

2003  
For the Board of Directors

**Dear Shareholders,**

While 2001 and 2002 went down in stock market history as exceptionally volatile years when heavy losses were unfortunately common, 2003 is likely to go down in memory as a year of conciliation. Whereas growth in the first half of the year was relatively restrained, Sustainable Performance Group AG (SPG) achieved a clear outperformance in the second half, with the price of bearer shares climbing 11.9% over the course of the entire year and the net asset value (NAV) up 15.7%.

In particular our performance showed a marked improvement on the previous year thanks to the contribution from two of our biggest holdings, the Swiss companies Geberit and Phonak, due to a combination of solid financial results and strategically astute acquisitions. Geberit, the biggest holding in the SPG portfolio at the end of 2003, is a prime example of how a company should integrate sustainability successfully into its business model. As a manufacturer of sanitaryware, Geberit is a pioneer in extending the life cycle of its products and developing systems that save on water consumption. Phonak, another major holding (5.3%) in our portfolio, put in a very strong performance last year mainly thanks to its improved product positioning in the market. Among other things, this leading producer of hearing aids has an excellent personnel policy. The management devotes a lot of effort towards encouraging the efficient transfer of know-how and the exchange of innovative ideas.

We are pleased to report that SPG is showing a premium over NAV for the fourth consecutive period. The

1.1% premium over the net asset value is strong confirmation of investors' confidence in the high environmental, social and economic value added generated by the 24 companies in the SPG portfolio. Such confidence should not be taken for granted, and on behalf of the entire Board I would like to thank investors for their faith in us.

Since it was founded, Sustainable Performance Group has given priority not only to creating superior investment returns, but on providing transparent, up to date reporting. We are committed to continuously adapting and expanding our reporting to the needs of our shareholders. We are particularly proud of the fact that a study undertaken by the University of Zurich's Institute for Accounting and Controlling on the practical implementation of SWX Corporate Governance guidelines gave us one of the highest rankings of any investment company. On page 12 you will find our latest Corporate Governance report with an improved, easier to read presentation of a number of core areas. We are convinced that our approach to sustainability, which not only encompasses Corporate Governance criteria but other important factors such as environmental management, eco-efficiency, social commitment and also risk/crisis management will be increasingly relevant in future. This will lead to greater emphasis on companies that integrate economic, environmental and social criteria into their business models and in doing so make a positive contribution to making our society more sustainable and successful.

We hope you find our report interesting to read.



A handwritten signature in black ink, appearing to read 'L. Brugger'.

**Prof. Ernst A. Brugger**  
Chairman of the Board of Directors

**Dear Shareholders**

2003 was an exceptional year in many respects. Extreme weather conditions and sudden temperature swings once again confirmed the ongoing climate change. In 2002 it was floods that devastated central Europe, and in 2003 we experienced the worst heat wave since weather records began. It goes without saying that such variations in climate inevitably have an impact on the global economy, and ultimately on stock markets as well.

One sector particularly affected by these global trends is the automotive industry. A detailed study co-written by SAM Sustainable Asset Management and the renowned World Resources Institute (WRI) in Washington showed that leading carmakers which actively embrace climate change as an opportunity and adapt their product strategy to lower CO<sub>2</sub> emissions are in a position to increase their shareholder value by up to 10% over the next 10 years by acquiring a stronger competitive edge. The study identified Volkswagen, one of the holdings in SPG's portfolio, as a leading contender in this field. In the worst case, conversely, some car manufacturers could see their shareholder value drop by as much as 15% due to an inappropriate CO<sub>2</sub> strategy.

It is therefore vital that investors understand the implications of carbon constraints and differentiate companies in sectors that are sensitive to climate change, on the basis of the relative risk/reward profile of these carbon constraints. Major changes are expected especially in the energy, metal, mineral, cellulose and paper industry.

From 1 January 2005, companies in these sectors in all 15 EU member states and eight accession states will have to reduce their CO<sub>2</sub> emissions to levels specified in the Kyoto Protocol.

Other studies confirm the importance of sustainability criteria for investment. One publication is worth particular mention here: In an extensive investigation of the Dow Jones STOXX Sustainability Index, the leading bank West LB identified a positive alpha, i.e. an outperformance versus the benchmark index. This analysis, which was adjusted to allow for influential factors that have nothing to do with sustainability, such as "company size" and "value/growth investment style", identifies a positive alpha, i.e. a positive correlation between sustainability and share performance.

All these sustainability criteria are integrated into the SPG portfolio and continuously reviewed. SAM has also developed an instrument to analyze the relative strengths and weaknesses of the companies included in the portfolio and to communicate these to the companies in question. To this end all portfolio companies receive a benchmarking report produced by SAM containing information on the company's sustainability rating. If, for example, a portfolio company exhibits shortcomings in one or more aspects of Corporate Governance, SAM sends the company in question "Corporate Governance Improvement Suggestions".

The following pages provide a profile of the different companies in the SPG portfolio. We hope you will find the descriptions informative.



**Reto Ringger, CEO**  
SAM Sustainable Asset Management