



DynexCorp

Dynamic Currency Debt Management

1st Quarter 2012 Report

2 April 2012

Euro Intermezzo – A Spectacular EURJPY

At the end of 4Q2011 we re-entered USD (50%) and JPY (50%) in order to service euro loans. With EURJPY rising 11%, the results for the first quarter of 2012 have been short of spectacular, surpassing those of the “windfall” first quarter of 2011.

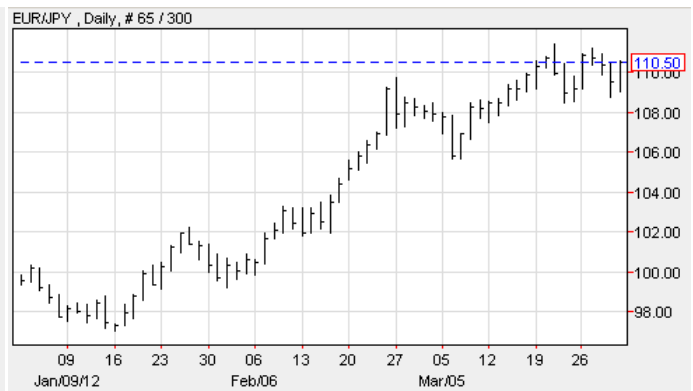
borrowings in	result from currency moves	result from interest difference	combined result (pro rata contribution)
USD	+1.46%	+0.35%	+1.71%
JPY	+5.51%	+0.57%	+6.08%
total from EUR debt management in 2012-to-date			+7.79%

During the first quarter of 2011, we experienced a windfall profit, causing us to scale down and eventually completely step aside for the second half of 2011. Our current situation is not dissimilar, and we see little scope for 2Q2012, causing us to leave euro denominated loans unhedged as at the end of this quarter.

as of 31 Mar 2012 - USD: 0%



as of 31 Mar 2012 - JPY: 0%



Current G10 SPI Values (e.g. fund net delta / NAV, averaged across funds) and Percentile Ranks (4y, 1y)

	Value	as % of NAV			No. Funds	
		Last Week	4y Percentile	1y Percentile	Long	Short
AUD	8.1%	7.5%	74.2%	82.4%	22	17
CAD	5.2%	6.3%	93.3%	90.8%	25	14
CHF	-10.0%	-11.1%	5.5%	6.7%	7	31
EUR	-2.3%	-7.2%	51.2%	94.0%	23	17
GBP	2.0%	-0.6%	71.0%	91.6%	20	17
JPY	-4.8%	-8.8%	20.2%	25.8%	15	23
NOK	2.5%	2.8%	54.5%	74.1%	13	15
NZD	0.6%	-0.3%	54.6%	70.5%	14	20
SEK	4.0%	3.9%	91.7%	92.4%	19	9
USD	-10.1%	-4.2%	53.4%	39.0%	18	22

Sea Change:

After all the euro bearishness prevailing at the beginning of the year, who would have guessed that at the end of 1Q2012 more funds are long than short euro. Have a look at the table at left: 23 are net long (up from 13) vs 17 net short (down from 31 90 days earlier). This forebodes a sure reversal in prevailing trends: euro should go South again, and yen North. This is reason enough to leave euro-denominated loans in their home currency and await developments during the next calendar quarter. Leaning back and being happy with 1Q2012 results will provide us (and our clients) with an unfettered view at the end of 2Q2012.

Current EUR-based loan portfolio

0% USD → current rate: 1.3314
 0% JPY → current rate: 110.50

Previous quarter-end rates

EURUSD
1.2936

EURJPY
99.53

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.

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