

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.

ARAG SE Bond 2005 (15/und.)

The Düsseldorf ARAG group was founded in 1935 by Heinrich Faßbender under the name of Deutsche Auto-Rechtsschutz-AG. Today, the largest family-owned company in the German insurance market, which boasts a global premium and sales volume of EUR 1.5 billion, is one of the leading legal insurance providers. Since the year 1980, the industrywide claims rate in the German legal insurance sector has ranged between 65% and 82%. ARAG takes advantage of the quality of its business model. ARAG has been consistently profitable thanks to consistent cost discipline and a relatively low dependence on capital markets.

ARAG Holding SE, as the asset-managing family holding, forms the corporate umbrella of the ARAG group. ARAG SE acts as the operating holding company for the group. It is responsible for the strategic management of all companies and the operating legal insurance business. ARAG Allgemeine Rechtsschutz-Versicherungs-AG was the legal predecessor of ARAG SE until 2011. It issued the only outstanding bond of the group in 2005.

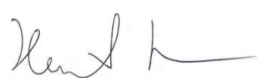
The bond was issued as a subordinated bond in 2005, and must be qualified as own resources pursuant to the law regarding the supervision of insurance companies (VAG). The bond features an interest rate of 6.45% p.a. until 15 August 2015 (First Call). After

that date, the quarterly interest rate will be at the level of the 3M Euribor, plus a margin of 410 basis points. The terms for the bond exclude a reduction in the nominal value. Dividend payments to shareholders require ARAG SE to service the bond. Omitted interest payments must be paid subsequently.

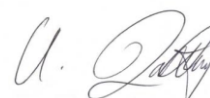
ARAG SE does not require a rating for the bond. The company's asset, financial and earnings position is excellent. It is one of the best-capitalised insurance companies. The bond only makes up 13% of own resources and only 5% of funds including actuarial provisions. In this context, EUR 265 million of valuation reserves in capital investments (market value: EUR 1.3 million) and thus a multiple of the outstanding bond volume are not even included in the company's own resources available for cover purposes. ARAG SE offered an impressive 545% solvency ratio as at 31 December 2011.

We purchased the bond at an average acquisition price of 91%. Although its share price has in the meantime increased to 102%, the stock still offers a generous yield of 6% p.a. until the termination date. We expect that the bond will be redeemed at an earlier date. Besides the interest structure (step-up), legislative reasons (Solvency II) and the probability inherent in the industry, there is another key reason behind our assumption: ARAG SE does not require bond financing.

Sincerely yours



J. Henrik Muhle



Dr. Uwe Rathausky