

**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

The foundation for the crisis at Commerzbank, which has now been going on for years, was laid with the take-over of government and real estate financier Eurohypo (2004) and the merger with Dresdner Bank (2008). Commerzbank doubled its total balance sheet to more than EUR 800 billion. Its thin capital cushion was not able to absorb the losses incurred since that time. The German government stabilised the bank with a dormant contribution of EUR 16 billion and by assuming 25% of the share capital.

During the five years between 2008 and 2012, Commerzbank multiplied the number of outstanding shares from 657 to 5,830 million shares. Approximately EUR 17 billion was obtained with eleven capital increases. The share price suffered new losses with each placement. The first capital increase was placed at EUR 17.00, and the eleventh at EUR 1.36 per share. The bank made its - for now - last move during the last few weeks. First, capital was reduced by way of a consolidation of shares at a ratio of 10:1. This reduced the number of issued shares to 583 million units. It was followed by another capital increase at a ratio of 21:20 for the full and earlier repayment of the dormant contributions by the German government (1.60 billion) and Allianz (0.75 billion). The strong dilution effect was accompanied by a very low purchase price of EUR 4.50 per share. This implied a discount of

55% on the price of the existing share at the time the purchase price was announced on 14 May 2013. At the same time, the German government sold shares valued at EUR 625 million at the beginning of the subscription period, enabling it to accompany the increase in the share capital without additional capital contributions along with the full exercise of its pre-emptive rights. The price was supposed to feature a discount to the theoretical ex-rights price (TERP). This elicited our interest in a short-term transaction. We tried to participate in the placement. However, the purchase price was slightly above the theoretical ex-rights price. Ninety million shares were placed at a price of EUR 7.00 per share. We missed the entry point, and the price jumped to EUR 8.50.

On the last day of the capital increase period, another opportunity to enter opened up thanks to the selling pressure in the final phase. We acquired close to one million shares at a unit price of EUR 7.47 through the purchase of pre-emptive rights. At that time, the stock market capitalisation of Commerzbank was around EUR 8.5 billion, which corresponds to approximately 32% of its balance sheet equity and 21% of its balance sheet own resources following the capital increase. We were able to sell our new shares at a unit price of EUR 8.01 right after the new shares started trading. We benefited from the disposal of pre-emptive rights and generated a profit of 7% within four trading days.

Sincerely yours



J. Henrik Muhle



Dr. Uwe Rathausky