DynexCorp

Dynamic Currency Debt Management

2nd Quarter 2010 Report — 3 July 2010

Positioning Indicators Confirm Sentiment Extremes

As muted in the two previous reports, we were waiting for extreme sentiment levels in euro cross rates for the last three calendar quarters. In our opinion we have now arrived at an entry opportunity. The EURUSD rate has fallen briefly below the magical 120 mark (roughly the place where it came into being 10 years ago), and is still at a level that we now consider a “bargain” (1.2375). Positioning Indicators published by Deutsche Bank for EUR and GBP remained stubbornly low throughout June, at -7.0 (EUR) and -8.5 (GBP) (see table below).

Therefore, as at the beginning of 3Q2010, we placed 50% of the EUR debt into USD, 25% into GBP and 25% into the good old JPY.

USD: 50%

GBP: 25%

JPY: 25%

Positioning Indicators at extremes

DBFX PI – Positioning Indices

	Latest	3mma	Last week	Change
EUR	-7.0	-7.7	-7.7	0.7
JPY	0.5	0.0	0.7	-0.3
GBP	-8.5	-7.5	-7.6	-0.9
CHF	-4.5	-3.4	-2.2	-2.3
AUD	-5.4	-0.7	-5.4	0.0
CAD	-0.2	1.5	-0.5	0.3

+10 = max, -10 = min

Source: DB Global Markets Research, Bloomberg Financial LP

Current EUR-based loan portfolio

50% USD → entry rate: 1.2375

25% GBP → entry rate: 0.8555

25% JPY → entry rate: 110.20

Performance YTD: 0.0%

Borrowing can become an advan-tageous business if loan balances can be reduced through a) interest rate reduction and/or b) dynamic switch-ing 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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