ACATIS GANÉ Value Event Fonds UI (WKN A0X754)

Investment Report December 2017 **Aschaffenburg, 5th January 2018**

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.

Nordea Bank AB Bond 2004 (09/unb.)

Three years ago, our Investment Report introduced the subordinated bond, which was already issued in 2004. At the time, we purchased the paper at a buy rate of 67% of the nominal value. The discount was due to the special design of the EUR 500 million Tier 1 bond (BBB-). It does not have a final maturity, and only offers very little interest. Moreover, coupon payments are not obligatory but rather depend on the bank's available distributable funds. If the coupon is missed, it is not paid out at a later date (non-cumulative). Since we purchased the bond, the coupon fell from the already low level of 1.29% to 0.89% as a result of the historically low rates. The coupon corresponds to the 10y Swap rate (ICMS) plus 5 basis points.

At the same time, there were good reasons to purchase to bond. Nordea, northern Europe's largest financial company, is a stable anchor that emerged from the merger of Scandinavian banks in the year 2000 in order to consolidate the market following the Swedish banking crisis in the early 1990s. Accordingly, Nordea has a strong presence in its home markets. The technology-driven development of its own banking business and the renowned asset management segment represent considerable competitive advantages. The bank boasts efficient and risk-conscious management, has always been profitable and features low volatility in terms of results. The default rate in the loan book is only 10 basis points. Even at the height of the financial crisis, the rate (55 points) was so low that revenues were sufficient to generate billions in profits on the basis of a cost-income-ratio of 50%. Therefore, Nordea is always able to refinance itself in the global banking market at the lowest rates for newly issued capital instruments. At the same time, it can easily meet the strict regulatory requirements with a Tier 1 capital ratio (CET1) of 19%.

Based on Basel III, the fund has lost 10% of its eligibility for Tier 1 capital every year since 2012, because it does not meet the requirements for the required creditor participation. Accordingly, time was on our side. For one, the fund offered the potential for higher prices with the return of higher swap rates, in the event that interest rates (or at least inflationary expectations) should rise. Secondly, the closer we got to 31 December 2021, the more likely it became that Nordea would purchase the bond with a profit (buyback) or redeem it at a nominal value of 100% (termination). In the final result, it is probably the ECB with its bond purchase programme, which has now reached EUR 2,300 billion, that was mainly responsible for ensuring that the bond is again trading at a price of 94% of its nominal value. In that context, we successfully concluded our last CMS investment.

Sincerely yours

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