

SAM Sustainable Water Fund

Plenty of reasons to celebrate

SAM

Sustainable

Asset

Management

Seefeldstrasse 215

CH-8008 Zürich

Tel. +41 1 397 10 10

Fax +41 1 397 10 80

info@sam-group.com

www.sam-group.com

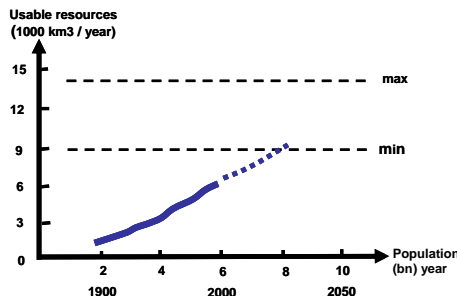
28 September 2001 saw the launch of an investment theme that is just as relevant today as it was then: water – the blue gold. The SAM Sustainable Water Fund team identified this promising investment environment at an early stage, and has been investing throughout the water value chain for the past five years – with great success.

With a gain of 11.63% this year and a performance of 51.45% since its launch, SAM Sustainable Water Fund has impressively proven its mettle. Since its inception, it has thus outperformed its benchmark by 36.61%. The fund still invests in a very promising environment, as trends such as decreasing rainfall and water shortages are continuing or even strengthening, while the demand for water is set to rise further. This means that the availability of high-quality water will increasingly become a decisive economic factor.

Over and above this, the environment is also becoming increasingly attractive due to various trends at the macro level. For example, the world's population is set to increase from 6.5 billion today to around 9 billion in 50 years' time. This strong growth in population will automatically lead to a sharp rise in water consumption.

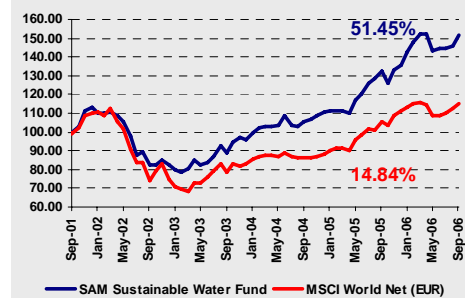
The aging water infrastructure also poses a major challenge. The water supply networks in most regions were set up towards the end of the 19th century and in the first half of the 20th century.

Demographic changes – water is getting scarce



Source: SAM, Zehnder (1997)

SAM Sustainable Water Fund vs benchmark B-shares (EUR) from launch to 30.09.2006



Source: Julius Baer

However, their upkeep has been neglected in recent decades, resulting in leaking pipes and burst mains. The renewal of this infrastructure will trigger massive investment. The European Union, for example, expects investments of between EUR 170 billion and EUR 230 billion in this segment in the next ten years.

This is where SAM Sustainable Water Fund places its focus. Knowing the global trends that are influencing the water sector today and are set to do so going forward, the fund invests throughout the value chain. With its investments in segments such as water supply and the management of water resources, water treatment, efficient use of water, and also water and foodstuffs, SAM Sustainable Water Fund offers a platform to fully harness the afore-mentioned global trends.

SAM Group specializes in sustainable investments, and it has a team of 19 analysts to enable it to identify trends at an early stage in the future as well. Within this team, 5 analysts deal with the theme of water alone. The technological specialists from SAM Private Equity and the Advisory Board comprising Professor Dr. A. J. Zehnder, President of the ETH Board, Dr. C. Martin, CEO of WWF International and Dr. Donald Tillman, Manager of the ETH Zurich Foundation, also ensure that SAM can

recognize and take advantage of new technological and political trends as well as developments in the water market.

To gain more insight into this current issue, we interviewed Dieter Küffer, the fund manager for SAM Sustainable Water Fund:

Mr Küffer, SAM was the first provider in Switzerland to launch a water fund. How were you able to identify this trend at such an early stage?

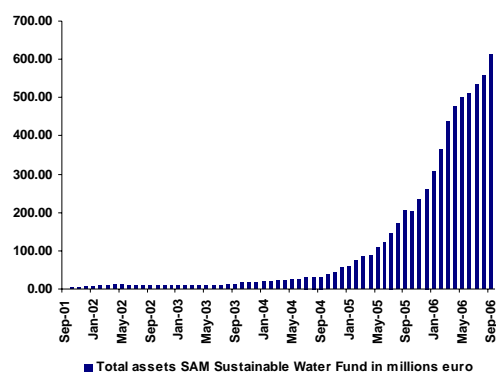
We did a macro study on the topic of water about five years ago. This enabled us to determine the extent of various connected facets, for example the relation between population growth and water demand or the aging infrastructure and water consumption. This underpinned our belief that water as a theme would develop into a long-term trend.

And the effects are slowly but surely coming to light. Just a few years ago, for instance, hardly anyone would have believed that England – which is regarded as a rainy country – could suffer water shortages like it did this summer. Water quality is also a key factor in many countries. These are all themes that clearly indicated to us back then that we are dealing here with an exceptionally interesting investment environment.

Your analysis has obviously been proven correct – the trend seems intact and your fund is very successful. What do you attribute this success to?

Our fund has indeed enjoyed impressive growth, with the volume increasing in the past few years from under CHF 10 million to almost CHF 1 billion. One reason for the mounting interest is certainly the greater media coverage of water-related issues. We have also noticed more in recent months that institutional investors are increasingly investing in this segment.

Total assets SAM Sustainable Water Fund from launch to 30.09.2006 in millions euro



However, ultimately it is the fund's performance that counts. In EUR terms, SAM Sustainable Water Fund has gained 51.45% since its launch, whereas the global equity markets – as measured by the MSCI World Net (EUR) – have risen by just 14.84%.

Mr Küffer, what do you think makes you so unique?

In making its investments, SAM focuses on sustainability. This means that we do not just create added value for our investors in the form of returns – we also check the companies for sustainability. We already have the largest team for investments in the water sector, and are continuing to expand it. Furthermore, we have an Advisory Board with proven experts in this field. For example, one of the three Advisory Board members, Claude Martin, is an advisor to the central government of China on sustainable economic development.

How can you safeguard your lead over your rivals?

We also cover the water theme in the private equity segment. This means that over and above our own analysis, we are kept apprised of the latest developments by young, emerging companies in the water sector, which allows us to identify trends at an early stage. We also analyze the macroeconomic environment and companies in growth markets such as China.

How do you generate added value for your investors, and what form does your investment process take?

The first step is the macroeconomic analysis of the underlying trends in the water value chain and the definition of the investment areas. Thereafter the companies are analyzed, with the findings from the macroeconomic analysis also being taken into account. The analysis covers financial criteria as well as sustainability aspects pertaining to the environment, social aspects and profitability. The aim of the analysis is to determine a fair value based on the valuation of the company's future cashflows.

The market for investments in the water sector is bound to be limited. With the growth in volume your fund has experienced, will you not reach these limits at some point?

We have found around 200 listed companies worldwide in the water value chain. Of these,

around 120 firms meet our criteria. Based on their stock market capitalization, we have calculated that we can invest up to CHF 3 billion with our current strategy.

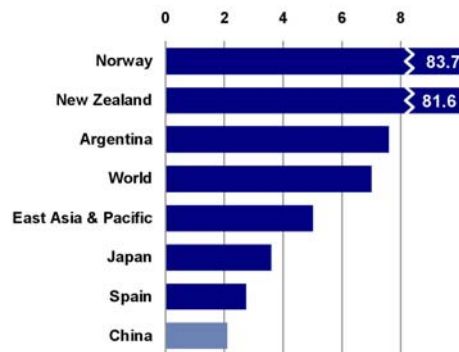
What macroeconomic trends do you think will be key for the fund going forward?

What is important is that the macroeconomic trends are still intact and will in our opinion continue to have a decisive influence on our investment environment and on companies in the water sector in the future. These trends are firstly the demographic shift, secondly aging infrastructure and thirdly water quality. In addition to these, there is also climate change. In many parts of the world there is either too little rainfall or too much. The catastrophic consequences of droughts and floods are increasingly posing problems for economies around the globe. This highlights the urgency and also the topicality of this issue. I would like to give you an example here on the subject of droughts. Due to the aridity in Spain and the shortage of water which is having a massive impact on agriculture but also on the development of tourism, a whole range of desalination plants are now being built in Spain.

What are the most important themes at the company level?

There are a number of highly interesting developments here. Allow me to give you an example here as well. Around 70 percent of the water supply worldwide is consumed by agriculture. Efficient irrigation is therefore essential, especially in countries where water is scarce such as China.

Internal freshwater resources per person in 1'000 cubic meters



Source: World bank

Micro-irrigation is one solution that saves up to 70% of the water. With this approach, the plants are watered directly via small pipes. The fund's investments in this area include the Chinese firm Xinjiang Tianyè Water Savings, which offers good growth potential.

Let us stick with the companies. How many stocks does SAM Sustainable Water Fund hold at present, and what is the breakdown in terms of sectors and countries?

The fund's portfolio currently comprises around 50 - 60 stocks and is invested worldwide. Due to the regulatory risks, water utilities have only around a 20% weighting in the fund. The food sector accounts for a further 15%-20%, with the main focus being on irrigation and water conserving agriculture. The remainder of the portfolio is spread across areas such as water preparation technologies, infrastructure equipment such as pumps and pipes, as well as goods and services in the field of water efficiency. As regards the country mix, the fund is broadly diversified across North America, Asia and Europe.

Why should investors invest in SAM Sustainable Water Fund?

Firstly, all the macroeconomic trends in the water value chain remain intact. The fund harnesses these trends as well as possible, with our experienced team investing in innovative companies from the water sector. In recent years, the fund has achieved an average annualized return of more than 8% per annum, and this with a relatively low risk exposure.

SAM Sustainable Water Fund	
Fund data B-shares (per 30.09.06)	
ISIN	LU0133061175
Umbrella	Julius Baer Multipartner
Domicile	Luxembourg
Performance YTD	11.63%
Performance 2005	22.50%
Performance since launch	51.45%
Fund volume in mn	612.22 mn EUR
Reference currency	EUR
Launched on	28.09.2001
Benchmark	MSCI World Net (EUR)

Past performance is not an indicator of current or future performance. Performance values are calculated without taking account of commissions and costs that result from selling and buying back investments.

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