

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.

RZB Finance (Jersey) IV Ltd.

The Austrian Raiffeisengruppe features a three-level structure. The first level is made up of 494 Raiffeisen banks. Between them, they have 1.7 million members, with more than 40% of the Austrian population among their customers. The Raiffeisen banks are the principal owners of the eight Raiffeisen state banks, which make up the second level. The state banks in turn hold around 90 percent of the subscribed capital in Raiffeisen Zentralbank AG (RZB). The RZB forms the third level - the parent institution. It is the main service body and the hub between the banking group and Raiffeisen Bank International AG (RBI), which boasts a banking network in Central and Eastern Europe and 61% of which is owned by RZB.

While the second level was removed in the case of the German cooperative and Raiffeisen banks, the Austrian state banks retained their power. At the same time, reforms are also under way. For example, recently RZB bought the state banks out of the joint leasing and building savings company. With a book value of 3.3 billion, RBI is by far the largest RZB holding and responsible for the greater part of its annual result. They year 2014 is the first year that RBI will close the year with a loss due to special charges in Hungary and the Ukraine. For the year 2015, the bank plans to generate a surplus in the middle triple-digit million range. RBI passed

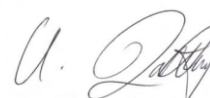
the ECB stress test as a part of RZB. RZB significantly surpasses the required equity ratios both in the basic scenario (9.5%) and the worst-case scenario (7.8%).

We are interested in a Tier 1 bond from RZB, which was issued in 2006 at a volume of EUR 800 million. Only EUR 441 million are still outstanding as a result of buybacks. The coupon of our bond is 5.169% p.a. until the First Call, followed by a quarterly payment of 1.95% p.a. plus 3M Euribor. The bond does not have a final maturity date. The terms of the bond exclude a reduction in the book value and the catch-up of missed coupons. The coupon is paid on a voluntary basis. Payment is made regardless of the annual result taking into account reserves (distributable profits). At the same time, dividends to the owners of RZB trigger a payment obligation. To that extent, there is a strong argument that the bond will also be serviced in the future. Still, the bond price is burdened with uncertainty due to the RBI loss. We recently exploited this weakness and purchased a first position at 86% of the face value. The decisive factor for us is that the bond will completely lose its eligibility for tier 1 capital (Basel III) with the First Call due to its coupon structure. Therefore it is likely that it will be redeemed on 16 May 2016 at 100%. Until then, we collect a yield of 8% p.a. with the assumption that the coupons will not be paid. If the coupons continue to be paid, we will receive 16% p.a.

Sincerely yours



J. Henrik Muhle



Dr. Uwe Rathausky