

Dear Shareholders

“Success is the sum of the right decisions we make” – this conclusion is not new, but perfectly applies to the portfolio of the Sustainable Performance Group (SPG). What constitutes a “right” decision for SPG? With respect to our business as an investment company it means first and foremost selecting companies with the most attractive long-term success potential to include in our portfolio. From the initial selection of the 1'000 most highly capitalized companies worldwide to the final choice of the companies to be included in our focussed SPG portfolio, a candidate company is subject to a well-defined research and investment process. This is our primary job and one we have been doing successfully since Sustainable Performance Group AG was founded in 1997. This is reflected in our share price, which rose 6.9% during the first half of 2004, outperforming the global reference index, MSCI World, by approximately 3%.

Right decisions are not only necessary when it comes to picking stocks, but also beforehand when identifying the investment fields that promise to be most lucrative. We focus our investments on food and health, energy, water and resource productivity, all sectors with high sustainability potential. The health industry, for instance, which at 18% is one of the largest sectors represented in the SPG portfolio, is being driven by important developments such as the advances in genetic engineering. In areas where controversy is present, especially when it is of an ethical nature such as this, it is important that companies have clearly de-

finied rules of transparency and are prudent in their handling of all interest groups. Novozymes, a long-term participation of SPG which is devoted to production of genetically modified organisms in closed systems, is a model company in this regard. Novozymes maintains a particularly active dialogue with all stakeholders and it endeavours to influence public opinion positively towards biotechnology. This strategy has worked very well for Novozymes, and the company's value has doubled over the last three years.

The reduction in par value decided at the 2004 General Meeting of Shareholders was carried out according to plan on 15 July 2004, and the nominal value of SPG shares was reduced from CHF 200.– to CHF 163.–. The CHF 37.– in released capital per share was credited to the shareholders on the same day in the form of SPG shares, with fractions of shares being compensated in cash on 29 July 2004. This innovative approach, which was applied for the first time on the Swiss stock market, offers investors a number of advantages. The transaction is tax free for investors and ensures that values remain balanced before and after the action. Shareholders benefit from continued good liquidity on the market, and the danger of a discount to the net asset value is reduced.

In the name of the Board of Directors, I would like to thank you for the confidence you have demonstrated in SPG and hope that you too will enjoy the fruits of many right decisions during the second half of 2004.



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

2004

For the Investment Adviser

Dear Shareholders,

The first half of 2004 has been another eventful period, but with a number of positive highlights. SPG's share price outperformed its benchmark, the MSCI World Index, by around 3% in the first six months of the year. This satisfying performance is on the one hand due to SAM's success in continuously improving and developing its investment process, which combines sustainability criteria with financial ratios in a sophisticated procedure. Our consistent application of this methodology has meant, for example, that we have reduced our holding in Phonak in recent months due to strong price increase – despite the company's excellent performance in all three dimensions of sustainability. Conversely, we have increased our holdings in other companies such as Ericsson and Pfizer in view of their financial strength and long-term strategic positioning.

The food industry provides an excellent example of the trend towards sustainability. While the Swiss market for conventional foodstuffs has grown approximately 3% in recent years, organic and natural foods have enjoyed annual growth rates of up to 35%. Although this trend is slightly less pronounced in the USA, about 15% more natural foods are

sold in American supermarkets every year. The US retailer Whole Foods Market identified this trend a while ago, and is now market leader in organic foods. The far-sightedness of Whole Foods Market is reflected in its share price, which has more than quadrupled in the last five years.

Similar trends that open up exciting opportunities not just to companies but also to investors can be found in all the industries favoured by SPG.

One of the central tenets of sustainability is to exploit the opportunities arising from global sustainability trends and at the same time minimise risks. This principle, which equally applies to investors, encouraged us to sell our holdings in the wind energy industry over a year ago, because we thought the overall political and commercial environment was too uncertain.

The massive oil price increases since then, and the fact that the USA looks like it will launch a programme of incentives for renewable energies running over several years, prompted us to reassess the situation and start investing in this sector again. In future SPG investors can benefit from a portfolio that manages opportunities and risks in the most effective way.



Reto Ringger, CEO
SAM Sustainable Asset Management