

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.

Dt. Pfandbriefbank Bond 2007 (17/unb.)

Way back in November 2009, Hypo Real Estate Holding AG offered us an attractive investment opportunity thanks to their restructuring process. At the time, we purchased a profit participation certificate of DEPFA Dt. Pfandbriefbank AG, which disappeared as a result of the merger. Today, we are invested in a bond of its legal successor, Dt. Pfandbriefbank AG. It is the core bank of Hypo Real Estate Holding AG, which was nationalized with guarantees of more than EUR 100 billion. At this time, the EU is making financial aid contingent on the spin-off of Dt. Pfandbriefbank AG. As a consequence, all toxic risk positions and non-strategic business segments were shifted to a Bad Bank. This allowed Dt. Pfandbriefbank AG to shine in a new light as a leading European company for commercial real estate and public investment financing. The IPO took place on 16 July 2015. Hypo Real Estate Holding AG still holds 20% of the share capital.

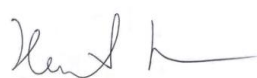
The conditions for the EU aid decision were met with the reprivatization and repayment of the dormant contributions. This elicited our interest in a Tier 1 bond that was issued in 2007 at a volume of EUR 350 million. The capital offers an interest of 5.864% p.a. until the first call on 14 June 2017. After that, the coupon payment is 2.13% p.a. plus 3M Euribor. The bond does not have a final due date. The conditions exclude proportionate

loss participation through a reduction in the book value. The coupon is paid voluntarily depending on the bank's net income under commercial law. Missed coupons are not paid subsequently. Dividends to shareholders trigger a payment obligation in favour of creditors, however.

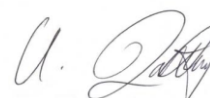
Freed of legacies, the bank is able to manage and expand its EUR 60 billion credit portfolio virtually without net allocations to the risk provision on loans and advances. Because of the low credit risk exposure, only EUR 13 billion are classified as risk-weighted assets in terms of the regulations. At the same time, many of the loans that have been paid out are refinanced at matching maturities, and mainly through the Pfandbrief market. Against this background, the bank almost appears overcapitalized in view of a total capital ratio of 23% ("transitional") and 20% ("fully phased-in"). Therefore we expect that the Tier 1 bond will be repaid on 14 June 2017. On the one hand, it will lose its entire regulatory tier 1 capital eligibility status with the first call due to its coupon structure. On the other hand, subsequent financing could be much more favourable.

We purchased the bond during the market upheavals in January and February 2016 at an average price of 94%. At the current price level of 98%, the yield to first call is still 7% p.a.

Sincerely yours



J. Henrik Muhle



Dr. Uwe Rathausky