

**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.

### **DZ Bank Capital Funding Trust III**

DZ Bank is the central institute of the cooperative Finanz Gruppe. The pillars of the allfinance offering include approximately 1,100 Volksbanken and Raiffeisenbanken, as well as Bausparkasse Schwäbisch Hall, DG Hyp, VR Leasing, R+V Versicherung, Union Investment and DZ Privatbank. Measured by its total assets (EUR 402 billion) and business volume (EUR 649 billion), the institution is the fourthlargest bank in Germany.

In the five years from 2009 to 2013, DZ generated a cumulative net profit of EUR 4.5 billion thanks to its stable profit and risk profile, and the resilient quality of its assets. The company already generated EUR 1.3 billion during the first six months of 2014. Another record year is in planning. At the same time, DZ Bank is also characterised by good capital resources and considerable refinancing ability. This is guaranteed by 17 million customers as the owners of the cooperative banks, which in turn own DZ Bank. For example, the bank managed the crisis year of 2008 with a capital increase of EUR 1 billion. Another capital increase in the amount of EUR 1.5 billion was completed a few weeks ago, in order to satisfy the strict regulatory capital requirements from the "Capital Requirements Directive IV" and the "Capital Requirements Regulation". It increased the hard core capital ratio to a comfortable 12%, and increased own capital funds to EUR 16 billion. Of this

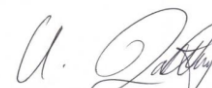
amount, approximately EUR 3 billion are attributable to seven TIER 1 subordinated bonds, whose creditors include numerous customers of the Volksbanken and Raiffeisenbanken. This connection caught our eye in 2012, and turned our interest on two TIER 1 bonds, one of which (DZ Bank Capital Funding Trust II) was introduced in our April 2013 investment report. The terms of the second bond (DZ Bank Capital Funding Trust III) are similar to the first.

The nominal value cannot be reduced under prospectus legislation. Interest payments depend on earnings. Omitted interest payments must not be paid subsequently. The bond does not have a final due date. In contrast to the issuer, the owner does not have a right of termination. Such a right falls on the quarterly interest payment dates, on which the coupon becomes due on a pro-rata basis at the amount of the 3M Euribor plus a margin of 150 basis points p.a. The current interest rate is 1.801% p.a. That is very attractive compared to our average acquisition price of 44% of the nominal value. A residual attractiveness remains in view of the current market price of 87%. Due to the long term and low yield, the bond is still trading with a discount on the redemption amount, despite its good rating (A+). The price risk from interest reability is minimal. Our yield would be improved if interest rates rise again, in the case of buyback or if the bond is redeemed at an earlier date.

Sincerely yours



J. Henrik Muhle



Dr. Uwe Rathausky