

Dear Shareholders,

Most global stock markets have at last begun to show signs of improvement in the last three months. It's a convenient point to review the damage caused by the protracted slump in international equity markets. The collapse has not only wiped off billions of capital values, but at the same time has also damaged the standing of many companies. The reputation of investment companies has also been tarnished recently. Many investors have simply lost confidence in these investment vehicles, due to excessive price drops, high discounts and inadequate control mechanisms.

In fact investment companies are still a very attractive form of investment, especially when they concentrate on a particular theme that requires specialist know-how or as a way of gaining exposure to private equity investments. Both these aspects apply to SPG: as the world's first investment company for sustainable investments, the Sustainable Performance Group invests in companies that integrate economic, environmental and social factors in their business strategy. Focusing on sustainability requires an active investment style and a board of directors which, as the body with overriding responsibility, contributes additional expertise to the company. With an investment fund, only the fund manager is accountable, but with an investment company both the investment advisor and the board of directors have to answer to investors. This combination not

only ensures twice as much know-how, but also twice the level of control.

The success of this special constellation is evidenced by the confidence shareholders have in SPG and the constant premium between the company's net asset value and share price. This makes SPG one of a select group of Swiss investment companies that has always managed to trade at a premium to its stock market capitalisation since its foundation. The company, whose investments are concentrated in sector leaders and high-quality stocks, was therefore not quite able to keep pace with the performance of the market as a whole. The underperformance was due to a disproportionately strong second quarter performance from two types of share: financial stocks, which had suffered badly in the past and are underweighted in the SPG portfolio, and companies with poorer quality ratings, in which the portfolio has no holdings at all. We expect this effect to be balanced out again in the second half of the year, and are therefore confident that the portfolio is well positioned for a continued market recovery.

SPG has modified its investment strategy (see page 8) to focus on 15 to 20 stocks, allowing us to monitor the individual companies more closely and to respond more swiftly to new developments. We will continue to do our utmost to maintain and strengthen the trust you have placed in Sustainable Performance Group.



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

Prof. Dr. Ernst A. Brugger
Chairman of the Board of Directors of SPG

2003

For the Investment Adviser

Dear Shareholders,

There has been a fundamental shift in the public perception of sustainability. Only five years ago, when SPG shares were first floated on the Swiss stock exchange, the idea of focusing on the durability and sustainability of a portfolio was still alien to investors. Evidence of sustainability firmly establishing itself as an investment approach can be found, among other things, in the growing interest shown by pension funds, which are becoming far more concerned about the long-term dimension of their investment style and subsequently about their needs and obligations as long-term investors.

A brief example illustrates this trend. The UK's third largest pension fund, the Universities Superannuation Scheme Limited (USS), recently put out to tender an investment mandate worth more than CHF 50 billion with an investment horizon of 20 years. What is particularly astonishing about this mandate is not its size, but its time frame. Peter Moon, Chief Investment Officer with USS, explained that he was forced to invite tenders because he was unable to find an investment advisor whose style matched the long-term investment perspective of the pension fund. It is true that most pension funds follow an investment strategy that extends over three years, while the time scale for the pension obligations often extends over 10 to 20 years.

So what does this discrepancy between short-term investment policy and the long-term obligations of a pension fund have to do with sustainability? Many traditional methods of financial analysis go no further than concentrating on forecasting the company's performance over the next two to five years. By contrast, a sustainability assessment analyses both the risks and

rewards presented by longer term scenarios. The asbestos problem is a classic example: it was already identified back in the seventies, but claims for compensation have only started to emerge in recent years. The settlement offered by the Swiss-Swedish engineering conglomerate ABB for the class action brought by American claimants for over USD 1.2 billion marks a record for the industry – for the time being. If traditional financial analysis had taken the threat of asbestos claims into account much earlier, the companies affected could have been filtered out and their valuations adjusted accordingly.

To ensure that more attention is paid to long-term aspects when assessing a company, SAM has developed a valuation method based on the discounted cash flow (DCF) model which takes into account the impact of long-term sustainability criteria on enterprise value. This process even considers parameters that lie well in the future. Besides traditional financial criteria, long-term oriented sustainability criteria significantly contribute to the company ratings.

We therefore examine the stocks included in the SPG portfolio in light of the following megatrends deriving from the concept of sustainability: Environmental instability (e.g. climate change), social tensions, loss of confidence in the production processes used in agriculture (BSE, GMOs), corporate governance and business reputation as a success factor. We are convinced that SPG stocks such as Novozymes, Unilever, Geberit, Royal Dutch/Shell or Whole Foods Market – to name but a few of our biggest holdings – will perform well even in an environment dominated in the short term by unpredictable financial markets.



Reto Ringger, CEO
SAM Sustainable Asset Management