

**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.

#### UniCredit S.p.A.

We introduced UniCredit in our Investment Report in January 2012. At the time, we generated a profit of 36% within a few days by participating in a EUR 8 billion capital increase for restructuring purposes. Just five years later, in February 2017, the crisis-ridden bank implemented another capital increase of EUR 13 billion - the largest in Italian history. With the capital increase, Jean-Pierre Mustier marked the end of a series of measures that had been implemented since he took office in June 2016 in order to give the bank a new risk profile. Mustier generated EUR 8 billion in proceeds from the sale of holdings in Polish bank Pekao, Italian bank Fineco and fund company Pioneer. The capital increase was mainly used to balance out the value adjustments that became necessary to be able to sell non-performing loans of EUR 18 billion. But the bank is still sitting on a mountain of non-performing loans, even though they have been reduced in the interim to a net volume of EUR 25 billion, or 6.4% of risk assets. Mustier has put new personnel in numerous executive positions, and issued strict criteria for the origination of new business. The number of positions expected to be cut by 2019 was increased to 14,000 in order to reduce annual costs by EUR 1.7 billion. He even applied the measures to himself: He waived 40% of his salary and instead invested a portion of his own wealth in UniCredit shares. In three years, the institution is sup-

posed to generate a profit of EUR 5 billion again.

The new shares were offered at a ratio of 5:13, i.e. five existing shares came with the entitlement to purchase 13 new shares. The strong dilution was accompanied by a low acquisition price. It was 38% under the value of the previous day's closing price, adjusted for the subscription rights. This elicited our interest, also because some existing shareholders waived their full participation in the capital increase. Accordingly, we used the pressure to sell, which burdened the entitlements at the beginning of the subscription right period, to make our purchase. We acquired additional subscription rights from our possession of a UniCredit bond (see 03-2016 Investment Report), and the shares deposited as collateral. In this way, we were able to generate an attractive purchase price of EUR 11.92 per new share, taking into account the previous reverse split of 10:1. At that time, UniCredit traded at a considerable discount to its own book value and also compared to the European banking sector.

After the capital increase was completed, we sold our entire position. While we were able to generate a profit of 8% within a matter of days, we also obtained a price gain of 32% with the bond and quarterly coupon.

Sincerely yours



J. Henrik Muhle



Dr. Uwe Rathausky