



DynexCorp

Dynamic Currency Debt Management

2nd Quarter 2009 Report

6 July 2009

Lack of dynamics in EURGBP results in switching

At the end of 1Q2009 we recommended a mixed portfolio as follows:

25% in USD (at 1.3000 USD per EUR) → today's rate: 1.3935
 50% in GBP (at 0.8800 GBP per EUR) → today's rate: 0.8600
 25% unhedged

	currency result	interest result	total result
25%	+1.8%	+0.10%	+1.90%
50%	-1.2%	-0.05%	-1.25%
25%	unhedged		
	total benefit 2Q2009		+0.65%
			+2.6% annualised

Our forecast for 0.98 for EURGBP did not quite pan out. Thus, at the start of 3Q2009, we chose to re-adjust the portfolio as follows: increase in USD borrowing to 50%, decrease in GBP borrowing by 25% (to 25%) and adding JPY borrowing for the portfolio remainder of 25%, rendering the overall portfolio fully hedged.

As for yield differentials, Europe retains a solid premium in terms of short-term money rates, but at longer maturities the premium dissipates, notably in the certificates of deposit favoured by dollar investors. In terms of benchmark bond yields too (chart bottom right) we're back in neutral territory.

USD: 50%



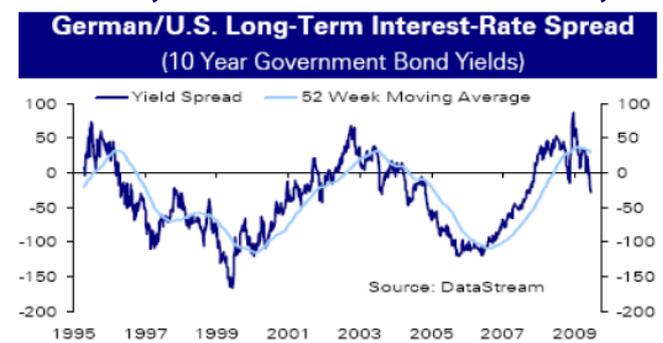
GBP: 25%



JPY: 25%



bond yields back in neutral territory



Current EUR-based loan portfolio

50% USD → current rate: 1.3935
 25% GBP → current rate: 0.8600
 25% JPY → current rate: 132.60

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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