

**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.

### **Deutsche Bank hybrid bond**

Hybrid bonds usually refer to deeply subordinated corporate bonds. Because of their equity capital-like character, they were issued to strengthen the core capital of credit institutions as so-called Tier 1 bonds. Industrial companies also increasingly turned to hybrid titles to cover their capital requirements, since rating agencies allocated up to 75% of the issue volume to the equity capital. They may be accounted for as equity capital according to international IFRS practice.


The issuer can voluntarily terminate the bond as of a certain date. The investor does not have a right to termination. Under certain conditions, interest payments can be postponed or even omitted without a claim to subsequent payment.

Usually, the issuer terminates the bond at first opportunity (First Call) and redeems it at the nominal value (100 percent). Some credit institutions are waiving the customary repayment as a result of stricter refinancing conditions in the capital market. This constitutes a massive loss of trust for people investing in such titles. Things were even worse for the owners of several Upper Tier 2 bonds. Here, investors may have to participate in the net loss. This means that a portion of the capital has been consumed, and that initially the bond must no longer be redeemed at the nominal value, but only at a discount. As a

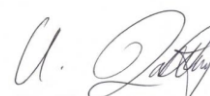
result, the market for hybrid bonds collapsed. Investors turned away, funds for hybrid capital were closed and the titles were swiftly sold. At present, credit institutions are finding it virtually impossible to obtain capital through hybrid capital. These distortions affected almost all issuers and bonds, even though the contract terms and credit rating of the debtors varied greatly. We are now taking advantage of this panic situation.

Among others, we purchased a Deutsche Bank hybrid bond (WKN 906930) at a rate of 29%. The next interest payment of 5.3% is secured despite the consolidated loss for 2008 due to the profits in the financial statement under commercial law, which are eligible for distribution. For the year 2009, Deutsche Bank again intends to make a profit at the group level. In the meantime, the bond price has risen to 50%, which means that our investment has already generated a gain of 72%. We view Deutsche Bank as a winner of the crisis, and believe that the risks for our investment are very minimal. Any participation in future Deutsche Bank losses has been contractually excluded for our bond; and any form of government or private increase in the share capital, if it should be required, would further strengthen our position as bond holder. Our fund should benefit from a normalisation of the market conditions in this segment.

Sincerely yours



J. Henrik Muhle



Dr. Uwe Rathausky