CRUX ASSET MANAGEMENT

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TM CRUX European Fund

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Fund Performance

Equity markets were volatile in the first quarter of 2022. January saw equities lose ground on fears of monetary tightening given high inflation. Although investors had prepared themselves for the US Federal Reserve to raise rates in 2022, they were caught off guard when the central bank indicated it would start to sell down its bloated balance sheet, as well as raising rates. This raised fears that this tightening cycle coupled with higher prices would tip the economy into a slowdown. Indeed, US consumer prices for December rose 7.0% from the prior year, confirming some worries about entrenched rather than transitory inflation. This led to a value rotation into banks and cyclicals at the expense of more highly rated stocks. Equities continued to lose ground in February as Russia invaded Ukraine, which was quickly followed up by significant sanctions from the EU and US. This led to rotation out of banks and cyclicals and into more defensive names. Oil and gas prices rose dramatically, helping share prices of many energy firms except those with Russian assets. Renewable energy stocks gained as the EU vowed to increase green energy investment to reduce Russian energy reliance. Equities subsequently rebounded in March as bargain-hunters returned and on optimism that a cease-fire in Ukraine might be approaching. Defence companies saw rising investor interest as Germany and other nations increased military spending. The US Federal Reserve raised interest rates as expected by 25bp to 0.5% and appeared positive on the economic outlook.

Attribution Stock Level Q1 2022

Top 5 Contributors	Bottom 5 Contributors
Equinor +0.69	ING -0.67
Novo Nordisk +0.35	Carlsberg -0.47
Roche +0.25	AMSL Holding -0.47
Softwareone +0.18	Prosus -0.44
Majorel +0.14	Infineon -0.43

Source: Stat Pro

Over the quarter the TM CRUX European Fund fell 10.3% compared to its performance comparator the IA Europe ex UK which fell 7.3%.* The fund was held back by more cyclical stocks on fears that the Ukraine conflict might induce an economic slowdown such as chip-maker Infineon, logistics DPW and Interroll, as well as some banks such as ING and Nordea. Performance was also held back by LVMH on fears of a demand slowdown (although in previous cycles their leather goods division usually sees growth). Soitec slipped back after the board announced a new CEO from outside the company and the executive management appeared to take umbrage; we have retained the position as the business continues to perform well and the board is taking steps to re-incentivise top management.

*Source: FE 31.12.21-31.03.22 Bid-Bid in GBP, TR, net income re-invested.

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Bright spots included Equinor which jumped with surging energy prices, Deutsche Borse which should benefit from rising rates and volatility and Novo Nordisk which advanced on reassuring management comments about the supply chain of its high growth drug Wegovy as well as upbeat 2022 guidance. Recent acquisition Majorel rose on strong growth of its customer experience and content moderation business and an upbeat 2022 guidance. Porsche SE (the family holding vehicle that owns a stake in VW) jumped on news in February, that the VW group is in advanced discussions about an impending IPO of VW-owned Porsche AG which should command a high valuation given it makes the higher margin luxury cars and which have a high proportion of electric drives.

Transactions

In terms of transactions, we trimmed some of our bank exposure having performed strongly in the last year and topped up Allfunds and Cap Gemini which both slipped back after results leaving them attractively valued given their strong multi-year growth outlook. We disposed of payment firm Adyen on valuation grounds and having performed well in 2021. We entered into CRH, a well-manage Irish construction conglomerate who have a good track record at bolt-on acquisitions with upside from their large exposure to US infrastructure which should benefit from the recent US stimulus bill, all trading on an attractive valuation with little debt. We trimmed Equinor after a strong run.

Outlook

The stock market has started to factor in a degree of economic slowdown along with rising input costs. Companies in the fund look well-placed to handle this: our focus on pricing power means that they should be able to pass on inflation fairly easily; and the majority of our holdings enjoy high gross margins with little exposure to commodity costs. We look for businesses that benefit from secular or recurring revenue growth, and history shows us that our holdings have shown resilient fundamentals through difficult periods like these. After the recent sell-off, company valuations within the fund look attractive in our view.

