

**We invest in winners.** That means we invest in strong companies that create value for their shareholders with sustainable business models, solid balance sheets and high margins. We keep the risks low and invest when our position is fuelled by a positive event. We refer to that as the combination of value and event.

### Microsoft Corporation

The quarterly figures published on 29 January 2020, showing profit growth of 38%, impressed us so much that we decided to dedicate an investment report to Microsoft once again, following on from March 2011 and April 2019. The foundations for the company's recent operational momentum were laid in February 2014, when Satya Nadella, in his first e-mail to Microsoft employees, used the key message "Our industry does not respect tradition - it only respects innovation." to make clear that under his leadership a fundamental change lay in store for the world's leading software group: a reboot of its corporate culture. He wanted Microsoft to win back the magic it had lost with customers under his predecessor Steve Ballmer. To this end Nadella outlined a new mission for the company: "Our mission is to empower every person and every organization on the planet to achieve more." From now on the focus would be shifted onto customers' private and professional needs, to such an extent that the world would miss Microsoft if the group were no longer there. It gave up its role as a defender of Windows and Office. Microsoft saw its future role as a challenger that would put cloud computing and artificial intelligence centre stage. Today, Microsoft has regained relevance as an innovation and technology leader. Nadella launched the company's own products for the iOS and Android operating systems. He transformed its own cloud plat-

form Azure into new core product that is now used by more than 95% of all Fortune 500 companies to migrate their IT processes to the cloud. He aggressively expanded the Office 365 office applications, the Dynamics 365 business applications and the Microsoft Teams communication platform. In addition, he managed to bag two major acquisitions in the form of the career networking site LinkedIn (USD 26 billion) and the developer platform GitHub (USD 8 billion). Today Microsoft's network effect is bigger than ever and the group is geared towards highly profitable growth.

Over the course of Nadella's tenure from 2014 to 2019 Microsoft has generated USD 17 per share after taxes, of which USD 9 have been distributed and USD 8 retained. Earnings per share have risen by USD 2.4 (14% p.a.) to USD 5.1 over the same period. This means that in 2019 the retained earnings generated a very high internal rate of return of 30%. Nadella's allocation of capital is extremely effective. His rate of return far exceeds the 12% that Steve Ballmer managed to achieve in his many years as CEO. It therefore comes as no surprise that the share price has risen by 350% since 2014. We regard Microsoft as an equity bond with an expanding coupon. The current earnings yield is still 4%, even after the price increase. Over the current financial year Microsoft is aiming for double-digit growth and a 2% improvement in its operating margin. This means that for us Microsoft is still a core investment in our fund.

Sincerely yours



J. Henrik Muhle



Dr. Uwe Rathausky

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