

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.

Estée Lauder Inc. Bond 2020 (2027)

Estée Lauder is an American cosmetics company headquartered in New York. It was founded by the eponymous cosmetician and her husband, Joseph Lauder, in 1946 and has been listed in the S&P 500 since 1995. Its international expansion began with an order for the London-based store, Harrods, in 1960. Over the following decades, the Lauders propelled the growth of the company into a globally successful cosmetics company. They expanded into the product categories for skin and hair care as well as makeup and perfume. Today, the product portfolio includes prestigious brands such as Aveda, Clinique, Estée Lauder, Jo Malone, Kilian, La Mer, M·A·C, Origins and The Ordinary, which generated sales of USD 16 billion in the past financial year, as well as a gross profit margin of 71% and an operating profit margin of 10%. Although these numbers indicate the attractiveness of the business model, the decline here compared to the previous year (gross profit margin 76%, operating profit margin 18%) suggests difficulties. The challenges lie mainly in brand management and Estée Lauder's lack of popularity among younger customers. They prefer more dynamic brands. The countermeasures of turning more to social media and brand ambassadors while, at the same time, saving costs by laying off 5% of employees have not yet convinced us, which is why we are not currently investing in the stock. However, the robustness of the business model

and the envisaged operational turnaround have aroused our interest concerning the debt for a bond issued in the amount of USD 500 million in 2020. It is due at the nominal value of 100% on 15 March 2027. The coupon is for 3.150% with semi-annual interest payment. It has received a Standard & Poor's rating of A. In terms of prospectus law, a curtailment of the nominal value or default of the coupon will be excluded if Estée Lauder experiences at least one loss year. Due to the significant interest rate increases in the USA in 2022 and 2023, the bond has come under pressure. The price is 95% of the nominal value. The yield has thus risen to 5.0% p.a. It corresponds to the amount of one-year US government bonds. However, the remaining term for Estée Lauder is two years longer. We thus secure the yield for a longer term, while the treasury yield has already fallen significantly for the same term due to the inversion of the yield curve and the expectation of falling interest rates. Our interest-change risk is low due to the brief term. We acquired the bond and thus an attractive residual interest rate of 15% cumulatively for the remaining three years as an extended money market replacement. In this way, we diversify into USD, protect capital at attractive terms and maintain the necessary flexibility to seize new investment opportunities in a consistently volatile capital market environment.

Sincerely yours



J. Henrik Muhle



Dr. Uwe Rathausky

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