

Investment Philosophy (last updated Jan'11)

This section details the K&R Partners' Investment Philosophy. It does not constitute investment restrictions, is not legally binding and does not form a prospectus or part of a prospectus. K&R Partners reserves the right to deviate from these guidelines.

1. **Manager = Investor:** Mr Ruhland holds more than 10% of the capital allocated to the Managed Accounts.
2. **Competitive Advantage:** to benefit from the small size of assets under management by focusing on securities that are mispriced due to their limited trading volume.
3. **Geographic Focus:** to focus research on the German speaking areas.
4. **Qualitative/ Quantitative Research:** to focus research on securities whose underlying business, value drivers and risks appear to be transparent; to select investment situations based on market position/ market potential, historic profitability and quality of management; to limit the possible loss by quantifying the likely worst case share price scenario for each security.
5. **Limited UCITS Compliance/ Limited Diversification of Portfolio:** to comply with UCITS regulations except for a) individual long positions can reach up to 12% of net asset value (NAV) at cost and 30% of NAV at market value (UCITS: up to 10% at market value) and b) the sum of all positions exceeding 5% of NAV will not exceed 60% of NAV (UCITS: will not exceed 40%).
6. **Distressed Situations:** to allocate capital to turn-around/ distressed debt situations; the sum of all such positions will not exceed 10% of NAV at cost.
7. **Holding Period of Securities:** the holding period of individual positions varies between one month and many years; the expected yearly trading volume amounts to two times NAV.
8. **Limited Liquidity of Portfolio:** individual positions can be illiquid; it is the aim that 80% of the portfolio can be liquidated within 100 trading days.
9. **Target Size for Assets under Management:** to limit assets under management to € 40 Mio whilst the strategy has a capacity of € 80 Mio; the capacity is defined by the investment universe K&R Partners traces, the resulting number of investment opportunities as well as the average daily trading volume of these securities.
10. **Investment Objective:** K&R Partners aims (but does not promise)
 - to achieve a return for our investors of 10% pa in every four-year period; a return of 10% is equivalent to a pre-expense return of ca. 12.5% pa; the return target is demanding as the 25 year cycle of falling interest rates has come to an end; falling interest rates are the fuel of bull markets;
 - to limit the maximum loss in any downturn to 30% of the Investor's capital; K&R Partners expects the portfolio to show above average volatility due to its high share of securities with a limited trading volume; in the past such securities have shown share price movements which exceeded the earnings volatility of the underlying companies; consequently, a higher temporary loss cannot be excluded.