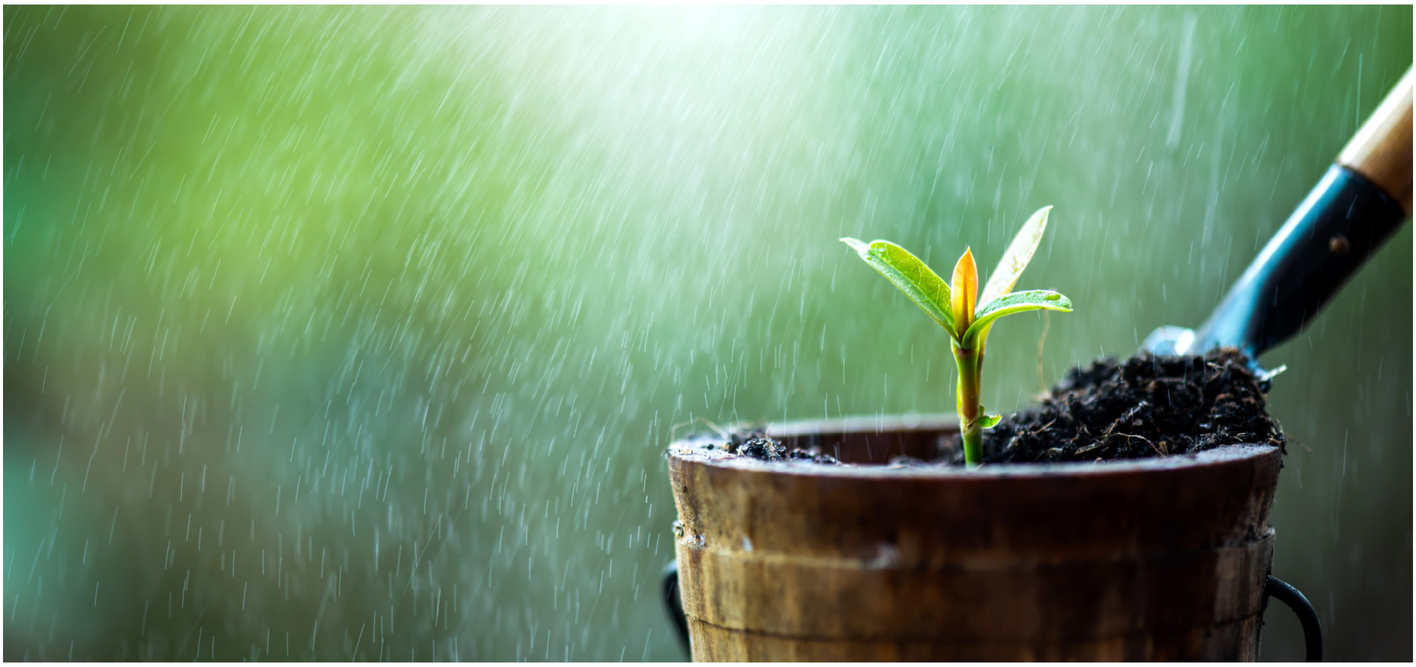
Interest rate turnaround has consequences.



Interest rates have been rising for well over a year. After almost four decades of falling and, ultimately, even negative interest rates, inflation has forcefully reared its nasty head. With the loss of wealth, all citizens are affected by the rapid decline in the value of money. Only debtors (such as governments) benefit from inflation. High inflation has forced the world's central banks into an inevitable turnaround in interest rates.

In terms of speed and scope, the turnaround in interest rates is an era in the making. It would be naïve to think that such major reversals will occur smoothly and without major repercussions for economic participants. As the last four weeks have taught us, unpleasant consequences are now becoming apparent. The insolvency of some U.S. regional banks has brought the nowadays well established rescue departments of central banks into action. In Switzerland, where Credit Suisse has been reeling for some time, the central bank and finance ministry have been forced to steer the institution into clearer waters.

As it turns out, interest rate risk management has not worked out well for an astonishing number of credit institutions. Institutions that bought long-dated bonds or made loans during the low-interest-rate phase are now facing substantial losses on these positions, unless they have made offsetting transactions to hedge them. Equity increases do not succeed in times of crisis. Once again, the state is called upon to prevent greater damage through deposit guarantees and liquidity commitments. State-controlled takeovers of troubled banks further increase concentration, as can be studied on the example of defunct Credit Suisse. However, it seems reasonable to hope that the German banking landscape will be less affected by the American bank failures this time. During the great financial crisis of 2007-2009, things were different. Several state-owned Landesbanken, but also private credit institutions (Industriekreditbank, Hypo Real Estate, Eurohypo, etc.) failed or had to be rescued.

However, the banking industry is by no means alone when it comes to the impact of the interest rate turnaround. All institutional investors that make interest rate investments are mutatis mutandis affected by the tectonic shift in interest rates. In the coming weeks and months, we will certainly hear about pension funds, insurance companies, provident funds and the like that have run into difficulties or are unable to meet their obligations to the extent expected. No sector of the economy may be as hit by interest rate hikes as the real estate industry. The damage that has been done to this sector can already be seen in the prices of real estate shares (Vonovia, LEG Immobilien, Aroundtown, etc.). Furthermore, it should not be overlooked that the central banks, as by far the largest bondholders, have suffered huge losses for their part.

Shareholders also need to carefully consider the consequences of the interest rate turnaround. There is no doubt that financing will become more expensive for companies. Since most companies operate with a fair amount of borrowed money, there are also earnings risks. As a result, balance sheet analysis is now once again taking a more prominent place in equity analysis. Logically, those companies that operate without debt or even have net liquidity are likely to particularly benefit from the interest rate development that has occurred. Fortunately, LOYS AG's fund management has always placed a high priority on balance sheet analysis and debt. Perhaps this also explains the good performance of all LOYS funds in the first quarter. LOYS funds have hardly been affected by the current banking malaise. On the contrary, we once again hope to benefit from the mistakes others are making in the current situation with our long-term quality approach.

Sincerely yours,

Fund managers and co-investors

Dr. Christoph Bruns Ufuk Boydak

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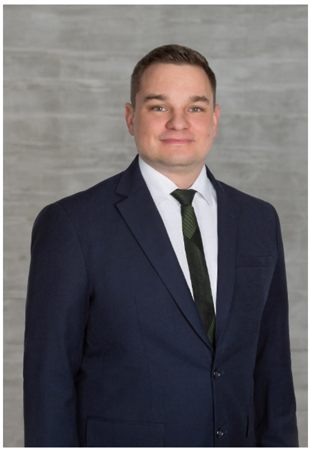

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