

**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.

### Volkswagen AG Bond 2012 (17)

On 24 June 2016, the day after the memorable referendum about the UK's exit from the European Union, the DAX-30 lost more than 1,000 points in just a few minutes - a loss of 10%. Based on the scenario of similar price losses, we discussed the value of liquidity in our investment report as early as June 2012, and again in August 2015. In the discussion, we modelled the mathematical advantage compared to the asset position of a consistently market-neutral investor.

Highly-volatile markets always offer attractive buying or selling opportunities. Anyone who is fully invested must not only endure higher discounts on his portfolio during a crash, but is also unable to take advantage of deep price cuts. We are only fully invested if we find numerous irresistible opportunities. Otherwise we will hold variable amounts of liquidity and wait patiently until our yield requirements for stocks and bonds are met. This differentiates us from continuously fully-invested actors as well as top-down investors, who hold liquidity or derivative hedges for timing reasons and use these to depict their assessment of future market developments. At the same time, as yields decline, so does the attractiveness of liquid assets. Such a situation exists at the moment, because the ECB is imposing negative interest rates through the deposit facility of -0.4%, which the commercial banks are passing on to their

customers. Therefore we are turning to money market substitute bonds - liquid corporate bonds with excellent financial standing, which are just before their pull-to-par phase with a remaining maturity of one to two years, and therefore are not subject to the interest change risk. We stagger these bonds on the basis of different maturities. They yield between 5 to 20 basis points. In the end, we protect the capital of our investors against negative interest rates, while retaining the flexibility to take advantage of opportunities at any time.

For this reason, we invested in a debenture from the Volkswagen group, which was issued in 2012 at a volume of EUR 1.5 billion. It matures on 15 May 2017 at the nominal value. The bond was issued by Volkswagen International Finance B.V. under the "Debt Issuance Programme" guaranteed by Volkswagen AG at a volume of EUR 25 billion. The coupon is 1.875%, payable annually. Both a decrease in the nominal value as well as the cancellation of the coupon are excluded under the terms of the prospectus. Standard & Poor's initially assessed the debenture with an A-rating ("Upper medium grade"). Following the Volkswagen exhaust gas scandal, the rating has been amended to BBB+ ("Lower medium grade"). The yield to maturity is 5 basis points.

Sincerely yours



J. Henrik Muhle



Dr. Uwe Rathausky