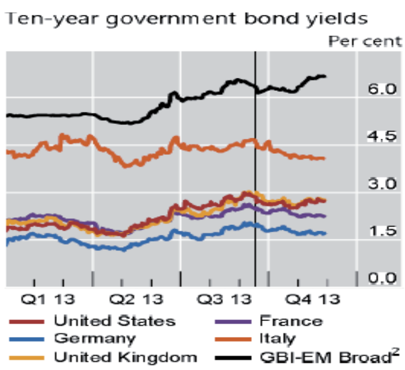
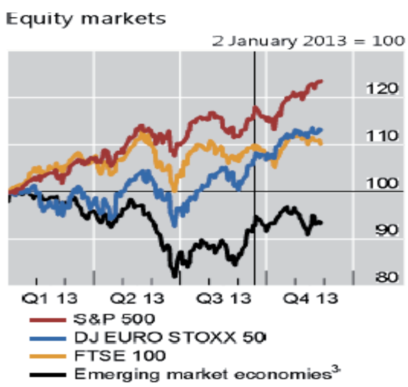
GLOBAL MACROECONOMIC & MARKET UPDATE

Global GDP growth in 2013 was disappointing with a growth rate of only 2.6%. In the beginning of the year the hope was that economic activity would rebound more significantly and official forecasts were in the range of 3.0% - 3.5%. The reason for this more moderate growth pace is obvious. The global effects from the sovereign debt crisis can still be felt today and many countries are only recovering very slowly. This will be similar in 2014 but we expect a more dynamic growth momentum. This is even true for countries such as Spain, Italy and even Greece, where we expect to see a moderate rebound from the very depressed levels we have now. Let's be clear here, the sovereign debt problems in many parts of the world are far from being solved, however, we are starting to see progress in the right direction.

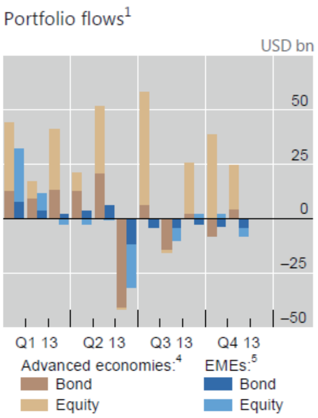


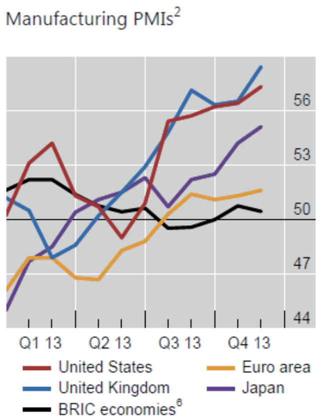


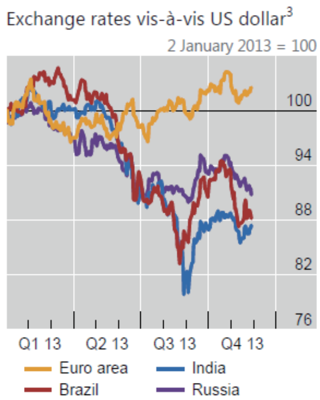
It looks as the next two years or so could become a period of transition with fundamental problems still being here but not being a major concern for markets. For now, that comfort is all financial markets need and the recent jump in equity prices confirms that. Longer-term, there needs to be more in terms of measures to deal with the debt problems and the question is whether some of the problems can be solved at all without some structural adjustments, we don't think so. But this is a 2014 outlook and we don't go beyond that for now. Suffice it to say, the outlook for a further rebound in global equity markets seems to be good. We do in fact see relatively strong economic growth in most parts of the world and while global GDP growth of 3.5% seems to be a little bit too ambiguous to us, we certainly foresee growth to be stronger than in 2013.

The rise in global bond yields and equity prices (as shown above) in recent months clearly points to faster growth in most parts of the world and to a further normalization of central bank policies around the world. However, further normalization in this context does not mean the return to the "old normal" we had maybe a decade ago. Today's "new normal" means that central bank policies will be much less independent and therefore much more influenced by political pressure. The role of central banks has been changing significantly in the last couple of years. Today most central banks have set some kind of inflation target, which is indeed a huge difference from their policies in the old days. With most central banks now wanting to see moderate inflation, the result is that the competition between them will probably further intensify. We don't want to call it a currency war, but the end result is that really no country wants to have a very strong currency anymore. This is a fact and we think that has far reaching consequences for investments in the coming years. While bonds will provide investors with stable income generation, their true rate of return will be disappointing. Of course, there will always be reasons why a certain allocation to bonds makes sense in a well diversified portfolio, but with the changes mentioned above there is a strong incentive to overweight equities in the near to medium term future. Longer-term, investments that store and protect purchasing power will be attractive again. Gold and other precious metals and also real estate will be attractive. The reason for this is that the

further we get into this process of dealing with structural debt, the more likely it is that the purchasing power of money will be reduced. This is done by generating more money and liquidity than what would normally be justified. Interest rates on the other hand, will not keep up with inflation which means that the value of money is reduced and with that also the value of debt. This is the only way to solve the debt problem in many countries, since pure austerity measures would not be accepted by people and politicians do not get elected for promoting spending cuts and lower standards of living.
The good performance of equity markets the past few months was not wholly created by the generous monetary policies of central banks. Although this was certainly a supporting factor, we can't ignore the improved momentum in most major economies as well as the rebalancing and shifts in asset allocation. The charts below illustrate that very clearly. The chart on the left hand side shows that more money was moved to equity markets during the past twelve months, especially in advanced economies. Emerging markets on the other hand have been underperforming, which is not unusual in the early phase of a global recovery. Leading indicators, such as manufacturing PMI's (Purchasing Manager Index) have been trending higher in the last year, starting from rather weak levels early in 2013, the improving momentum keeps building and are now well above the 50 point mark, which signals economic growth and expansion.



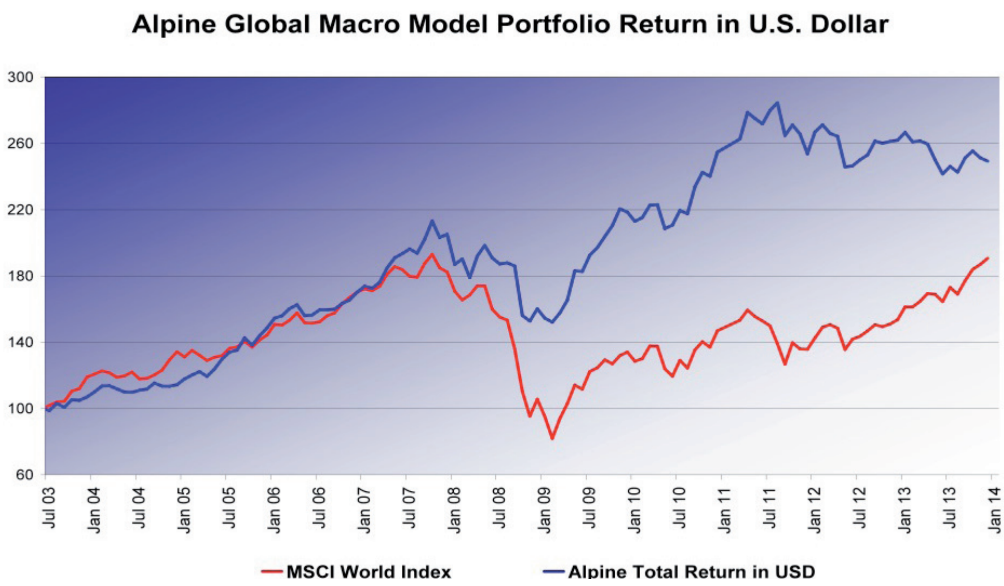




The underperformance of emerging markets also shows very clearly in the chart on the right hand side above. Emerging market currencies lost between 10% and 15% in the recent past. With most investors last year expecting sharply higher interest rates in the U.S., this clearly hurt emerging markets since they are typically more dependent on U.S. Dollar rates, higher rates mean higher borrowing costs. However, we think this concern is not really valid since most emerging market countries have been reducing their dependence from U.S. Dollar loan rates by starting to issue bonds in their own currency. This will continue going forward and we expect growth momentum to improve in emerging markets and again outperform developed markets by a significant margin. So while the U.S. Dollar, the Euro and the Yen might get out of the crisis mode in 2014, structural changes are still working against them. The longer-term trend is for these currencies to become less dominant and more capital to start flowing to so called second and third tier currencies. This is especially true for the U.S. Dollar, its role as the world's main reserve currency is changing, which is shown in the fact that U.S. Dollar funds in percentage of world currency reserves is shrinking. We will have a further look at this later in this update.
In terms of macroeconomics, there are good reasons to expect improving growth dynamics in 2014 as the world is recovering from the debt crisis seen in the last couple of years.

INVESTMENT PERFORMANCE AND GLOBAL MARKET UPDATE JANUARY 2014

Our Global Macro strategy needs to be judged in the context of a 5 year investment cycle. Under normal circumstances, we would expect to have two or three years of positive performance and two to three years of flat to negative performance. During the years from 2009 to 2013, our strategy returned 9.25% per year on average. 2009 and 2010 saw very positive results while the last three years were flat or slightly negative. Our Global Macro strategy was down 5.59% in 2013 reversing the gains seen in 2012, which means that during the global debt crisis of the last two years the strategy results were slightly negative. Despite a small improvement in the second half of the year, the strategy did not fully recover. Our goal in the long-run remains unchanged and we continue to aim for a long-term rate of return in the area of 8%. We believe this can only be achieved by limiting losses during periods of difficult market environments and by participating in longer-term periods of bull markets. In addition to that, we try to add some additional returns by not just simply benchmarking but by selecting sound companies with superior long-term performance. This can only be done by looking for opportunities globally and finding companies and investment opportunities that benefit from very powerful trends and structural changes. In terms of our currency strategy, we try to add value by investing in second and third tier currencies, which will become more and more important. This also means that we are typically holding a lot of our investments outside of the U.S. Dollar. While this is making a lot of sense in the long-run, it can be a real challenge when the global market environment is fragile like it was in the last three years. During these periods our focus is on protecting capital as much as possible, while still trying to give investors global diversification.



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Another factor that hurt us last year was the correction in precious metals prices. Despite us reducing our gold exposure rather significantly in 2012, we still had an exposure between 10% and 15% during 2013, which hurt us since gold prices alone dropped by almost 30% percent. While we became more careful during 2012, we did not expect such a large correction prices. However, for reasons mentioned earlier in this update, we are convinced that precious metals should remain an integral part of a well diversified portfolio.

In 2014, our plan is to add further exposure to global equities and believe that this is going to be the strongest performing asset class next year. On the other hand, our investments in fixed-income securities will probably continue to be lower as we have more and more of our positions coming up for maturity. The time to reenter this market is still two or three years away in our view. We would consider that again once yields have moved up more substantially and approaching a certain level again that we would consider the peak of the interest rate cycle.

With regards to the currency exposure, our plan is to return to normal levels again in terms of our currency diversification. We will continue to hold relatively low levels in U.S. Dollar, Euro and Yen, as we expect global capital flows to reverse and flow from these first tier currency group to other markets, including emerging markets.

OUTLOOK AND FORECASTS FOR Q1 & Q2 / 2014

We expect the following market trends / economic developments for the first half of 2014:

- Further improvement in global economic activity, Global GDP growth to accelerate to around 3.4% in 2014.
- Continued capital flows into global equity markets, based on relative attractiveness and growing corporate profits. We expect profit growth to accelerate in the second half of the year.
- Direction of capital flows to reverse from major markets and currencies towards a more globalized allocation of capital. This should result in improved performance of emerging market investments versus major markets.
- Improved market equilibrium in most markets, therefore low volatility to persist
- Precious metals to stabilize further around current levels, for gold we see a price range between USD 1200 and USD 1400 until the middle of the year
- Energy prices to be firm in anticipation of faster global GDP growth
- Yields worldwide to move higher, although not at the level that could be expected normally. Central banks will remain very reluctant to move up rates too far too soon.

CHANGING DEMOGRAPHICS IN EUROPE

Being a Global Macro investment manager means we are spending a lot of our research time to indentify global trends and their impact on investments. One of the most powerful trends is the change in demographics that we are seeing globally since a lot of countries, especially well developed nations, see their population aging at a rapid pace. We would like to focus on the situation in Europe, however, the situation in many other parts of the world is very similar.

Europe is one of the most interesting examples because the Eurozone is currently going through a period of rapid change and reorganization. Despite rather big economic and political challenges in recent years, the European Community has managed to hold together and continue to work on the necessary reforms. While a lot of work remains, we believe that the Eurozone has done a remarkable job in terms of restructuring and reorganizing its political and economic system. Of course, the European Central Bank has also been generously supporting the financial system with cheap money. However, in sharp contrast to many other countries, Europe has actually been able to cut spending and hold its members to a higher degree of budget and spending discipline. Yes, this path is painful, but we believe that Europe will benefit from these steps in the long-run. Therefore it is not surprising that there is increased market talk about the

"Comeback of Europe"; we believe that this could be a very major market theme in 2014. The existing potential for additional reforms, such as privatizing state owned property or liberalizing job markets, is very significant in Europe. However, there is one challenge that is much harder to overcome and that is changing demographics.

Population growth is very low in most European countries and in fact in some it is even becoming negative. The best example here is Germany which has been dealing with negative population growth (-0.1%) for more than two decades. Lower population growth will eventually result in a lower work force as well. Most European countries are projected to see work force growing by only 0.1% to 0.5% between the next few years. To make things even worse, one needs to have a closer look at fertility rates in the different Eurozone countries. Only Ireland and France have a fertility rate of 2.0 (children per woman) while Germany has dropped to a ratio of 1.4 (!!). Other countries don't look much better, let's for example look at Italy and Portugal, where the rate has dropped to about 1.5. This is very relevant because when a slowing population growth is combined with a low fertility rate, this simply means that the average age of a country goes up and therefore more and more old people will be dependent on younger generations. Not only financially, but also more dependent on services and work force. This also implies that longer-term, the job situation in Europe could reverse rather dramatically, since fewer and fewer young people will need to work for a larger share of older people, many of them in retirement. It will most likely also change the behavior of older workers since more and more will decide to work longer than 65.

In our view, the reason why this is so important is the fact that changing demographics will also change the way money is spent, the type of products and services that are going to be needed in the future. These changes will help certain industries while hurting others. A typical example here might be a need for more and better healthcare services given the rising life expectancy. But people do not only want to live longer, they also want to live healthier. Therefore spending on healthcare is also rising among younger people. We regard changing demographics as one of the most powerful economic changes of our time and with it comes a good number of highly attractive investment options. Over the last year, for example, we have added several investments in the healthcare area that are directly tied to the trend of changing demographics, including not only European companies but also positions in Asia, Australia and New Zealand. So while changing demographics present a number of challenges, there are also a lot of highly attractive investment opportunities created.

PRECIOUS METALS UPDATE

After gold and silver finished 2013 with a very weak performance, they were down 26% respectively 34%, it looks as if prices are starting to find good support at current levels. The situation in the last couple of months has seen prices sliding lower and that has removed almost all speculative money that was in this trade. While investors in the western world were typically sellers of precious metals, the situation in other parts of the world was different, especially in emerging markets where there has been continued support from long-term buyers of precious metals. While this wasn't enough to hold prices at higher levels, it certainly is an encouraging sign for the future. Looking at the positions in the futures markets clearly shows that investors have not been so negative on the future price development of precious metals in years. This might be the perfect time to become contrarian on the trade and we think there is growing evidence that this might be indeed the case.

Gold and silver prices have stabilized towards

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the end of 2013 and were even able to move higher in the first trading days of 2014, despite the widespread opinion that prices have further to fall. Also, the market dynamics in the physical market show a different picture, physical demand continue to be good in most parts of the world and this might be another indication that prices in the future market have simply reversed to fair value. Most market participants continue to be negative going forward especially with the outlook for increasing interest rates and inflation that remains under control. In our view, the current price development is very crucial because the longer precious metals prices are able to manage to hold up despite a generally negative outlook, the higher the chance that the current price range is indeed forming a new equilibrium price. Generally, a market environment with rising yields and rising equity markets should be negative for precious metals, since they are less attractive on a relative basis. However, the story might not be so simple in our view. We do expect yields to rise as well in many parts of the world in the coming two years, but we think the real story is that despite higher yields, we continue to live in a world with very low interest rates. Maybe yields are not at the record lows we have seen not too long ago, but they will remain very low by historical standards.

Gold currently testing its downside support at USD 1180, which seems to be the critical level in the coming months.

So could we see prices for precious metals and global equity prices both rising in 2014 despite an increase in yields? We absolutely believe so. We have pointed out many times already, that the structural debt problems in many parts of the world can only solved by monetization of debt, meaning that the real purchasing power of money gets weakened. This can only be achieved if central banks around the world keep their very generous monetary policies in place. This does not mean that yields don't go up, but in our view they would go up less than what would normally be expected. This is in fact what is going on right now. In addition to that, countries around the world are in a race against each other to remain economically competitive, which means no one has an interest in a very strong currency. This will be another factor that gives central bank very little incentive to be proactive with regards to their monetary policies.

So will precious metals continue to trade around current levels in the coming months, then this would be a very positive sign. Eventually, there will be signs of inflation, it is just the timing that is uncertain. We could still be 12 to 24 months away from that but eventually precious metals will get support from a changing inflation outlook. It just seems that now is a time when a lot of factors continue to be negative for precious metals prices but longer-term the outlook should improve. We recommend that investors still keep a decent allocation to gold and silver in their portfolios as it remains an integral part of a well constructed portfolio in our view.

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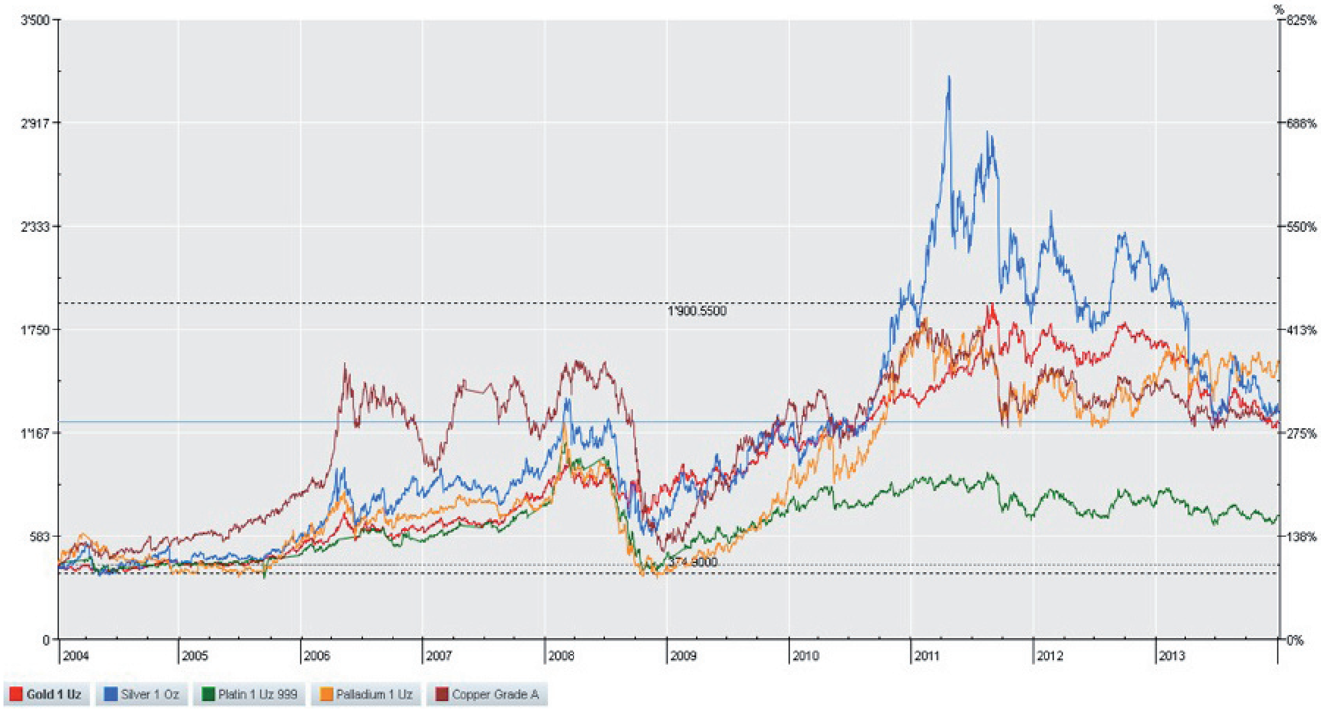


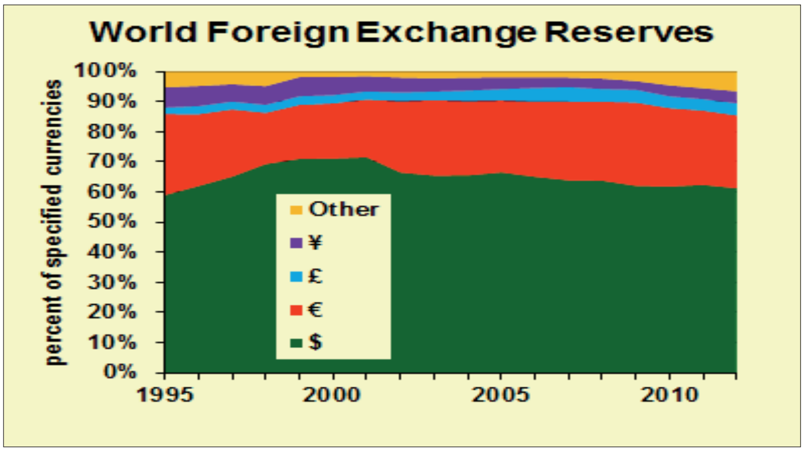
Precious metals and commodities had a challenging period since 2012

THE DOLLAR'S CHANGING ROLE IN THE GLOBAL CURRENCY SYSTEM

In the last two years, the U.S. Dollar has been able to recover somewhat from its all time low. Its role as a safe heaven has supported the greenback during this very challenging period. The capital flows into the U.S. Dollar were impressive, driven not by improving fundamentals but much more by the fact that there was more trouble elsewhere, such as the European debt crisis and the Japanese QE program. The additional capital flows into the U.S. Dollar also helped to push up U.S. equity markers as well as reducing U.S. interest rates, since a lot of the new capital was temporarily "parked" in those markets.

However, these are short term factors that have been driving the U.S. Dollar in the recent past, in the long-run there are other very powerful factors driving the currency and some of those factors are not positive at all. What comes to mind are the huge issues with regards to the U.S. debt situation and the budget question, which seems to be under control short-term, but the fundamental problems have not been solved. In a recent article by Bloomberg, another interesting development was reviewed and that is the U.S. Dollar's changing role in the global currency system. Central banks around the world keep diversifying their currency reserves and the U.S. Dollar's share as a percentage of global currency reserves continues to shrink. This is a powerful long-term trend that is set to continue in the coming years. Currently the greenback accounts for 61.44% of global currency reserves, this is down from 61.76% in the previous quarter.

Since the stock market boom in the late 90's, when the U.S. Dollar share of global currency reserves reached about 72 percent, the trend has been going down. The Euro on the other hand has become more important. Since it debuted in 1999, its share has risen from around 18 percent to about 24 percent. This means that



the U.S. Dollar and the Euro account for about 86 percent of currency reserves.

The outlook for the coming years is that more capital flows to currencies other than the U.S. Dollar and the Euro as investors seek for ways to diversify investment exposure and currency risk. We also see that the composition of the global currency system will eventually see rather dramatic change, especially with the current plans of China to have its currency eventually freely convertible. There is no question, this change will come sometime in the next 3-5 years and we think that investors are aware of the consequences that this might have on them. The most likely impact would be that the two major currencies will become somewhat less important and therefore could see further downside in the coming years.