DynexCorp

Dynamic Currency Debt Management

1st Quarter 2009 Report 23 April 2009

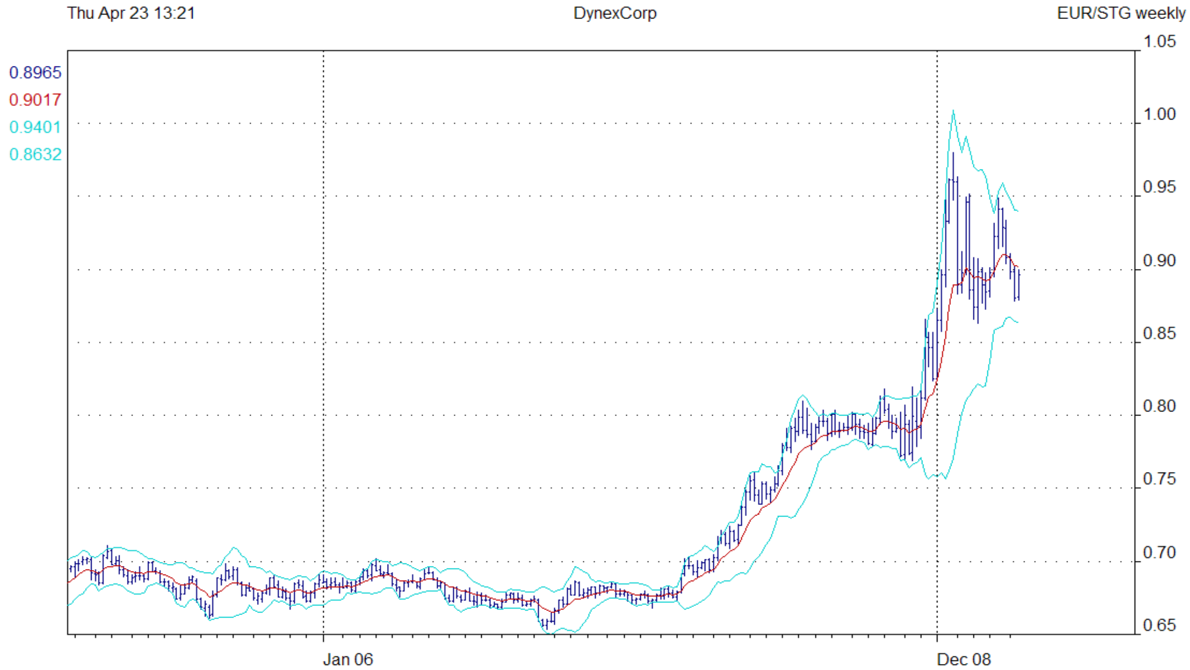
Interest Rate Convergence and Flat Performance

In early December we recommended re-entering non-EUR currency borrowings, by switching EUR loans into a mixed portfolio of other currencies as follows:

25% into USD (at 1.3000 USD per EUR) → today's rate: 1.3000
25% into GBP (at GBP 0.8800 per EUR) → today's rate: 0.8975
25% into CHF (at CHF 1.5600 per EUR) → today's rate: 1.5150
25% remaining in EUR (for eventual switch into CAD, which did not happen)

This resulted in a 0.5% gain in EURGBP and a 0.75% loss in EURCHF, as measured on the total loan portfolio value. The 0.25% aggregate loss from currency movements was offset by 0.25% made from interest rate differentials. Below we will evaluate this portfolio with regard to its adjustment - potentially for the remainder of the year.

The 1-month lending rate of sterling enjoys currently a modest advantage over the euro, but more importantly, fiscal policies recently announced by Alistair Darling in the UK budget with its huge deficit - a staggering 11% to 12% in 2011/12 by some analysts - and worsening unemployment data put sterling under much more pressure than euroland. Our historically valuable set of sentiment and contrarian indicators also favours the euro over sterling. The weekly EURGBP chart - while subject to wide swings during the last 6 months - remains solidly in up-trend territory, pointing to its previous all-time high of 0.98 achieved at the end of last year, whereas the downside risk remains the recent low of 0.86 seen in early February of this year. The current payoff of these levels is 3 to 1, therefore we opt for moving the CHF portion of the EUR-loan portfolio (e.g. 25%) into GBP (at around the current level of 0.8975) thus increasing the GBP portion to 50%. The remainder stays unchanged (25% USD, 25% EUR, as per previous letter).



Current EUR-based loan portfolio

25% USD → current rate: 1.3000
50% GBP → current rate: 0.8975
25% EUR →current rate: n/a

Borrowing can become an advantageous business if loan balances can be reduced through a) interest rate reduction and/or b) dynamic switching to weaker currencies. Interest rates for different currencies vary greatly. Switching loan balances into low interest rate currencies can reduce the interest burden. Switching loan balances into currencies that fall against the original loan currency can also reduce the loan burden. DynexCorp uses a combination of both to achieve benefits for the borrower.

For further information please contact:
Marlene Harrison, DynexCorp Ltd
8 rue de la Rôtisserie,
CH-1204 Geneva, Switzerland
+41 22 317 8888
+41 22 594 8880
info@dynexcorp.com
http://dynexcorp.com