DynexCorp

Dynamic Currency Debt Management

2nd Half 2011 Report 2 January 2012

Low Interest Rates and a Falling Euro – No Go

EUR Debt Management 2011-to-date: +7.53%

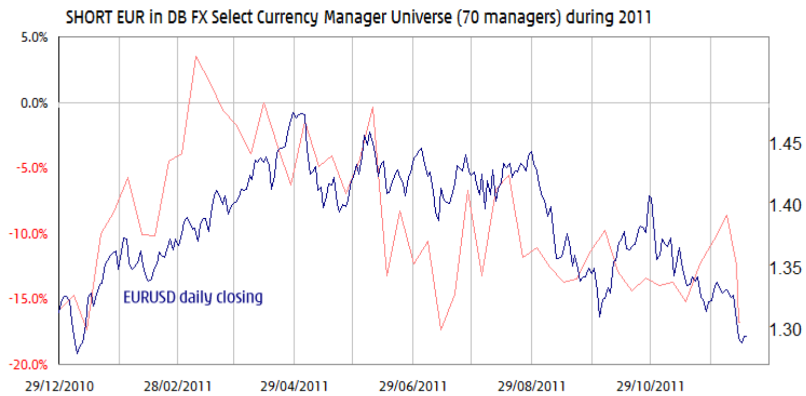
SYNOPSIS: During the first half of 2011 (particularly in the first quarter) we experienced a windfall profit. This has put us on an alert to protect all the profits harvested year-to-date and to step aside for the remainder of 2011, leaving euro-denominated loans *unhedged*. In 2012 on the other hand, we commit ourselves again to USD and JPY.

Low interest rates worldwide and a falling euro obviate any euro debt hedging into any other currency. Currency Risk Debt Management Clients are happy with the benefits of the results achieved in during the calendar year 2011.

Sentiment and positioning indicators in euro are now at historically extreme levels, foreboding a potential rally in EURUSD. The ratio of funds short the euro versus long the euro is at 2.4; while this is not an all-time high, it is significantly one-sided. Analysts are looking only one way when writing about the euro: DOWN. Newspaper headlines and hair salon gossip are confirming the sentiment extreme. Thus, as of today, we have moved from euro loan exposure to USD and yen, on an equal basis. We shall review this admittedly short-term view at the end of this quarter.

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

	as % of NAV				No. Funds	
	Value	Last Week	4y Percentile	1y Percentile	Long	Short
AUD	0.0%	1.0%	16.6%	14.7%	18	23
CAD	-0.4%	0.3%	38.9%	11.1%	19	21
CHF	-8.0%	-6.8%	9.2%	0.0%	8	32
EUR	-16.8%	-8.6%	3.6%	4.7%	13	31
GBP	-6.1%	-5.7%	8.0%	5.5%	11	29
JPY	4.3%	-1.2%	78.2%	91.6%	21	19
NOK	-0.3%	-0.3%	9.8%	3.5%	15	14
NZD	-1.5%	-0.3%	28.3%	41.0%	12	23
SEK	-0.5%	0.5%	29.8%	3.5%	15	11
USD	14.4%	6.2%	97.7%	99.6%	29	15



EURUSD 4Q2011

EURJPY 4Q2011

Current EUR-based loan portfolio

50% USD → entry rate: 1.2936

50% JPY → entry rate: 99.53

Previous quarter-end rates

EURUSD	EURJPY
1.3367	103.09

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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