

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.

Commerzbank AG Bond 2011 (19)

Frankfurt-based Commerzbank supports almost 15 million private clients and 1 million corporate clients with 58,000 employees worldwide. Germany's second-largest bank has been in crisis since the bankruptcy of the US investment bank Lehman Brothers in 2008. The reason - wrong decisions taken by management. Through the acquisition of government and real estate financing institution Eurohypo (2005) and the merger with Dresdner Bank (2008), the bank doubled its balance sheet to more than EUR 800 billion. The financial and economic crisis and the collapse of real estate prices and government bonds during the European debt crisis had a disastrous effect on Commerzbank's small capital buffer. The German government stabilized the bank with a silent participation of EUR 16 billion and assumed 25% of the share capital. Equity-strengthening measures triggered our interest in a lower tier 2 bond.

The debenture was issued in 2011 at a volume of EUR 1.25 billion, with a term of eight years. The coupon rate of 6.375% p.a. can only be discontinued if Commerzbank becomes insolvent. Risk is mitigated on account of the list of banks published by the Financial Stability Board in 2011, which deems these banks so important that their collapse would represent a significant threat to the international banking system. Commerzbank is found on this list as one of 29 banks worldwide.

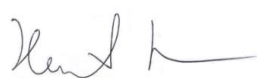
Therefore it must meet special requirements with regard to its capital resources. In order to strengthen these resources, EUR 11 billion were generated through a capital increase (8.25 billion) and the conversion of silent capital contributions (2.75 billion).

As a result, most of the government's silent participation was repaid. In addition, Commerzbank gradually bought back hybrid, subordinate and other financial instruments under their nominal value and used some of them as contributions in kind against new shares.

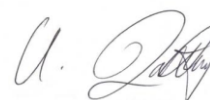
These measures resulted in a significant dilution of the share capital. During the last two years, the number of outstanding shares increased from 1.2 to 5.6 billion. While shareholders had to shoulder price declines of 70% during that period, bond creditors fared much better as their position improved significantly. Moreover, the capital base is also strengthened by the drastic repatriation of risk assets and high gross earnings of EUR 10 billion annually. This has allowed the bank to work through its existing problems.

We bought the bond in January 2012 at 81% of its nominal value. Following the price increase of the past weeks, we are still generating a return of 9% per year. We are convinced that this transaction has added longterm return potential to the fund.

Sincerely yours



J. Henrik Muhle



Dr. Uwe Rathausky