

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.

SRLEV N.V. Bond 2011 (16/unb.)

SNS REAAL N.V. is one of the largest financial institutions in the Netherlands. It resulted from the amalgamation of several insurance companies (REAAL) and savings banks (SNS) in the year 1997. This was followed by an expansion phase in both business divisions. The takeover of an ABN AMRO real estate unit in 2006 turned out to be a big mistake. While the insurance business remained stable, the Property Finance segment suffered from enormous default rates. The group, which already used state aid of EUR 750 million since 2008, was not able to restructure itself on a financial and operating level. On 1 February 2013, the Dutch finance ministry announced the nationalisation of the group.

The shares and subordinate capital of the holding (SNS REAAL N.V.) and the banking segment (SNS Bank N.V.) were expropriated. The almost EUR 500 million subordinate capital of life insurer SRLEV N.V., which reports to the REAAL N.V. insurance segment, was not affected by this move. However, interest payments were suspended on 28 March 2013 at the request of the EU Commission. Standard & Poor's subsequently reduced the rating from BB+ to D. On 18 December 2013, the EU approved the nationalisation under the condition that real estate financing was spun off from the banking segment, and that the insurance business bundled in REAAL N.V. was

sold. While the spin-off was already completed by 31 December 2013, the sales process for the insurance segment has now entered its final stage. On 21 November 2014, the Dutch press reported that insurer ASR, in cooperation with Swiss RE and CFC, had received permission to submit a binding purchase offer. While the price of our SRLEV bond at a volume of EUR 400 million, which was already introduced in our December 2013 Investment Report, subsequently rose on account of these developments, the SRLEV bond of CHF 105 million did not initially react to the news. We used the short timeframe to purchase a nominal volume of CHF 8 million.

The capital of the CHF bond (Tier 2) offers an interest of 7% p.a. until the First Call on 19 December 2016. Thus the annual interest rate is 5.625% plus 5Y-CHF-Mid-Swap (currently 0.17%). A subsequent payment obligation exists with regard to omitted coupons. The sale of the insurance company by the Dutch government will be followed by a resumption of on-going interest yields and subsequent payments (with interest) for the coupons that were omitted in 2013 and 2014. This will lead to a positive rating trigger. We bought the bond with an expected yield to First Call of 6% p.a. Considering similar bonds of imminent sellers, future yield levels should be around a maximum of 2% p.a.

Sincerely yours



J. Henrik Muhle



Dr. Uwe Rathausky