

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.

DZ Bank Capital Funding Trust II

Within the cooperative financial group, DZ Bank functions as the main institution for more than 1,100 credit unions, which support approximately 30 million clients via 13,350 business branches. The main pillars of the allfinance offering of the DZ Bank Group includes the Volksbanken and Raiffeisenbanken, as well as Bausparkasse Schwäbisch Hall, DG Hyp, VR Leasing, R+V Versicherung, Union Investment and DZ Privatbank. Measured by its total balance sheet (EUR 400 billion) and business volume (EUR 600 billion), the DZ Bank Group together with its strong brands is one of Germany's largest financial services organisations. Thanks to its stable profit and risk profile and given the resilient quality of its assets, the DZ Bank Group generated a net profit of EUR 1 billion in 2012. At the same time, the company also offers up good capital resources and considerable refinancing ability. The ownership structure forms the basis for this stability. Approximately 17 million customers are the owners of the credit unions. They in turn are the owners of DZ Bank AG, whose balance sheet was strengthened by a capital increase in 2009.

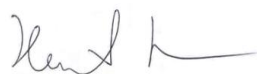
The regulatory capital resources of DZ Bank AG amounted to EUR 14 billion as at 31 December 2012. At that time, almost EUR 5 billion of subordinate liabilities was recognized as liable equity capital of DZ Bank AG pursuant to sec. 10 para. 5a of the Banking

Act (KWG). Its creditors include numerous customers of the Volksbanken and Raiffeisenbanken.

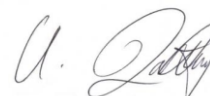
This connection turned our interest to one of the seven DZ Bank TIER 1 subordinated bonds. The conditions of the bond exclude a reduction in the nominal value. Interest payments depend on earnings. Omitted interest payments must not be paid subsequently. The bond was issued in 2004 and has no final maturity. Owners do not have a termination right, in contrast to the issuer. Such a right falls on the quarterly interest payment dates, on which the coupon becomes due on a pro-rata basis at the amount of the 3M Euribor plus a margin of 160 basis points p.a.

We purchased the bond in September 2012, at 44% of its nominal value. Despite the fact that the share price increased to 55% in the meantime, it is trading with a high discount on the nominal value due to its long term and low interest rate. While the 3M Euribor still reached a high of 5.4% in 2008, yields are now minimal given the current interest rate environment. The interest rate is at a historic low of 0.2%. The current interest for the bond is therefore 3% (6% until the end of the term) p.a. The remaining share price risk from interest reactivity is minimal. On the other hand, a general rise in interest rates, a buy-back or premature redemption of the bond would have the effect of directly increasing our return from this investment.

Sincerely yours



J. Henrik Muhle



Dr. Uwe Rathausky