

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.

DEPFA-Bank promissory note

The German group Hypo Real Estate Holding AG is both a symbol and a reminder of the global financial and economic crisis. The former DAX group was rescued from collapse thanks to state guarantees of more than EUR 100 billion. Based on a resolution adopted by the General Meeting on 5 October 2009, the bank was nationalized by the financial market stabilization fund. The restructuring of the group represented an attractive extraordinary situation for us.

In 1996 DEPFA Deutsche Pfandbriefbank AG (then Deutsche Pfandbrief- und Hypothekbank AG) issued a promissory note with a term ending on 31 December 2011. The annual coupon is 7.65%. The terms of the certificate stipulate that distributions may only be made out of balance sheets profits. A balance sheet loss would reduce the repayment claim in the same proportion at which equity shown on the balance sheet (including promissory note capital) is reduced by covering the losses. It is possible that the values of nominal capital and omitted coupon payments will catch up during the term of the promissory note.

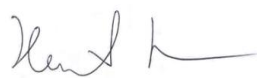
On 5 June 2009, DEPFA Deutsche Pfandbriefbank AG was amalgamated with Hypo Real Estate Bank AG, resulting in Deutsche Pfandbriefbank AG, the current core bank of Hypo Real Estate Holding AG. Strate-

gic planning for the amalgamated DEPFA Deutsche Pfandbriefbank AG provides for profits in 2009-2015 as part of the amalgamation agreement. Since the Law regulating the transformation of companies prescribes that promissory note holders must be accorded equivalent rights as part of an amalgamation process, it was contractually agreed that in the future promissory note holders of DEPFA Deutsche Pfandbriefbank AG would be positioned in such a way as if planned profits will actually occur, regardless of the actual results of the amalgamated institution. Future coupon payments and repayment at the nominal value on 2 July 2012 are there legally secured.

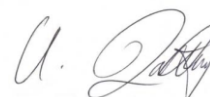
In our view, risks still exist with regard to (a) an insolvency of Hypo Real Estate Holding AG, if the EU rejects the issued state guarantee, and (b) a prohibition on the application of the promissory note through sovereign act on the part of the EU. Since (a) could lead to another "Lehman Shock", and (b) would represent arbitrary interference in German law, we estimate the probability of both risks as very low. We purchased the promissory note in October 2009, at 96% of its nominal value. This means that we are now quasi owners of a "government bond", which features an annualized return of 12% until redemption.

We would like to use these kinds of opportunities, which sometimes only show little correlation with the overall market, to add to our portfolio.

Sincerely yours



J. Henrik Muhle



Dr. Uwe Rathausky