BPM BERLIN PORTFOLIO MANAGEMENT

Market Commentary September 2012

"The history of government management of money has, except for a few short happy periods, been one of incessant fraud and deception."

Friedrich August von Hayek, economist (1899 -1992)

"Capitalism is the astounding belief that the most wickedest of men will do the most wickedest of things for the greatest good of everyone."

John Maynard Keynes, economist (1883 – 1946)

"**Hope dies last**" – numerous economics, fund managers and investors certainly had this idea before Mario Draghi's decisive speech on 6 September 2012. And they were disappointed. Draghi, as the mouthpiece of a Mediterranean-dominated supremacy in the ECB presidency, opened Pandora's box (http://en.wikipedia.org/wiki/Pandora) and released further plagues that will occupy us across the world in the coming years. As was also the case in Greek mythology, we must ring in the provisional end of our "golden" age (striven monetary stability, reliable international regulations and effective economic laws) once and for all.

No, we're not talking about (straw-)fireworks being unleashed on the stock markets, about the sudden drop in the risk premiums of the "olive countries" and we're not talking about declining credit default swap (CDS) prices of really quite weak credit institutions either. In particular, this no longer has anything to do with fair pricing based on the interplay of supply and demand. Such a massive influence on the free market with the goal of the short-term preservation of a situation that is intrinsically unviable has only previously been seen in the former Eastern Block countries, with familiar consequences...

What we are talking about, then, is that with the ruling in favour of the possibly *unlimited* purchase of short-dated bonds from southern European EU member states, the way is finally clear for an accelerated expropriation of a large section of the population. We are talking about relieving countries of their debt at the expense of their citizens.

And we are talking about the dramatic consequences for insurance and pension systems that are seeing their pension payment commitments threatened by interest rates that are being kept artificially low. The inability of politicians to generally and consequently address indebtedness and structural problems or to place national and individual interests on the back burner is dramatic. The existing problems will not be solved by this historic ECB ruling, but exacerbated.

Why? Well, because the masses of freshly printed banknotes are not facing equally expanded quantities of goods, services and real assets. *The newly printed money has no equivalent value!* As investors, you therefore feel, for example, that after repaying a bond plus interest for the equivalent value you are receiving fewer returns than at the time of investment. Getting straight to the point - you are paying more for the same performance. The exchange value of your money is diminishing - that is state-led expropriation. On the other hand, taxes, duties and charges payable to the state are rising, though the state's debts are nominal, so inflation reduces their real indebtedness! Thus inflation is the "sweet drug" of government debtors and the enemy of the citizens.

Put briefly: As long as states and politicians (in Europe as well as the USA!) have decisive influence on levels of money supply, the intrinsic value of money will remain in permanent danger. Historical currency experience speaks volumes here. Investors should prepare for this constantly evolving gigantic money bubble. And caution: We believe that the greatest danger in the market is still government bonds of the developed industrial nations.

What must be done?

As regular readers of our market commentary will know, this confirms the current development of our most probable scenario and will not blindside our clients in any way. In addition, there is basically not one single reason to deviate from broad distribution across regions, asset classes, currencies and maturities. The performance of the mandates aligned according to our strategic approach speaks for itself. **All five core assumptions from the June market commentary have contributed to genuine asset preservation and clear asset growth** (please go to: www.berlin-pm.com/en/gedankenzum-markt.html)**.**

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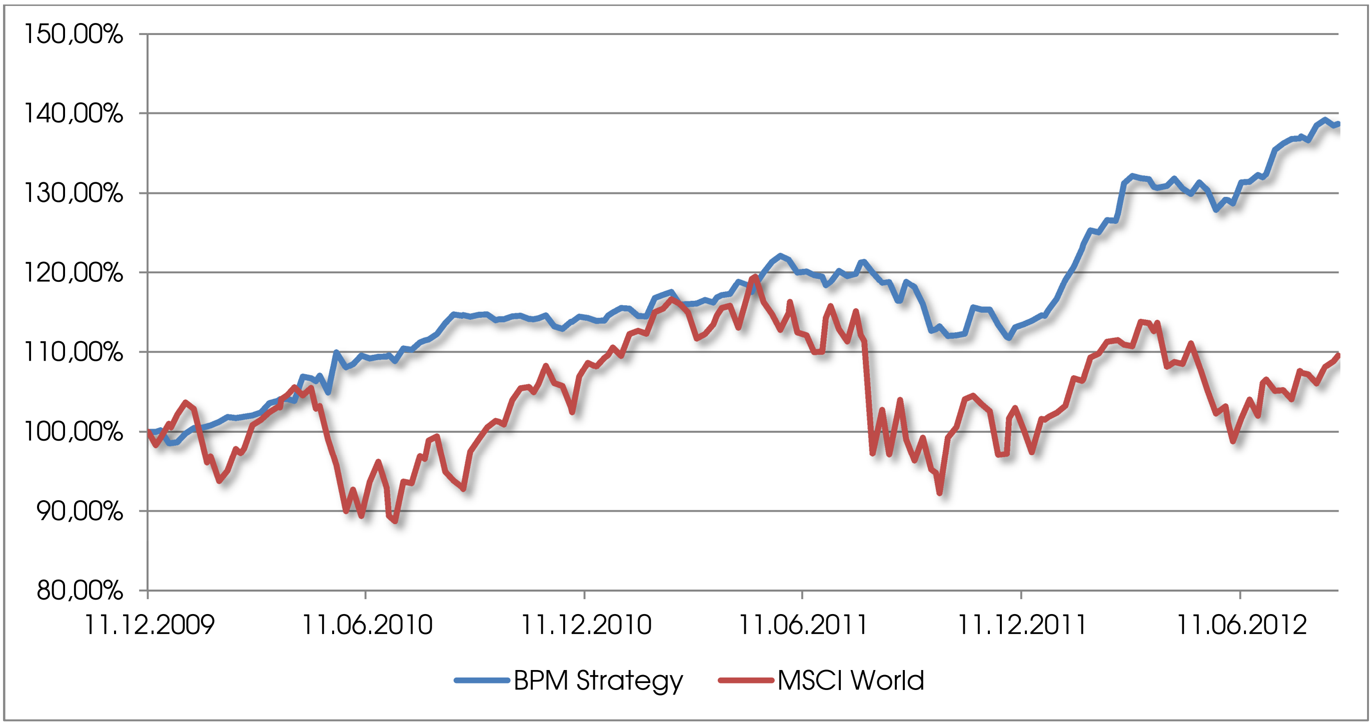
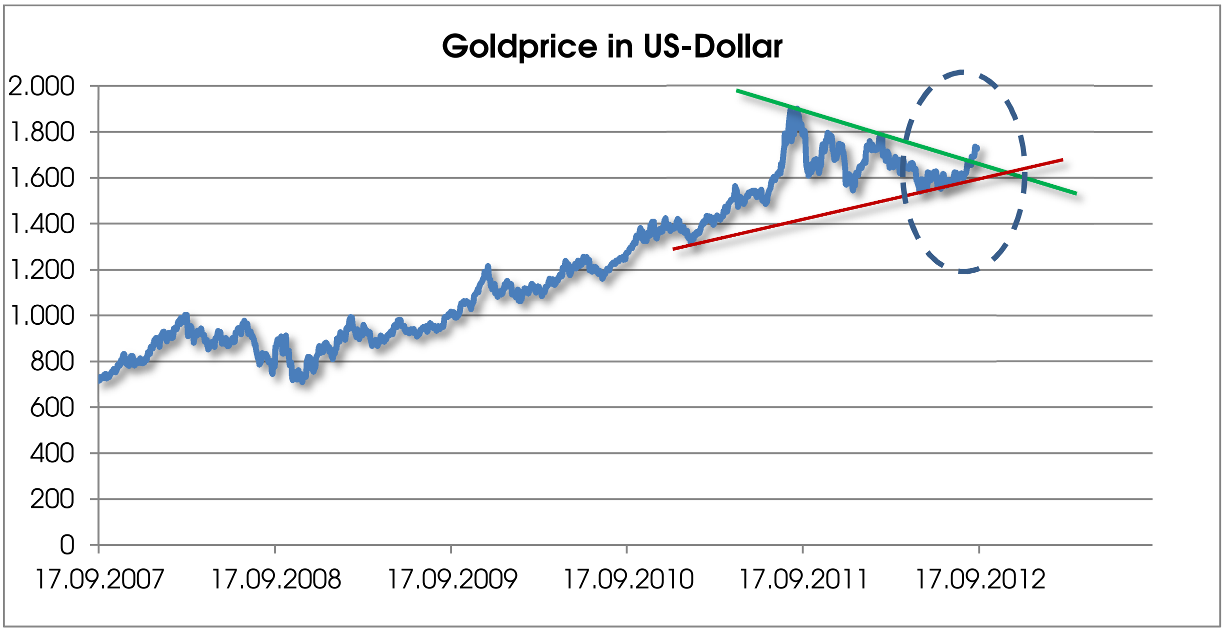
Below please find the strategy performance compared to the MSCI World Index:



Also to be noted:

A strengthening of refugee movements in substance and security is looming in the coming months. Although the risk switch is switched to "On" in the short-term "thanks" to Draghi, we believe that a swift reduction of share components could be very useful. We have already realised this in the mandates. However, international companies offering indispensable products and the ability to implement price increases against a backdrop of increasing inflation will remain our first choice.

Alternatives to banknotes that cannot be arbitrarily renewed or printed, such as gold and silver, are becoming ever more important in the course of asset protection. Deposit shares of 15% - 20% are not unreasonable. After a strong buy-signal at the start of September, the consolidation phase in the development of gold prices, which lasted almost a year, appears to be over (see below graph). Within the scope of asset management, we have already made upward adjustments to our precious metal positions.



- Regarding the forthcoming third round of "Quantitative Easing" (QE3) in the USA, we assume that this time, assistance for the US property market in particular could be of uppermost importance. In this respect, we expect acquisitions of mortgage-backed securities by the US central bank, the Federal Reserve (Fed). Listed US property funds (REITs) that have already fared well could profit further.

- The psychological challenge for many investors seems to be to emotionally accept less familiar investment regions and products as sensible building blocks. Thus, BPM's USD-denominated customers generally shun the Eurozone, whilst European customers frequently avoid USD investments. At the same time, we look forward to individual discussions on this topic and promise real added value.

Unfortunately, it is wishful thinking to believe that autumn and winter this year will bring solutions and easing of tension. The old weapon of printing money to solve economic problems is becoming ever blunter and is increasingly ineffectual. The fact that numerous countries are in or close to recession adds an extra burden. Consumers are noticeably holding back and job markets are disappointing.

We are happy to continue facing the challenge of protecting mandated assets in these circumstances and with great professional engagement. Rest assured that BPM continues to be a dependable partner independent of any banks. We are particularly grateful for the active recommendations of numerous customers and increased mandates since the midpoint of the year. It is both a compliment and a responsibility.

The team at BPM - Berlin Portfolio Management GmbH wishes you a wonderful golden autumn!

Berlin, 10th of September 2012

Uwe Günther Sven Marzahn

Legal notice