

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.

Burberry Group plc

Mention trench coats and most people think of British luxury brand Burberry, which is especially well-known for its trademark-protected checked pattern. Thomas Burberry (1835-1926) designed the raincoat in the year 1914 as part of a contract for the British military (hence the name "trench"). Today's trench coats are still made of gabardine, a water-repellent and very light worsted fabric with a diagonal twill, which Burberry patented as far back as 1879. After the war, Hollywood turned the Burberry coat into an icon and its wearers into movie legends, especially Humphrey Bogart, Katherine Hepburn and Marlene Dietrich. Burberry has been the official supplier to the British royal family since 1955. Since then, the company has continuously expanded its product range. Today, it includes a number of different clothing articles, bags, scarves and shawls, shoes, makeup, perfumes and accessories.

Burberry went through a crisis in the 1980s, when the brand was considered very bourgeois. Burberry underwent a renaissance starting in 1998 with the arrival of head designer Menichetti, who turned the checked lining pattern to the outside; the brand has been successfully managed by multiple award-winning designer and current CEO Christopher Bailey since 2001. He has managed to highlight the importance and exclusivity of the brand while at the same time

keeping his eye on the mass market. With the integration of franchisees and the termination of license agreements, the company implemented initiatives designed to strengthen control over the brand and expand vertical integration. Today, there are 500 Burberry-owned and 70 franchise stores around the world; the company turns over GBP 2.5 billion a year, achieving a gross margin of almost 70%. Burberry is a very good capital allocator that generates a high return on equity. Between 2004 and 2014, the company generated GBP 3.7 per share after taxes. Adjusted for one-time effects, this number grew to GBP 4.1, of which GBP 1.5 was distributed and GBP 2.6 put into retained earnings. At the same time, earnings per share grew by more than GBP 0.5 (15% p.a.) to GBP 0.7. This means that retained earnings in 2014 generated an internal yield of 20%.

To date, the luxury goods market is characterized by conventional retail strategies (expansion of area). Burberry is a pioneer and innovator in taking the next step into a world in which the line between "stationary" and "digital" is becoming increasingly blurred. The purchase of a product is not a singular event but a brand experience that is influenced by a number of digital "touch points", leading to online, mobile or stationary purchase decisions. We believe that this offers great potential. We purchased shares in the company, which could become the focus of takeover efforts due to its shareholder structure and debt-free balance sheet, with an initial rate of return of 5%.

Sincerely yours



J. Henrik Muhle



Dr. Uwe Rathausky