

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.

Cognis Holding GmbH Senior Note 2004 (14)

Cognis is a global supplier of innovative solutions and products based on renewable raw materials for the food and healthcare market and for the cosmetics, detergents and cleansers industry. The Monheim/Germany-based company was spun off in 1999 as a subsidiary from the chemicals division of consumer goods manufacturer Henkel in Düsseldorf. Cognis has been owned since 2001 by Cognis Holding Luxembourg, which is controlled by Permira, Goldman Sachs Capital Partners and Schroder Ventures Life Sciences.

As a supplier of specialty chemical products, Cognis is less exposed to business cycle fluctuations than companies supplying bulk chemicals. In the 2009 financial year Cognis generated sales of EUR 2,584m and an operating profit (EBIT) of EUR 195m. However, on the bottom line, net profit was only EUR 25m because, given net debt (including pension provisions) of EUR 2,104m, Cognis is burdened by huge interest payments. Shareholders' equity is negative to the tune of EUR 762m.

The balance sheet structure is the upshot of extremely aggressive private equity funding, with the capital expenditure in connection with the largely leveraged takeover being offloaded onto Cognis through special distributions and shareholder loans. Nonetheless, the world-leading chemical group BASF announced on June 23, 2010 its intention to

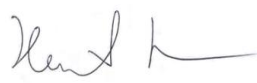
acquire Cognis for EUR 3.1bn including all its liabilities. The price being paid for the company's equity is EUR 700m. With this acquisition, BASF is continuing to expand its specialty chemicals segment, which was already strengthened last year with the acquisition of Ciba Holding AG of Switzerland for EUR 3.8bn.

In the wake of the announcement of the acquisition we invested in a Cognis Senior Note with an issue volume of EUR 345m and a fixed coupon of 9.5% p.a. that is due on May 14, 2014. Given an average purchase price of 105%, the yield to maturity is about 8% p.a.

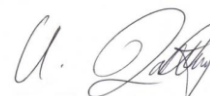
However, it is unlikely that the Senior Note will run until 2014. Given the complementary nature of the product portfolio, BASF expects the takeover to be approved by the antitrust authorities and the deal to be completed by November 2010. Because of its much more favourable own refinancing conditions BASF then wants to make use of the contractual option to call the Senior Note and redeem it in 2011 at 101.583%.

In this case our return for a one-year holding period would be 5.5%. This compares with a yield of only 1.4% on a BASF bond with a comparable maturity.

Sincerely yours



J. Henrik Muhle



Dr. Uwe Rathausky