

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.

Wells Fargo & Company

In our investment report of May 2009 we gave our reasons why we viewed Wells Fargo as "the big winner of the crisis in the US banking landscape". This company, which was founded in 1852, had no or very minimal commitments in structured and leveraged credit products (CDO, CLO, LBO) and off-balance sheet special purpose companies (SIV, Conduit) following the bankruptcy of investment bank Lehman Brothers. While its competitors gave out mortgages to borrowers with the lowest credit rating, whose contracts offered only seemingly attractive interest rates ("adjustable rate mortgages") and an absence of down-payment periods but in fact caused negative amortisation, Wells Fargo decided to forego billions of dollars in new business commissions.

After its take-over of competitor Wachovia in 2008, Wells Fargo made up the business with double the strength and the usual discipline in underwriting. Today, Wells Fargo is the predominant property financing company in the US. Its share of the mortgage market has tripled since 2007, and currently stands at approximately 30%. The volume of mortgage loans that originated in the years 2012 and 2013 alone amounts to USD 875 billion. Approximately 75% of this amount is attributable to refinancing, with the help of the government aid programmes HARP and HAMP for the restructuring of mortgages due to the crisis.

In the last two years alone, Wells Fargo generated USD 18 billion in earnings not dependent on interest from mortgage contracts. In the years before 2009, it only earned USD 1 billion a year. During the same time period, the company was able to reduce the annual risk provision in the loan business to USD 2 billion and hence to the level of the pre-crisis year 2006 (table).

2013	2012	2011	2010	2009	2008	2007	2006
2	7	8	16	22	16	5	2

Wells Fargo expanded the loan sum based on a liquidity push triggered by the Federal Reserve, and multiplied profits after taxes to USD 22 billion (table).

2013	2012	2011	2010	2009	2008	2007	2006
22	19	16	12	12	3	8	9

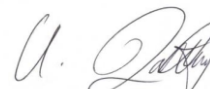
Even though the return on equity - at 14% - still has not reached the pre-crisis level (20%) and the share of distressed loans (2.4%) is likely to decline further as the US economy recovers, we are reluctant to incur the risk of a possible decline in the operating momentum in view of declining mortgage loans approvals, a declining interest margin, the repayment of government assistance measures and the resurging strength of competitors.

We purchased the first shares at the beginning of 2009 between USD 10 and USD 20. We have now liquidated our entire position at a share price of USD 46 per share.

Sincerely yours



J. Henrik Muhle



Dr. Uwe Rathausky