



For the Board of Directors

Dear Shareholders

In much of the world, the past year was overshadowed by extreme weather, exceptionally destructive hurricanes, progressive environmental damage and persistently rising temperatures – in short, the effects of climate change could be felt and left their mark on financial markets as well. This development is reflected in the Board's decision, announced at last year's AGM, to adjust SPG's investment strategy to embrace the investment mega trends of renewable energy, increasing water scarcity, healthy living and shortage of resources. During the second half of 2005, SPG successfully switched the investment focus to these themes and to portfolio holdings in small and medium-sized companies.

NEW INVESTMENT STRATEGY SUCCESSFULLY IMPLEMENTED

The mega trends mentioned above were gradually implemented at portfolio level. As part of this investment strategy, the degree of diversification was enhanced by increasing the number of holdings in the portfolio. On December 31, 2005 the portfolio contained 38 listed and five unlisted companies. Around three-quarters of the portfolio's assets are invested in small and medium-sized companies, while the quota of blue chips is now less than 12%. The proportion of private equity holdings has been increased by investing in other young companies promising high growth potential.

INNOVATIVE ALLOCATION OF INVESTMENT THEMES

The decision to focus on rapidly growing companies across the four investment themes has had a positive

impact on SPG's performance, with the share's net asset value climbing 23.7% over the last year.

The price of oil has been more than USD 50 a barrel for over a year now. While the price of fossil fuels is very high, energy from sun, water and wind is becoming more competitive. The share prices of our most successful "Energy" investments – Österreichische Elektrizitätswirtschafts-AG, SolarWorld and Vestas Wind Systems – rose more than 50% in 2005. Q-Cells, the latest addition to our portfolio in the energy sector, develops, produces and markets monocrystalline and polycrystalline silicon-based solar cells. Strong global demand for solar energy is currently outstripping production capacities and underlines the very promising growth potential of these portfolio companies.

Our holdings along the entire value chain for the "Water" theme also performed well, especially in the second half of the year. France's Veolia Environnement, one of the world's biggest environmental service companies, saw its value rise 49% in 2005. Veolia is very well equipped to benefit from macro trends such as global population growth and increasing urbanisation. Growing demands on the clean water supply, sewage and waste treatment, and the infrastructure will continue to support Veolia's positive development.

The investment theme "Healthy Living" benefited considerably from booming sales of organic foods. Shares in the US portfolio companies Green Mountain Coffee Roasters and Whole Foods Market posted a perfor-

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For the Investment Advisor

mance of more than 60%. The trend towards natural foods is already starting to filter through to other consumer goods areas such as cosmetics and clothing. SPG covers two important growth markets under this theme with its investments in Shiseido, a Japanese producer of cosmetics and skincare products, and Timberland, the US provider of outdoor leisure wear.

“Resource Efficiency” is the only investment theme that has so far failed to meet our expectations. Despite the excellent long-term outlook, technology companies had a difficult year in 2005. However, growth prospects are still intact for companies that find substitutes for raw materials or use them more efficiently, recycle waste, or develop substitute materials. RailPower Technologies develops, constructs, and markets specialised hybrid systems for locomotives. The economic benefits of hybrid drive systems include lower fuel consumption and huge reductions in nitrogen oxide and particulate emissions. SPG’s other holdings in the theme of Resource Efficiency will also continue to benefit from global demand for resources and their increasing scarcity.

PRIVATE EQUITY INVESTMENTS

SPG’s focus on themes is also reflected in the positive performance of its private equity interests. So far SPG has invested a total of CHF 15 million for its private equity allocation. Thanks to the excellent performance of these holdings, the current valuation of the private

equity portfolio and the calculated exit values, we anticipate very attractive prices when we come to sell these investments. The young German company Inge AG, for example, develops, products and markets innovative ultra filtration membranes for treating drinking water and industrial process water. Inge’s membrane technology allows the efficient production of 100% pure drinking water that is free of bacteria, viruses and parasites.

THE FUTURE IN ONE SHARE

The dynamic in SPG’s investment themes “Energy”, “Water”, “Healthy Living” and “Resource Efficiency”, combined with the focus on small and medium-sized companies, has had a very positive effect to date. The very promising performance of the portfolio since the strategy was adjusted emphasises the new direction.

We are confident that the attractive investment themes and the growth potential of our portfolio companies will have a positive impact on the performance of SPG’s share price in 2006 as well.

Prof. Ernst A. Bruggler

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