



When the Market Prices Narrative Instead of Reality



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Alpha Through Elimination

Alpha emerges through consistent exclusion. We eliminate errors rather than chasing stories. The investment universe is systematically reduced. The key is to distinguish between companies that tie up capital and those that compound it over time.

What matters is not profitability alone, but the quality of capital allocation. A business model that is structurally unable to generate returns above its cost of capital, or whose competitive advantage is eroding, is not an investment. Regardless of how compelling the current market narrative may be.

What remains is a manageable universe. That is where the real work begins. Where is cash flow truly generated? What happens with every additional euro invested? How does pricing power behave when the economic environment becomes more challenging? The key is where the gap between price and intrinsic value is the greatest.

A Rare Setup in the Global Market

The Software Anomaly. We currently observe a rare mispricing. The market is pricing in a scenario in which AI structurally erodes the relevance of established software companies.

The market narrative. The consensus is pricing in the gradual extinction of established software ecosystems driven by AI. Valuation levels that imply free cash flow yields of up to 10 percent assume that the structural relevance of these business models will largely disappear.

Our antithesis. For those who control the customer interface and the underlying data, AI is not a substitute, but a lever within existing structures. AI does not act from the outside, but within these ecosystems, increasing their efficiency and relevance.

It is particularly notable that we currently see this value opportunity simultaneously in Europe and the United States. Just two years ago, it would have been almost unthinkable to discuss market leading software companies, then trading at 40 to 60 times earnings, in a value context at all. Today, software market leaders are trading at valuation levels around 10 times earnings, despite leading sector margins, continued double digit growth rates, and ongoing operational improvements driven by AI.

We continue to see structural growth, stable margins, and a level of cash flow quality in companies such as Europe's Wolters Kluwer or the American companies Adobe, Salesforce, or Intuit that is not reflected in current prices. Recurring revenues, double digit growth rates, and margins of over 40 percent in some cases stand in contrast to valuation levels that effectively imply stagnation. These companies possess structural moats: high switching costs, proprietary data, and deep integration into critical business processes that are more

likely to be reinforced than disrupted by AI.

Why the Disruption Is an Illusion.

The idea that companies will replace their existing software environments with internal solutions underestimates reality. Switching costs are high. Operational risks are significant. Software is rarely a major cost category, but it is almost always critical infrastructure. Professional providers distribute the costs of regulatory adjustments across thousands of customers, an effort that internal solutions would have to bear alone while carrying full liability risk.

Potential pricing pressure is also structurally limited, as many providers are able to materially reduce their input costs through AI, creating additional flexibility in pricing.

We therefore do not see structural disruption, but rather stabilization and, in many cases, higher economic quality.

What the Market Overlooks. At the same time, we observe in many of these companies a combination that is rare in this form. High liquidity reserves, ongoing share buybacks, and free cash flow yields of up to 10 percent coincide with record quarters and rising demand driven by the integration of AI into existing applications.

Focus on the Details That Matter

Part of these insights can be derived from the numbers. The decisive part emerges in the details of value creation. The market is currently pricing in an erosion of pricing power and growth due to AI.



Take European information service providers such as Wolters Kluwer: the market sees growth and margins under pressure. What matters is how this growth is generated, how stable it is, and how deeply the products are embedded in operational processes.

The relevant question is not whether AI is being used, but whether it weakens or strengthens the existing position. In many cases, we observe the latter. That is precisely where the discrepancy between price and value lies.

Fair Value and Asymmetry

This discrepancy leads to a clear conclusion: current valuations imply a scenario that is fundamentally unsustainable. This creates a pronounced asymmetry between limited downside and substantial upside as the operational reality continues to be confirmed. In selected cases, we see upside to intrinsic value of up to 100 percent, driven by mispricing, ongoing shareholder value creation, structural growth, and potential repricing.

Take Adobe: 12 percent revenue growth in the most recent quarter, EBITDA margins of around 40

percent, and free cash flow yields of over 10 percent. A business model with recurring revenues and long term customer relationships that views AI as the largest opportunity since its founding and integrates it as a structural growth driver.

We invest only when this asymmetry is clearly identifiable. When the market prices a company significantly below its intrinsic value while the underlying reality reflects stability and growth. Executing this consistently when the market tells a different story is the real differentiator.

The rest is discipline.

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