



## JUNE 2012 MONTHLY REPORT “Fata Morgana”

*“Fata Morgana”: An unusual and complex form of superior mirage that is seen in a narrow band right above the horizon. It is an Italian phrase derived from the vulgar Latin for “fairy” and the Arthurian sorceress Morgan le Fay, from a belief that these mirages, often seen in the Strait of Messina, were fairy castles in the air or false land created by her witchcraft to lure sailors to their death.*

A Fata Morgana is *not* a trick of the senses or an illusion but rather a mirage, which makes distant parts of a landscape appear closer or which simulates the surface of water.

So much for the description from Wikipedia. But how is this relevant to the Monthly Report? Well, the author was still feeling the effects of Germany's loss to Italy in the semi-finals of the European Football Championship when on the final day of the past month, the capital market took the results of the Euro summit as the occasion to switch back to “risk-on” mode. This was clearly a consequence of one of those notorious Fata Morganas that, so it is said, sometimes lead thirst-starved wanderers in the desert to believe they’re nearing an oasis when in reality it lies far beyond the horizon.

The same can be said about the rescue of the Euro. The resolutions adopted by the most recent summit can be variously described as victory or defeat, depending on the politician, and they are certainly a further step toward political and fiscal union in the Eurozone. At the same time, however, they are nothing more than a *future* step. The ESM rescue fund, constantly in use but now to be replaced in order to directly recapitalise banks under certain (not yet precisely defined) conditions, really doesn't exist at all until the German Federal Constitutional Court issues its ruling. In addition, the condition that was tied to the use of the ESM – establishment of a European banking oversight authority, which is to include the ECB – is not just a “summer project” but will undoubtedly last at least months, if not longer.

The markets, on the other hand, reacted with great relief, which can also be interpreted in light of the fact that expectations for the summit were close to zero. Nevertheless, the relief was literally palpable! The final trading day in the first half of 2012 was required in order to come to a positive evaluation for the prior six months. Figures 1 and 2 show the relative trends for select equities indices and, quite clearly, the effect of the final trading day. Even faltering indices, like the CAC40, nearly closed out up for the period.

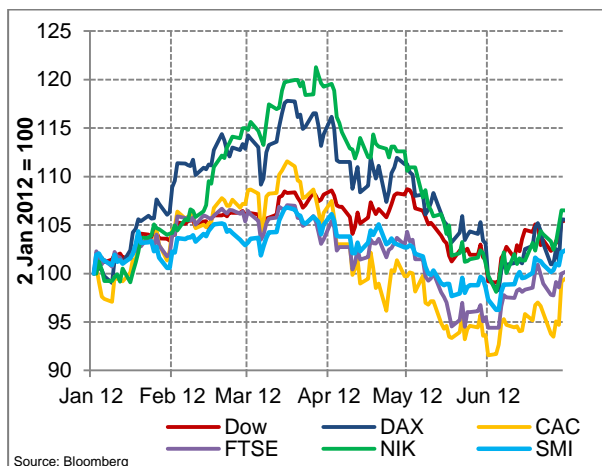


Figure 1: Trends for select equities indices for the first half of 2012

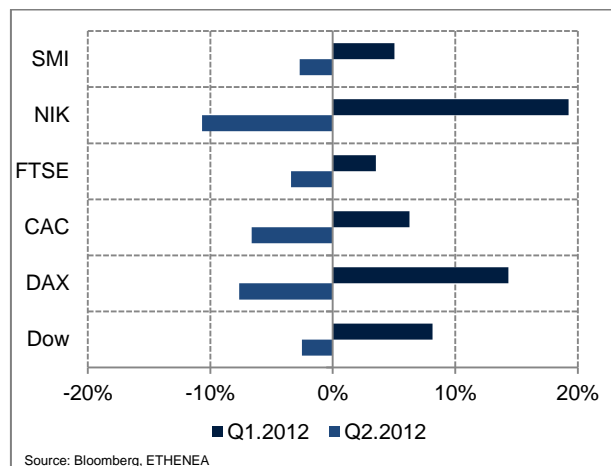


Figure 2: Percentage quarterly changes for select equities indices in 1Q and 2Q 2012



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With the credit markets as well, a significant effect could be seen on the final trading day of the first half-year (see Figure 3), with all credit market segments closing “in the black”, although this of course means that credit spreads trend negatively (see Figure 4). The situation was similar with yields on Spanish, Italian and Portuguese sovereign bonds.

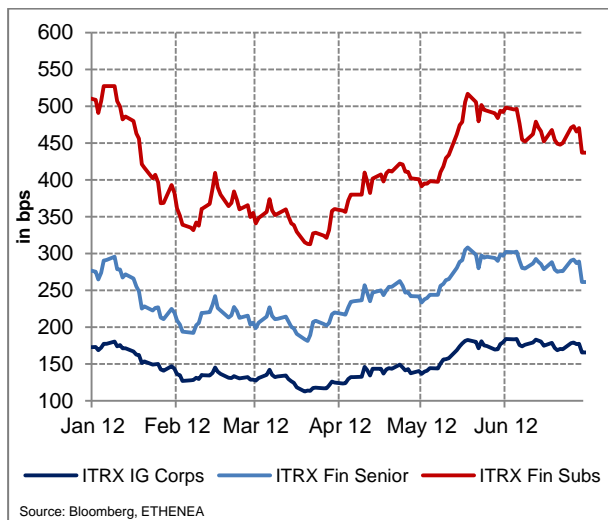


Figure 3: Trend in the ITRAXX indices in the first half of 2012

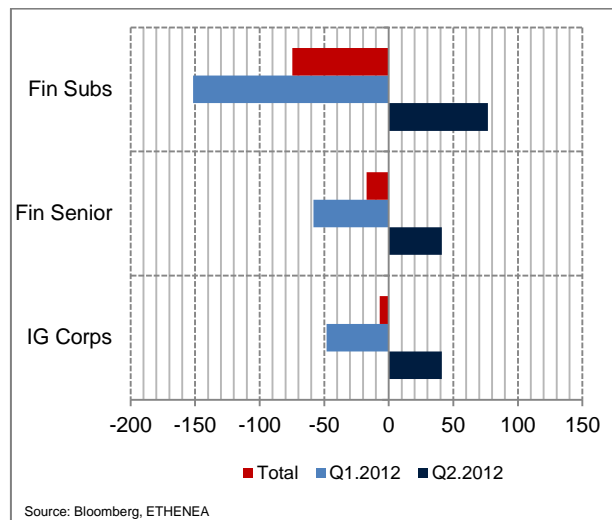


Figure 4: Change in the ITRAXX indices in 1Q and 2Q 2012 and in the first half of 2012

With respect to the refinancing needs for countries in the Eurozone, which in early 2012 hung over the capital markets like a sword of Damocles, there are positive things to report. Other than heavy-weight Italy, which has covered only 44 % of its estimated refinancing needs, the other countries are either on track or ahead of the game. In particular, Spain's success in so far covering 61 % makes for optimism.

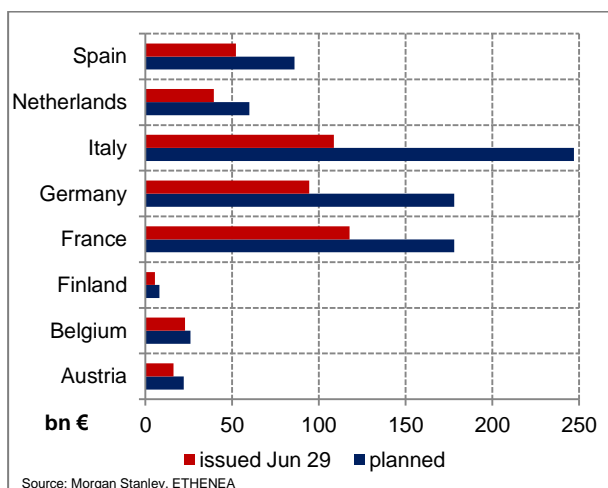


Figure 5: Financing needs and success for 2012

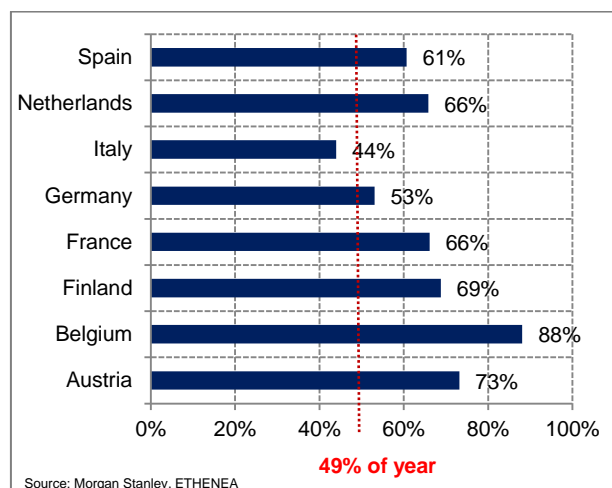


Figure 6: Percentage financing success in 2012



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Interessenverband  
vermögensverwaltender  
Investment-Fonds

When it comes to economic trends, on the other hand, there is less reason for celebration. The now well-known "Surprise Index" (see Figure 7) shows just how unpleasant the surprises were on the macroeconomic front in recent months. Again: the depicted index "measures" whether published data tended to be "better" or "worse" than market expectations. The surprises are then collated and weighted, with the index employing a time decay function to replicate the limited memory of markets. The logic here is simple: The farther an event lies in the past, the less important it is for pricing on the capital markets, and vice versa. As can be seen from Figure 7, while the index levels for the Eurozone and the US haven't reached the "depression level" of 2008, the values are extremely low, which, at least on the interest markets, is in conformity with the overall low interest rate level. The signs are very worrying. Even the indicators from Germany, which long have stubbornly refused to turn downward, now have more of a warning character.

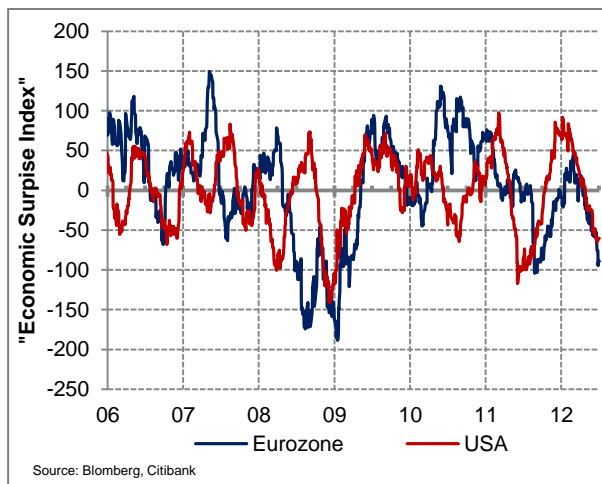


Figure 7: Citibank's Economic Surprise Index for the US and the Eurozone

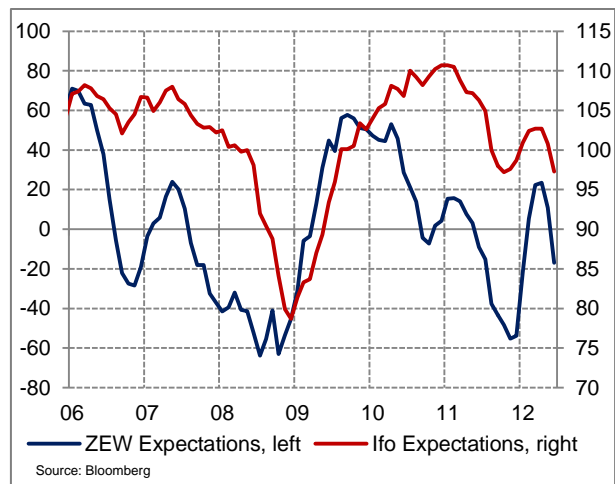


Figure 8: ZEW and Ifo Expectations Indices

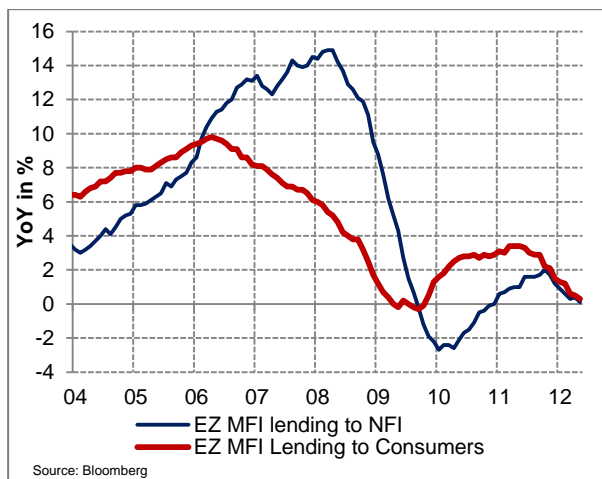


Figure 9: Growth in lending to companies (blue) and to consumers (red) in the Eurozone

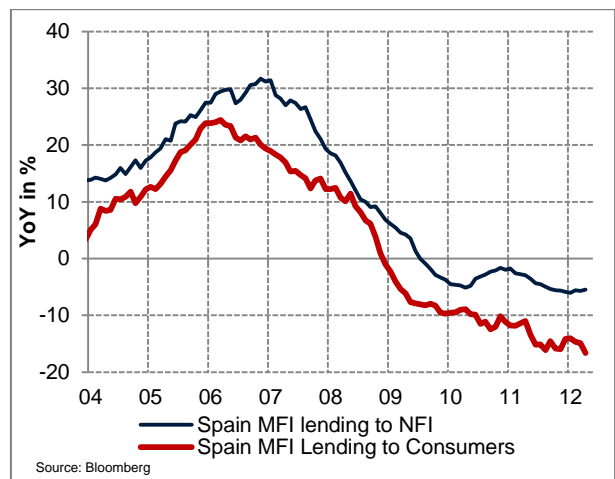


Figure 10: Growth in lending to companies (blue) and to consumers (red) in Spain



The change in credit growth is a further indicator of economic dynamics. Figures 9 and 10 show the respective growth rates for company and consumer loans in the Eurozone as a whole and in Spain. One of the effects sought by the two LTROs undertaken by the ECB at the start of the year was to open up lending, especially in the countries on the Eurozone periphery! However, there is little sign of this. On the contrary: credit appears to be contracting even more in the case of Spain. It remains to be seen whether the ECB will adopt additional monetary stimulus measures similar to “Operation Twist” by the US Federal Reserve!

In any event, the surprise of the markets is, well, surprising, since as early as late 2011, the consensus forecast was renewed recession in mid-2012. Apparently, there was never any expectation that the forecast would be accurate or there is now no fear of a lengthy phase of shrinking economic performance.

The trends in personal consumption (see Figure 11) present a more nuanced picture. Whereas consumption in the Eurozone as a whole has collapsed drastically, meaning recovery of the economy is not to be expected, German consumption looks almost optimistic, particularly in view of the local labour market and the prevailing wage trends. In the US, where personal consumption has always played a major part in economic growth, the trend is more or less neutral. A look at Figure 12 makes it clear why the US is often described as being “in love with statistics”! In this figure, the type of beer consumption in the US is statistically analysed. If “average” Americans tend to be drinking affordable canned beer, they aren't doing as well as when they grab a draft beer! Although at first glance this perhaps may sound ridiculous in and of itself, it does in fact help to explain matters. Indeed, the growth in the premium segment as compared with affordable canned beer from 1990 to 2007, the longest post-war growth period in the US, underscores this interpretation. Consequently, renewed growth in the sale of canned beer does not bode well for future economic growth in the US.

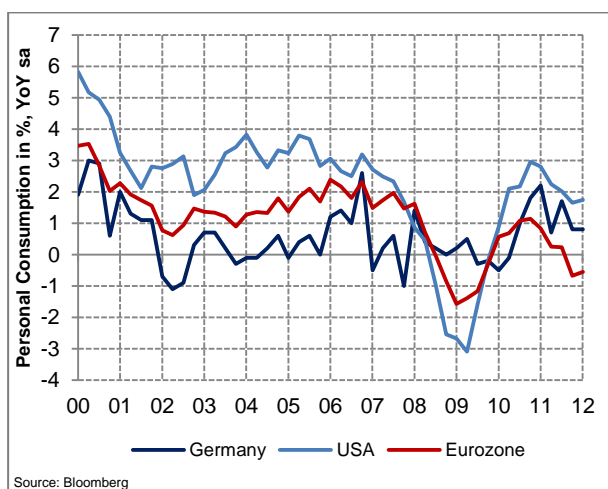


Figure 11: Trends in personal consumption in the US, the Eurozone, and Germany

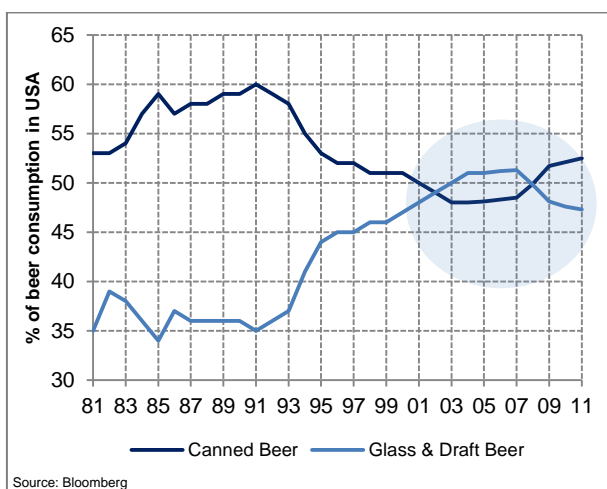


Figure 12: Relationship between various types of beer consumption in the US

While economic prognosticators are still debating whether the current economic downturn is merely temporary in nature, very different, much more dramatic developments are worrying Europe's financial industry.

Figures 13 and 14 show trends in bank deposits by non-banks in select countries since 2002 and 2010. Particularly in Germany, thanks to Professor Sinn, the media has been discussing TARGET2 balances since the fall of 2011, although this has largely been forgotten. But it should be pointed out that the TARGET2 problematic



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wouldn't become an issue unless the Eurozone were to collapse. The trends in bank deposits, however, are a direct problem. If companies and individuals no longer have trust in a bank (or a banking system) and in the course of this growing mistrust withdraw their money from the bank, such a bank run often brings about the collapse of the bank, unless the government provides the bank with sufficient resources. But the central bank, which provides liquidity to banks in exchange for collateral, can do this only if there is collateral available.

A look at Figures 13 and 14 shows where the urgency of the demand for a banking union and European deposit insurance is coming from. The decline in deposits – first in Ireland, then to a dramatic degree in Greece, and now in Italy, Portugal, and Spain – highlights just how concerned the respective governments are about significantly missing their own deficit goals if they need to support their banks. The involved parties feel that the solution lies in the direct refinancing of banks from the respective rescue funds, although while in favour of it, we cannot over-emphasise the temporary nature of such a measure. It goes without saying that this path would ultimately not be a way out of the crisis, since this would not eliminate the causes of the mistrust in banks. For this reason, we expect that once European banking oversight is instituted, European liability for bank deposits will also come into being.

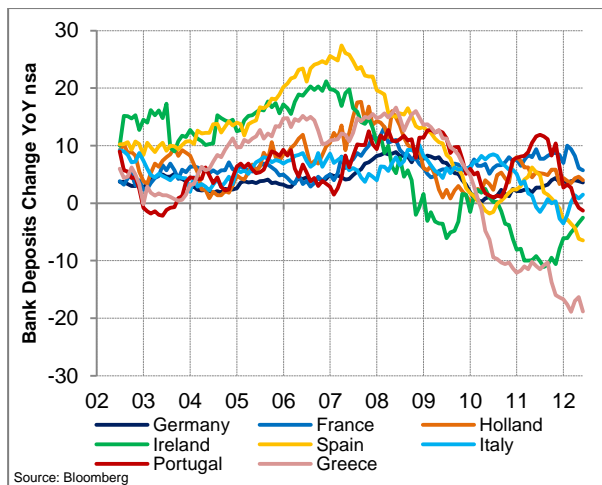


Figure 13: Change in bank deposits with non-banks

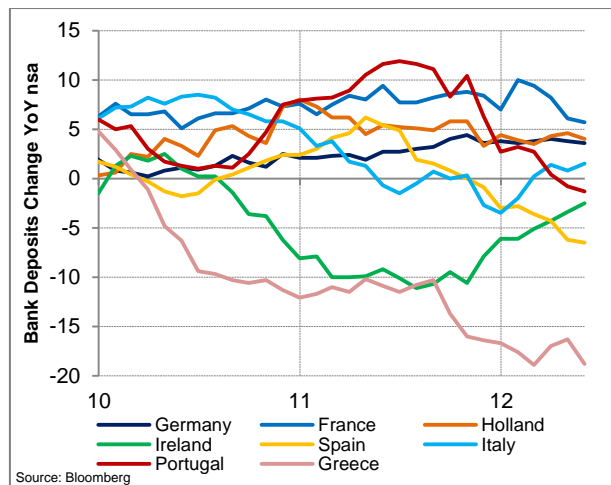


Figure 14: Change in bank deposits with non-banks since 2010

Finally, we would like to talk about currencies. Figure 15 shows the relationship between commodities prices – using crude oil as an example here – and the trends in exchange rates for so-called commodity currencies. The latter are usually composed of the Australian dollar, the Norwegian krone, and the Canadian dollar, since in these economies, commodities make up a large share of the added value. The argument generally goes that in a global recovery, the demand for commodities increases, and this is reflected in the rising exchange rate of these currencies against other currencies. Figure 15 shows this relationship, and with certain temporal delays, the assumption also appears to be accurate. Should this assumption bear out unchanged in the future, the exchange rates for AUD, NOK, and CAD must consequently decline against the USD and the EUR. However, we fear that this relationship is broken, since the motivation of the market in buying so-called commodity currencies is now only indirectly dependent on commodities earnings, while indirectly due to the earnings from the sale of mineral resources, the credit quality of such a country is often better. And in particular, changes in the appraisal of these have in recent months led to significant disruptions on the capital markets. For this reason, we are continuing to maintain our long position in AUD and NOK.





In closing, we'd like to take a brief look at the earnings situation for the various hedge fund strategies. Figure 16 shows clearly that the hedge fund industry does not appear to be achieving any outstanding performance in the tense markets, which moreover are still dominated by politics. The days of double-digit earnings growth appear to be over, which once again makes clear how important it (still) is to act steadily and cautiously in today's capital markets.

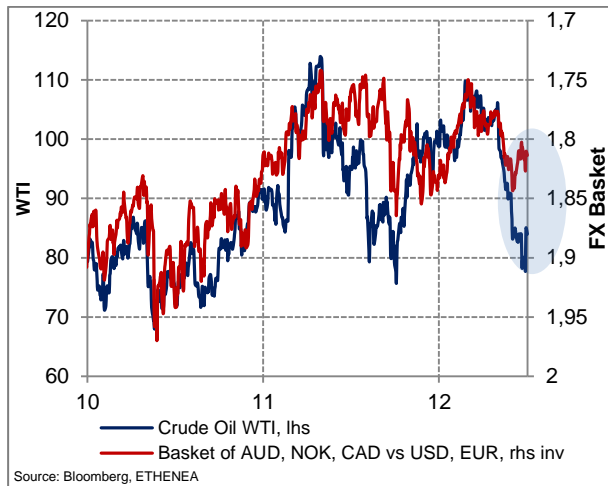


Figure 15: Trends in crude oil price and a basket of so-called commodity currencies vs. USD and EUR

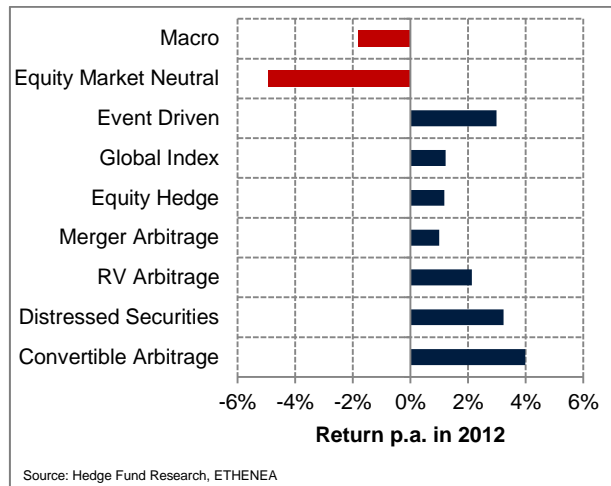


Figure 16: Earnings of various hedge fund strategies in 2012



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	Currency									
	TW €	€ \$	€ CHF	€ £	€ JPY	€ AUD	€ NOK	€ CAD	€ TRY	€ CNH
Last	88.96	1.2651	1.20115	0.80676	100.96	1.23612	7.5457	1.28857	2.2878	8.0452
-1M	1.3%	2.3%	0.0%	0.6%	4.2%	-2.7%	-0.1%	0.9%	-0.8%	2.2%
YTD	-1.9%	-2.2%	-1.2%	-3.2%	1.5%	-2.3%	-2.6%	-2.2%	-6.6%	-1.9%

	Germany Gvmt				ITRAXX 5y			
	2y	5y	10y	10/2y	Europe	Xover	SenFin	SubFin
Last	0.124	0.611	1.583	146	166	361	261	471
-1M	12	27	38	26	-14	-56	-36	-27
YTD	-8	-21	-32	-24	-7	-217	-14	-20

	Yield pick-up to German 10y Gvmt										
	USA	UK	Japan	France	Austria	Holland	Italy	Spain	Portugal	Greece	Ireland
Last	6	15	-75	110	83	52	352	475	858	2425	662
-1M	36	37	-38	116	91	41	402	536	1083	2963	701
YTD	-3	7	-92	133	114	39	430	320	1146	3306	630

	Equities					
	DAX	Dow	EuroStx	CAC40	FTSE	Nikkei
Last	6416.28	12880.09	2264.72	3196.65	5571.15	9006.78
-1M	2.4%	3.9%	6.9%	6.0%	4.7%	5.4%
YTD	5.6%	5.4%	-4.5%	-0.8%	-0.0%	6.5%

Figure 17: Trends in various market data versus prior month and prior year (end of month)

Ethna-AKTIV E	T1	UT2	LT2	Unspec	SUB
Banks	1.9%	0.0%	2.1%	0.0%	4.1%
Insurance	4.4%	0.8%	0.6%	0.6%	6.4%
Other	0.0%	0.2%	0.0%	0.5%	0.7%
Ethna-GLOBAL Defensiv	T1	UT2	LT2	Unspec	SUB
Banks	0.8%	0.0%	1.8%	0.0%	2.6%
Insurance	2.8%	2.1%	0.0%	0.5%	5.3%
Other	0.7%	0.9%	0.2%	0.1%	1.9%
Ethna-GLOBAL Dynamisch	T1	UT2	LT2	Unspec	SUB
Banks	0.0%	0.0%	0.8%	0.0%	0.8%
Insurance	4.9%	2.3%	0.0%	0.0%	7.3%
Other	0.0%	0.0%	0.0%	0.0%	0.0%

Figure 18: Share of subordinated bonds in the overall portfolio of Ethna-AKTIV E, Ethna-GLOBAL Defensiv and Ethna-GLOBAL Dynamisch





Currently, the Ethna-AKTIV E bond portfolio is achieving a yield of 4.97%, with a modified duration of 5.38 and a rating between A- and A. Ethna-GLOBAL Defensiv is showing a yield of 4.47%, with a modified duration of 5.46 and a rating between A and A+. Ethna-GLOBAL Dynamisch is currently generating a yield of 4.90%, with a modified duration of 5.66 and a rating between BBB+ and A-. The indicators have changed only slightly, with the exception of Ethna-GLOBAL Dynamisch. The bond portfolio here was heavily restructured in favour of better ratings.

Risk diversification through numerous yet small investments continues to appear to us to be an effective method for overcoming the continuing crisis. The high rates of liquidity are an expression of, on the one hand, the lack of attractive investment opportunities and, on the other, the continuing lack of market liquidity. When we find the right investments, it is our intention to reduce liquidity again to our customary levels.

Value at Risk		Ethna-AKTIV E	Ethna-GLOBAL Defensiv	Ethna-GLOBAL Dynamisch
99%, 1d		0.4 %	0.4 %	1.1 %
99%, 20d		1.6 %	1.7 %	5.1 %
Stress test	Scenario			
Worst case		-8.4 % I+S+V+F-E-	-8.6 % I+S+V+F-E-	-7.6 % I+S+V+F-E-
I: Interest Rates + 150 bp	I+S0V0F0E0	-4.7 %	-5.5 %	-3.1 %
I: Interest Rates - 150 bp	I-S0V0F0E0	4.1 %	5.4 %	3.3 %
S: Credit spreads * 1.25	I0S+V0F0E0	-2.2 %	-2.4 %	-1.2 %
S: Credit spreads * 0.85	I0S-V0F0E0	1.0 %	1.3 %	0.8 %
V: Volatilities * 1.45	I0S0V+F0E0	-0.4 %	-0.4 %	-0.0 %
V: Volatilities * 0.969	I0S0V-F0E0	0.0 %	0.0 %	0.0 %
F: FX rates + 4 * vola	I0S0V0F+E0	0.5 %	0.4 %	0.2 %
F: FX rates - 4 * vola	I0S0V0F-E0	-0.5 %	-0.4 %	-0.2 %
E: Equities + 4 * vola	I0S0V0F0E+	0.8 %	0.1 %	2.7 %
E: Equities - 4 * vola	I0S0V0F0E-	-0.7 %	-0.1 %	-2.2 %

Figure 19: Results of value-at-risk tests and stress-test scenarios for Ethna Funds





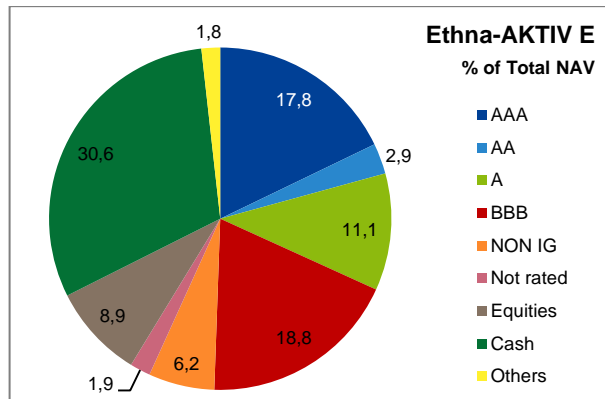


Figure 20: Portfolio composition of **Ethna-AKTIV E** by issuer rating

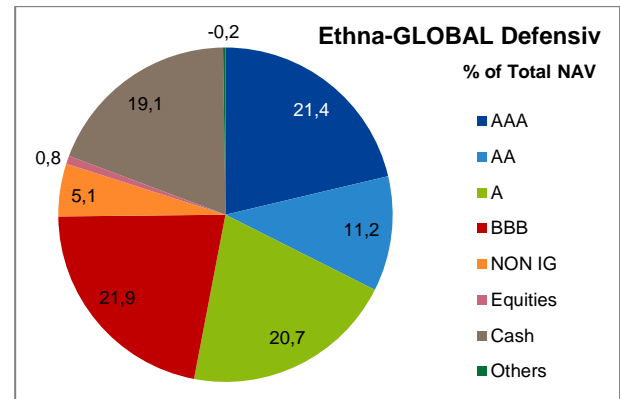


Figure 21: Portfolio composition of **Ethna-GLOBAL Defensiv** by issuer rating

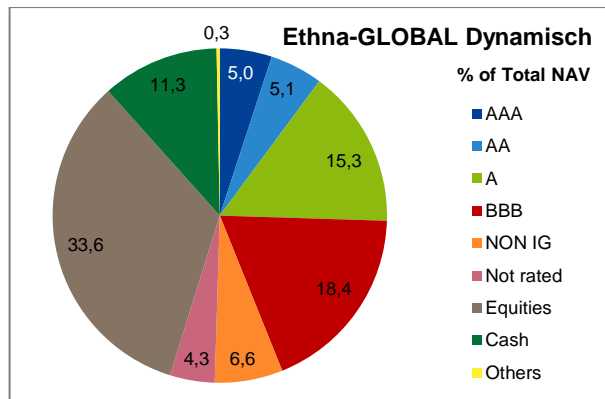
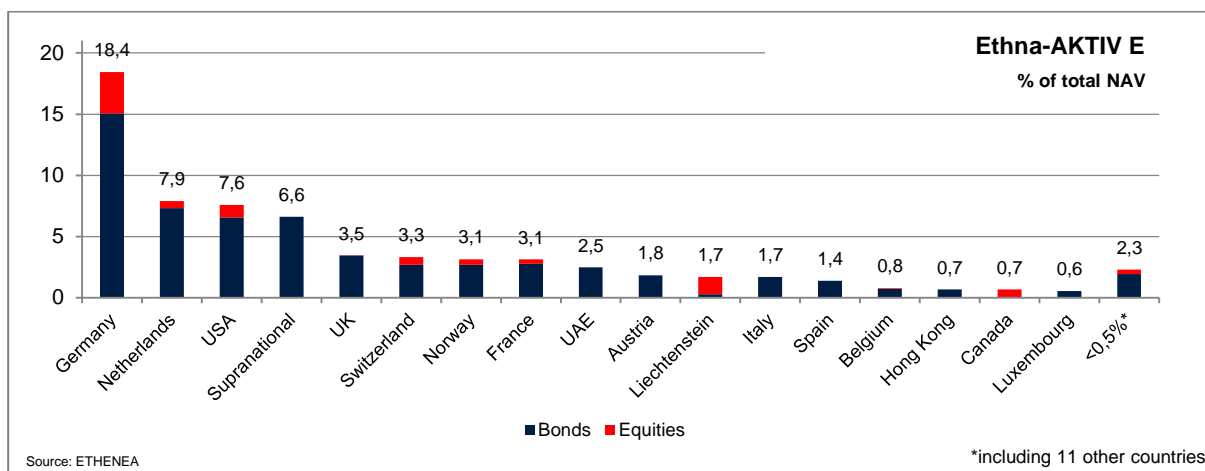
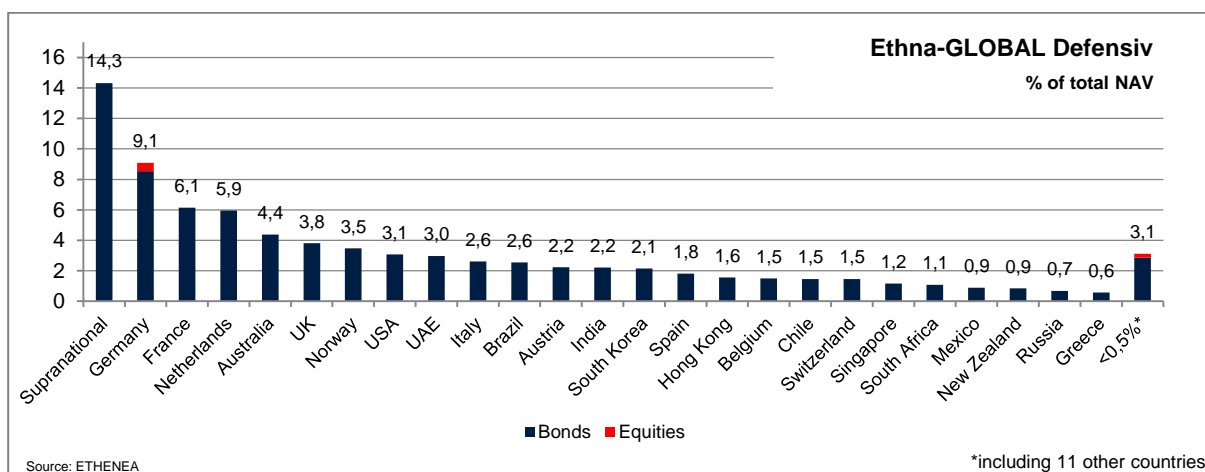
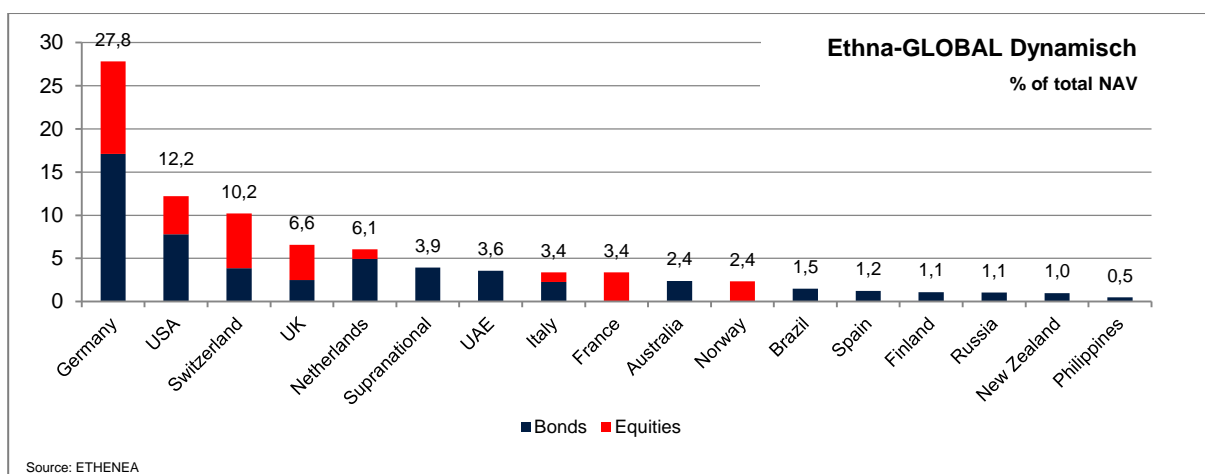


Figure 22: Portfolio composition of **Ethna-GLOBAL Dynamisch** by issuer rating



Figure 23: Portfolio composition of **Ethna-AKTIV E** by issuer originFigure 24: Portfolio composition of **Ethna-GLOBAL Defensiv** by issuer originFigure 25: Portfolio composition of **Ethna-GLOBAL Dynamisch** by issuer originETHENEA  
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Rating: ★★★★★

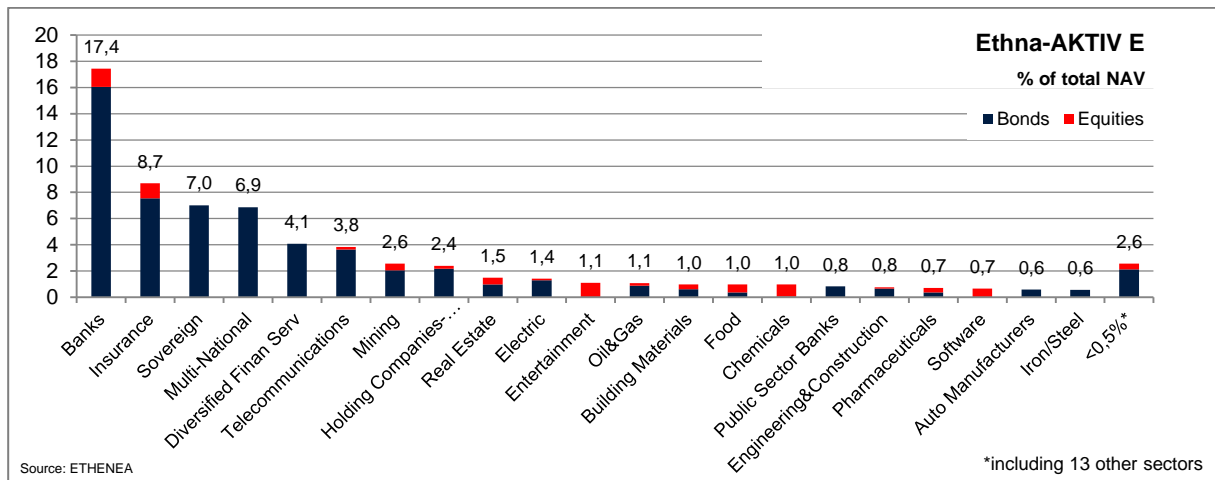


Figure 26: Portfolio Composition of Ethna-AKTIV E by issuer sector

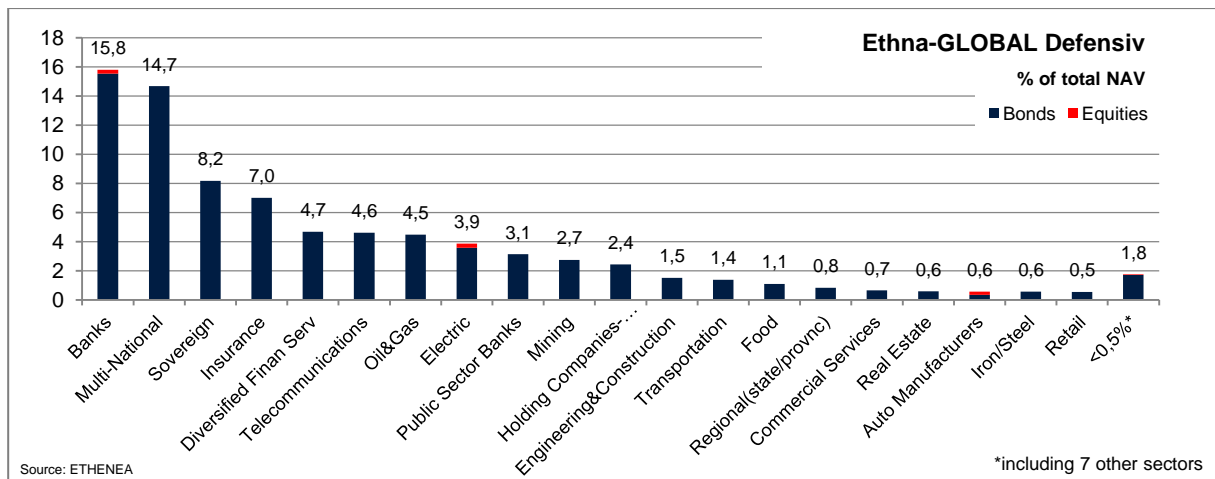


Figure 27: Portfolio Composition of Ethna-GLOBAL Defensiv by issuer sector

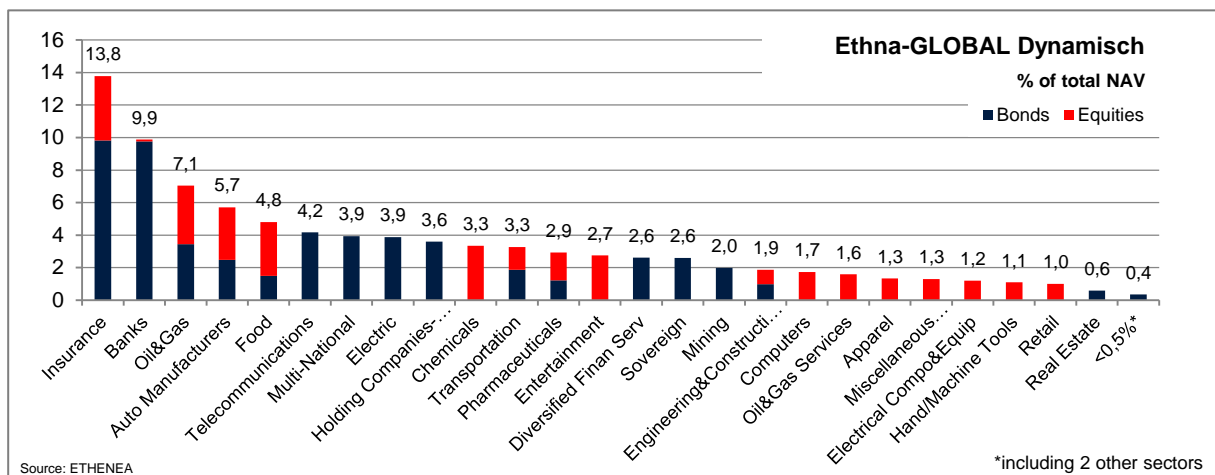
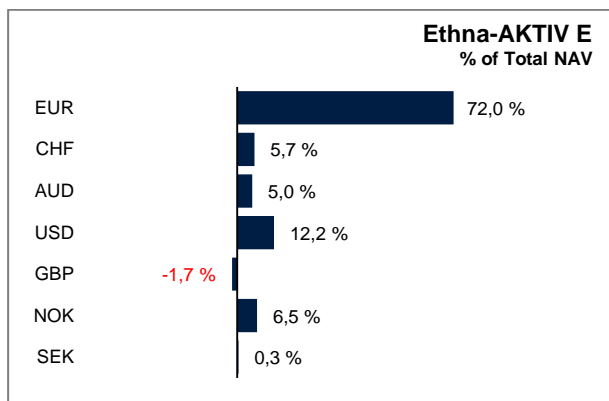
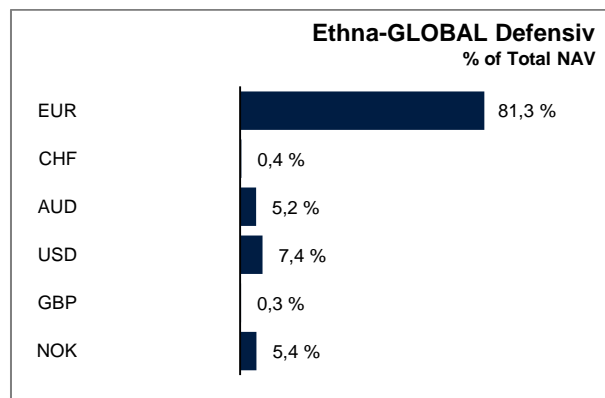
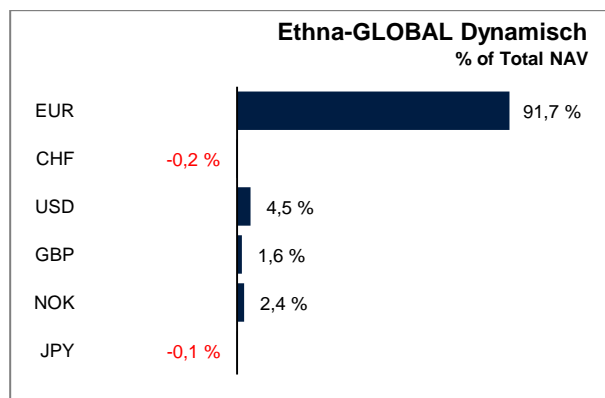


Figure 28: Portfolio Composition of Ethna-GLOBAL Dynamisch by issuer sector

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Figure 29: Portfolio composition of **Ethna-AKTIV E** by currencyFigure 30: Portfolio composition of **Ethna-GLOBAL Defensiv** by currencyFigure 31: Portfolio composition of **Ethna-GLOBAL Dynamisch** by currency

If you have any questions or suggestions, you are more than welcome to contact us.

Kind regards,

Guido Barthels (Author)

Luca Pesarini

#### Notes:

As is the case with any investment in securities and similar assets, investment in a mutual fund entails a risk of trading and currency losses. This risk extends to the prices of fund units and to yields, both of which fluctuate and cannot be guaranteed. The costs incurred by the investment fund affect actual investment performance. The legally mandated prospectus is controlling with respect to the acquisition of fund units. All information provided here is intended solely as a product description and constitutes neither investment advice nor an offer to enter into a contract for advice or information or to buy or sell securities. The content has been carefully researched and compiled. However, no guarantee is given as to its correctness, completeness, or accuracy. Munsbach, Luxembourg, 29 June 2012.



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