

We invest in winners. This 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

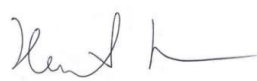
We have held investments in Microsoft for more than twelve years. The technology group's high-growth and high-earnings business model has benefitted from the acceleration in digital networking of the economy and society. The company reported new record results for the past financial year ending on 30 June 2023 (table).

	2023	2022	2021	2020	2019
Revenues, in bn USD	212	198	168	143	126
Operating margin	42%	42%	42%	37%	34%
EAT, in bn USD	72	73	61	44	39
EPS, in USD	9.68	9.65	8.05	5.76	5.06

Satya Nadella laid the foundation for this positive momentum in February 2014. In his first employee email as CEO of Microsoft ("Our industry does not respect tradition - it only respects innovation."), he made it clear how much he was willing to change the strategy and culture of his predecessor Steve Ballmer. He dropped the role of defender of Windows and Office. Microsoft saw its future role as a challenger that would put cloud computing and artificial intelligence centre stage. Nadella opened the company's products to third-party operating systems and made the Azure cloud platform the core product. The focus is on office (Office 365), enterprise (Dynamics 365), communications (Teams, LinkedIn) and gaming (Xbox) applications. Nadella also stepped up the partnership

he forged in 2019 with ChatGPT developer OpenAI to integrate the startup's groundbreaking AI technology into a range of Microsoft products. A monthly add-on subscription to the AI copilot is expected to cost USD 30 per user for Office 365 enterprise customers. Considering that there are 350 million users worldwide, this opens up enormous additional revenue potential for Microsoft. This puts the company back on the map as a leader in innovation and technology. At the same time, Microsoft will receive margin-boosting benefits from large network effects and low variable costs in product scaling. This all leads to very high profitability. Over the course of Nadella's tenure from 2014 to 2023, Microsoft generated USD 50 per share after taxes, of which USD 18 were distributed and USD 32 retained. Earnings per share have risen by USD 7.1 (16% p.a.) to USD 9.7 over the same period. As a result, retained earnings generated an internal rate of return of 22% in 2023. Nadella has generated an exceptionally high return on capital. It exceeds the 12% that Steve Ballmer managed to achieve during his tenure. Revenues and profits are expected to grow steadily in the years ahead. This means that Microsoft is still a core investment for us, even though we cut the company's weighting somewhat following strong share price performance, which reduced the distribution yield from dividends and share buybacks to 2%.

Sincerely yours



J. Henrik Muhle



Dr. Uwe Rathausky

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