

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.

Google Inc.

Within the space of a few years the Mountain View/California-based technology firm Google has become an integral part of our working lives and leisure time. Whether Internet searches (Google.com), smartphone (Android), videoclip (Youtube), network (Google+) or web browser (Chrome): Google's five core products are used billions of times every day. All the activities are driven by the group's vision of bringing people and information together.

Google is a cash machine. Over the past five years the company has trebled its earnings and generated an accumulated profit of approximately USD 35 billion. It makes 25 cents profit on each USD of revenue. Google earned roughly USD 10bn just in 2011. Google derives 95% of its income from advertising on its own and other Internet operations (Google Network Members' Websites). The strong growth in revenues over the past years is due both to the rise in global clicks (pay-per-click) and to the increase in revenues per click (cost-per-click).

On the other hand, the cost of generating and expanding the revenues is rising less than proportionally. Production cost mainly consists of the payments for network and distribution partners (traffic acquisition costs). Over the past five years these have fallen from about 30% to 24% of revenues. The quali-

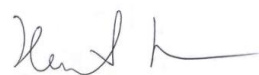
ty and tremendous reach of the Google products therefore constitute a competitive edge that gives it pricing power for which Google has to deliver very little classic industrial input (asset light business model).

The share of the Internet-based search market constitutes a competitive edge that is supported by consumer habits, network effects, and the value of the brand. Berkshire Hathaway's Charlie Munger also sees advantages in this: "Google has a huge new moat. In fact I've probably never seen such a wide moat." Google's competitive edge is comparable to that of a daily newspaper which, in a world without the Internet, has a market share of 90%.

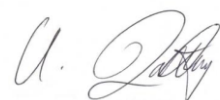
The quality of Google's core business enables us to analyze and estimate the development of revenues and margins even though the pace of change in the technology sector is high. Google invests in this change. Very successfully so far. Market share in the world of mobile communication is growing rapidly. Thanks to its innovative and open corporate culture it is the Google Group that is addressing the needs of consumers in exemplary fashion with a range of products and thus placing competitors under massive pressure.

We are investing in an equity bond with an initial yield of approximately 6% whose annual coupon will rise appreciably.

Sincerely yours



J. Henrik Muhle



Dr. Uwe Rathausky