

**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.

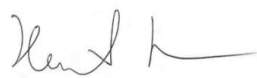
#### **Deutsche Postbank Funding Trust I, III, IV**

With total assets of EUR 150 billion and 14 million customers, Postbank is one of Germany's largest financial services providers for retail clients. Postbank was able to weather the financial crisis without government help, despite incurring losses as a result of the Lehman Brothers bankruptcy. The stability of its core business was noticed by Deutsche Bank in 2008, which acquired control of Postbank in 2010 following a take-over offer, and increased its share to 94% in 2012. On 30 March 2012, the institutions announced that they had entered into a control and profit transfer agreement. It became final and conclusive on 11 September 2012 as an agreement between Deutsche Postbank AG as an independent company, and DB Finanz-Holding GmbH as the controlling company. Since then, Postbank is required to transfer its profits according to sec. 301 of the Companies Act (Aktiengesetz). In turn, Deutsche Bank agreed to compensate all of Postbank's losses pursuant to sec. 302 of the Companies Act. This elicited our interest in a subordinated bond of Postbank (Funding Trust IV, see Investment Report 09-2012), for which interest is only paid if a net profit under commercial law is generated. However, since Postbank as the controlled company did not generate any profits or losses, only an annual result of zero, interest payments were secured for the duration of the agreement: Assuming the noncontrolled continuation of the bank's op-

erations, the budget calculations for the agreement report foresaw consistent annual surpluses until the end of the projection phase in 2018. We purchased the bond, which was issued in 2007 with a volume of EUR 500 million, in the summer of 2012, and consistently increased our position. Our average purchase price was 87% of the nominal value. In March 2017, we sold the bond for a price of 99%.

The interest until the First Call on 29 June 2017 is 5.983% p.a.; afterwards, interest is applied on a quarterly basis (3M Euribor plus 207 basis points). We believe that the risk that the bond will not be terminated at first call (even though the bond loses its eligibility for the bank's tier 1 capital on the same date) is not adequately depicted at the current price. Also because other Postbank bonds with a perpetual term are still outstanding beyond the first call. They lose their regulatory eligibility according to Basel III on a pro rata basis until 31 December 2021, with the special feature that they, as CMS (Constant Maturity Swap) bonds, depict the respective interest environment in the coupon, which means that their yield is minimal at present and they are listed well below their nominal value. We purchased these (Funding Trust I, III) between 55% and 65% starting in 2015. Thanks to increasing interest and inflationary expectations, they have increased considerably in recent months, so that we sold all of them at a rate of 78%.

Sincerely yours



J. Henrik Muhle



Dr. Uwe Rathausky