NEUE BANK

Liechtenstein Private Bank

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PRIMUS-PASSIVE

Passive investing

Buying the market

The theory of passive investing is based on the principle of buying all investments in an asset class, i.e., the entire market. Because this cannot be implemented in practice, investments are only made in those securities that represent the market to the best extent possible. These securities are included in stock market indices. A stock market index, such as the equity indices SMI (Swiss Market Index) and the DAX (Deutscher Aktienindex), reflects the development of selected securities. In addition to equity indices, there are numerous other indices based on bonds, real estate, commodities, and also hedge funds.

Buying the index

Investments in these indices can be made through index funds or exchange traded funds (ETFs). An ETF is an index fund traded on an exchange with the goal of mirroring the benchmark index by buying the underlying securities.

Passive investing

Passive investors aim to achieve the market return. There is no active management whatsoever using this method. Especially institutional investors such as pension schemes adopt this approach.


Why invest passively?

Simplicity

Simplicity is the key to financial success. Complex investment approaches usually do not deliver on their promises. An investment strategy that is implemented simply and consistently is easier to understand and increases the probability of being able to stick with it even when the markets are going through a bad phase.

Long-term view

Long-term investing is not really spectacular, but it is all the more successful. In the short term, equities – but also other indices – are often exposed to fluctuations (volatility). Many investors sell after their first price gains, thereby missing out on the possibility of a continued positive price development. Conversely, securities with high losses are sold, because investors are unwilling to wait a year or more for the price to recover. One of the most important factors for success on the market is therefore the amount of time needed to deal with price fluctuations.

Diversification

Passive investors who buy the market are aware of the market risk and hence of the market's price fluctuations. In contrast, specific risks – such as the risk on any individual investment – are avoidable through maximum diversification in broadly-based ETFs. High value losses («crashes») of individual securities or lines of business thus have a significantly lower impact on asset development.

Costs

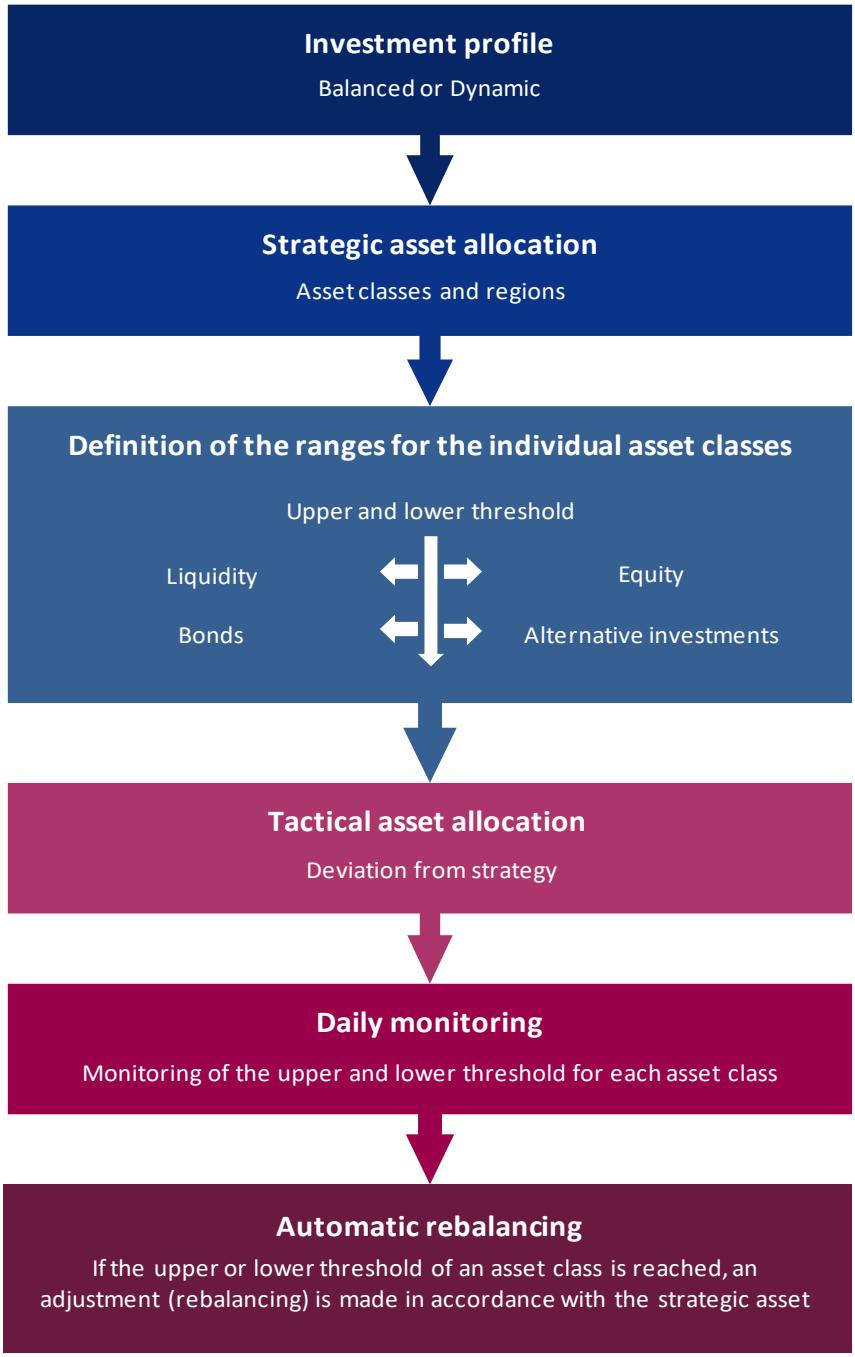
A professionally managed securities portfolio cannot be administered entirely without costs. But attention should definitely be paid to keeping these costs as low as possible – because the longer the duration of the investment, the more the return is reduced by the costs (compound interest effect). Because passive ETFs do not entail any complex research or active management, these products are offered at very low costs.

Modesty

Passive investors are satisfied with the returns generated by the market. Patience and the art of inaction are the prerequisites. What sounds simple is hard for many people to implement. Especially in bad market years, doing things for the sake of doing things («Get out of equities fast, sell everything...!») is far too often the first choice, even when waiting and doing nothing clearly promises better results.

The passive investment concept

When developing this innovative solution, our goal was to offer a passively structured portfolio that ensures efficient asset allocation at a low cost. After defining the investment portfolio, the money is invested in selected index funds or ETFs in accordance with the strategic asset allocation. Transactions are carried out only when the defined ranges (upper and lower thresholds) of the asset in question are exceeded.



Higher return thanks to passivity

The goal of the PRIMUS-PASSIVE portfolio management mandate is to achieve higher returns compared with traditional investment solutions and the benchmark as follows:

Strategic asset allocation

Over the coming years, the assets are consistently structured according to the chosen risk profile and managed within the defined ranges.

Automatic rebalancing

We use strong price fluctuations to restore the strategic allocation and in that way to secure the consistent and long-term orientation of the portfolio. Price gains on equities, for instance, are realised and reinvested more conservatively in money market investments, bonds, or alternative investments. The same is true for other asset classes.

Product selection

By using index funds and exchange traded funds (ETFs), we buy products with extremely low administrative costs and high liquidity compared with traditional investment funds.

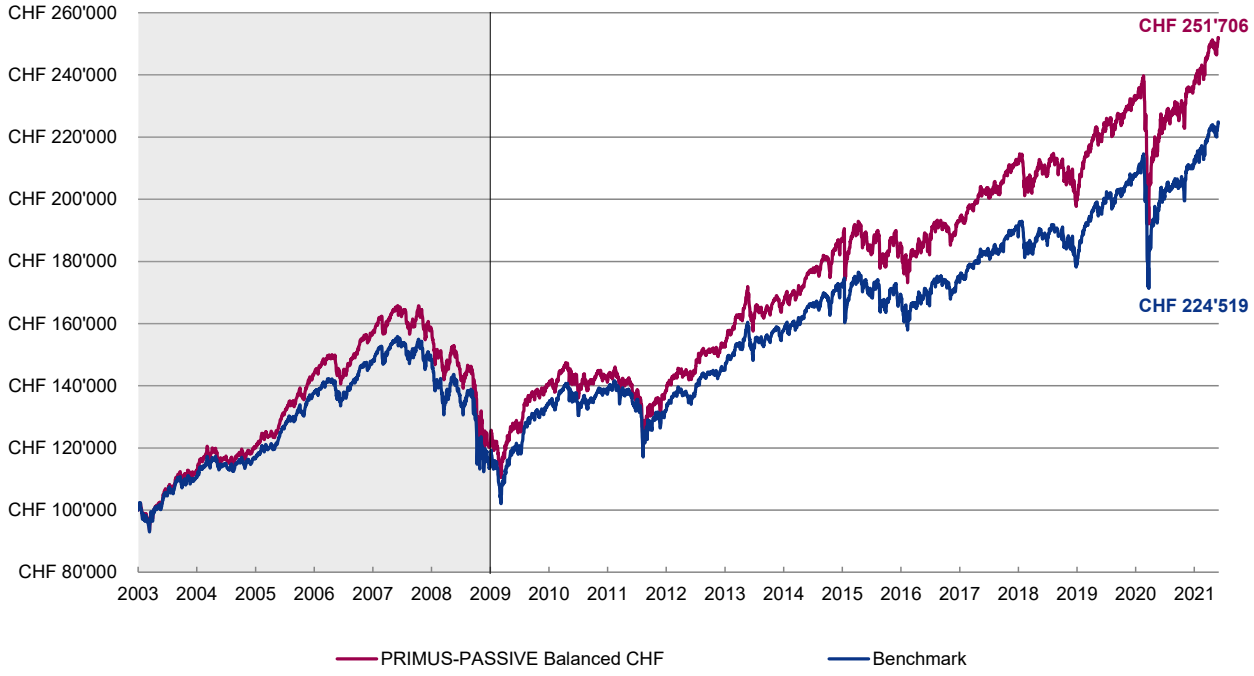
Transaction costs

It does not matter whether many or few transactions are necessary, given that the transaction costs are included in the flat fee and do not affect the development of performance.

Development since launch

After several months of development and testing, we launched our PRIMUS-PASSIVE portfolio management mandate for clients on 1 January 2009. The following chart shows how successful the development has been over the past years:

Indexed performance, Balanced CHF



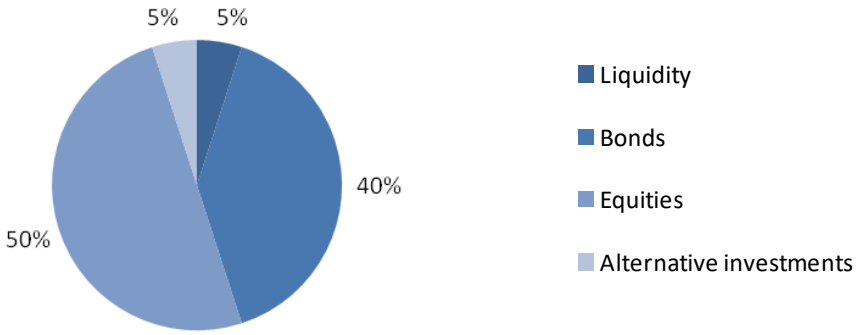
The performance from 1 January 2003 to 31 December 2008 is based on the backtest of a scientific study.

PRIMUS-PASSIVE

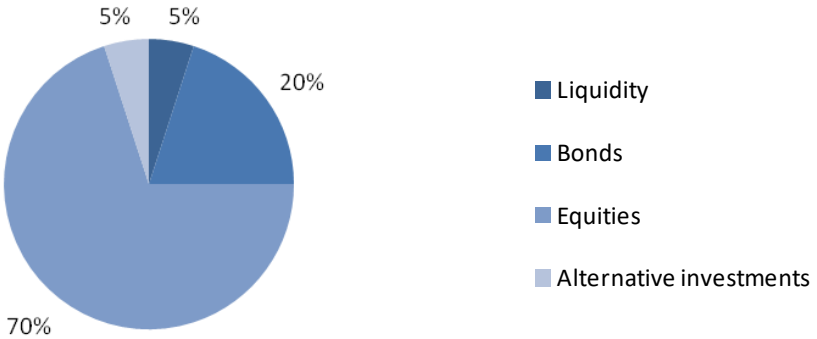
This portfolio management solution is suitable for investors who are looking for a passive, index-oriented «buy & hold» strategy with optimised rebalancing and a longer investment horizon.

We offer the PRIMUS-PASSIVE portfolio management mandate in the currencies CHF, EUR, USD, and GBP for the following investment strategies:

Balanced - Investment horizon: 5 - 8 years



Dynamic - Investment horizon: 8 - 10 years



As desired, the individualised investment solution can be made more conservative by including defensive instruments. Our client advisors will be happy to provide you with additional information.

Disclaimer

This publication is intended exclusively for your information and is not an offer for the purchase or sale of securities. It describes value based goals that we attempt to reach for like-minded clients. Whether we can support you in your personal financial goals depends on your individual risk appetite, your financial objectives as well as the legal constraints of the country of your domicile, in particular with respect to the financial instruments to be invested in. Therefore we recommend that you discuss the solution mentioned with your financial consultant and have possible tax consequences checked out by your tax accountant. The figures shown are based on actual performance results of the portfolio management mandate in the currency displayed. Past performance is not a reliable indicator of future performance and results. Future price and exchange rate fluctuations can impact on your return in your domestic currency. Performance data used in the tables is gross of fees (specification available from your client adviser) and do not reflect the impact of your personal taxes. The benchmark is composed of strategically weighted indices of the particular five asset categories liquidity, bonds, shares regional (Switzerland, Europe, USA), shares global and alternative investments. This information is given without a guarantee. This brochure may not be reproduced, duplicated or passed on without the prior consent of NEUE BANK AG. In case of its dissemination relevant national legislation must be adhered to.

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