

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.

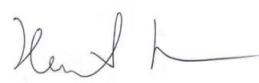
Zalando SE Convertible Bond 2020 (27)

Zalando was founded in 2008 and is now a leading online platform for fashion and lifestyle in Europe. Around 60 million customers contribute to a gross merchandise volume (GMV) of EUR 18 billion, with an average basket size of 60 euros and five orders per year. Since its IPO in 2014, the Berlin-based company initially recorded double-digit annual growth rates. During the corona pandemic, revenue even surged by 60% to over EUR 10 billion. In 2021, the company was admitted to the DAX-40. Since then, revenue growth has been more sluggish and operational profitability remains stagnant at a level of 5%. The company is struggling with subdued consumer sentiment, persistent price pressure, and aggressively competing marketplaces such as Shein, Temu, and TikTok. Zalando is responding to this with cost discipline, the expansion of its own ecosystem (acquisition of About You), and strong AI integration to improve the customer experience (Zalando Assistant, Agentic Commerce).


The internal financing power is very good. Despite high marketing expenses, which recently accounted for 9% of revenues, Zalando is profitable and generates abundant free cash flows. The company has no interest-bearing financial liabilities towards credit institutions, but rather liquidity amounting to EUR 2 billion. This is offset by liabilities from a subordinate and unsecured convertible bond

issued in 2020 with a volume of EUR 500 million. We have already been invested for several years in this paper, whose conversion option is trading deep out of the money. The share price is currently 23 euros, the conversion price is 92 euros, which corresponds to a conversion premium of 50% above the reference share price at the time of 62 euros. A reduction in nominal value or a default on the 0.625% coupon is excluded under the prospectus law, should Zalando, contrary to expectations, suffer a loss-making year. As the maturity of the convertible bond approaches (August 6, 2027), the paper has transformed into a money market substitute bond. By this, we mean liquid bonds of excellent credit quality that, with a short remaining maturity of up to two years, are immediately prior to their pull-to-par phase and are therefore not subject to any interest rate risk. The bond is currently trading at 97% of its nominal value and provides us with an attractive annualized remaining yield of over 3%. Such bonds give the fund stability. In an expensive market environment in which high-quality US corporate bonds from the "investment grade" segment show a record-low average yield spread over government bonds of only 0.7% - a value lower than during the credit excesses before the 2008/2009 financial crisis -, our focus in the fixed income segment remains on "risk-off" in view of geopolitical risks and stagflationary developments in the global economy.

Sincerely yours



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