

We invest in winners. That means we invest in strong companies that create value for their shareholders with sustainable business models, solid balance sheets and high margins. We keep the risks low and invest when our position is fuelled by a positive event. We refer to that as the combination of value and event.

Immofinanz AG Convertible Bond

Since it was founded in 1990 the Austrian IMMOFINANZ Group has grown to become one of Europe's largest real estate groups. The portfolio comprises around 1,800 properties which are held as financial investments in application of IAS 40 and are carried at a fair value of EUR 9 billion. The strong growth was supported by 23 different capital increases, with which the group raised more than EUR 10 billion over the years. Given group equity of currently EUR 5 billion, and taking distributions to shareholders into account, the group has clearly not created any sustainable value but, on the contrary, has destroyed a great deal of shareholder value.

Despite two capital increases in a volume of over EUR 5 billion in 2006 and 2007, liquidity requirements of EUR 500 million were announced and it was uncertain at first how this was to be financed. In the midst of the economic crisis there were outstanding construction costs and contractual obligations hanging over the group. Questionable financial transactions and write-offs in the billions on properties, development projects, goodwill and receivables surfaced. The group was on the verge of collapse and could only be salvaged through a massive restructuring.

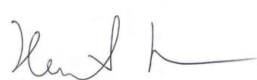
The central element was a merger of the listed company IMMOEAST into IMMOFINANZ AG as the acquiring company.

The group has been rescued. It has solid income from a portfolio of high-quality residential and commercial/industrial real estate consisting largely of properties in Vienna and major cities in Eastern Europe and is currently witnessing marked price improvements on the residential market. The balance sheet is strong with an equity ratio of 40% and there is a cushion of liquidity to be able to redeem the outstanding 2014 and 2017 convertible bonds that are callable prematurely by the bondholders. All the same, the two convertible bonds are due to be refinanced shortly in order to be able to implement the planned investments and propose a possible dividend payment for the financial year ending on April 30, 2011 at the AGM.

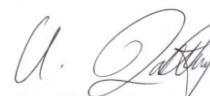
We increased our position in the convertible bond due in 2014 heavily in December 2010 at prices between 95% and 96%. We see our investment as a largely market-neutral arbitrage investment with a 12-month holding period (put option on 19 January 2012).

Our return to maturity consists of a coupon of 2.75% and a spread of about 3% between the redemption price and the current market price. In view of the successful restructuring and the solid rating (investment grade) the bond is currently priced too low.

Sincerely yours



J. Henrik Muhle



Dr. Uwe Rathausky