DynexCorp

Dynamic Currency Debt Management

4th Quarter 2009 Report — 4 January 2010

Fiat Credit = Fiat Money: Lessons of the 1970s

At the end of 3Q2009 we recommended standing aside and leaving the portfolio 100% unhedged in EUR. The results for the calendar year 2009 have been very rewarding:

borrowings in	result from currency moves	result from interest difference	combined result (pro rata time)
USD	+3.10%	+0.32% p.a.	+3.20%
GBP	+0.26%	-0.05% p.a.	+0.21%
JPY	-0.06%	+0.40% p.a.	+0.04%
CHF	-0.75%	+0.45% p.a.	-0.30%
total from EUR debt management in 2009			+3.15%

Our portfolio adjustments at the end of 2Q2009 did indeed work out quite well. 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 porfolio remainder of 25%, rendering the overall portfolio fully hedged. We are now in an area of sentiment extremes in all three curreny pairs and choose to step aside, moving all borrowings back into EUR. We see currently few opportunities other than borrowing in USD, yet sentiment indicators suggest the USD may be poised for a rally which would work against USD borrowings (vs. EUR).

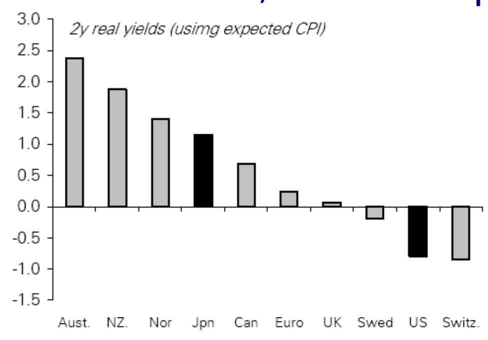
2009-to-date has yielded a sizeable profit of 3.15% which have resulted for the borrower not only in ZERO borrowing cost but also in an additional net gain of 2.4%. Debt management has paid of well in 2009!

USD: 0% (down from 50%)

GBP: 0% (down from 25%)

JPY: 0% (down from 25%)

to hot to handle:USD, CHF not an option



Source: Deutsche Bank, Bloomberg

Current EUR-based loan portfolio

0% USD → current rate: 1.4300
0% GBP → current rate: 0.9140
0% JPY → current rate: 132.25
100% in EUR

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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