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TM CRUX European Special Situations Fund

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Market Update

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
Deutsche Boerse +0.37	Prosus -1.22
Novo Nordisk +0.37	Just Eat Takeaway -0.75
Novartis +0.29	Softwareone -0.71
Zurich Insurance Group +0.24	Givaudan -0.56
Van Lanschot +0.19	Smurift Kappa -0.53

Source: Stat Pro

Important Information

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During the three months ended 31 March 2022, the TM CRUX European Special Situations Fund lost 8.2% compared to its IA peer group which fell 7.3%.* Performance was held back by some higher valued positions which had been strong performers such as Schneider, Givaudan and Bravida. Stocks with exposure to rising raw material or energy costs lost ground including Aalberts and Smurfit, although historically these companies have passed on rising costs. SoftwareOne retreated after management lowered its 2022 margin guidance but which now leaves it extremely lowly valued especially given the significant cash pile compared to its market capitalisation. Bright spots included Deutsche Borse as rising interest rates should stimulate more trading of derivatives on its exchanges and Novo Nordisk, as investors became more excited about its obesity drug growth potential. Insurance companies Sampo and Zurich held up well given their defensive profile and lowly valuation. Porsche SE (the family holding vehicle that owns a stake in VW) jumped on news 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. Recent acquisition Majorel rose on strong growth of its customer experience and content moderation business. Drug company Novartis climbed on a new restructuring and cost-saving plan.

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

Financials versus the Index

	Fund	Index
PE 2022	16x	15x
ROCE	28%	13%
Financials	ex	
Net debt/EBITDA	0.65x	0.94x

Source: 31.03.22 CRUX/Bloomberg/
Datastream
Index: Datastream 400 Index
upon.

Transactions

In terms of transactions, we sold Essilor after strong performance since first purchase in 2020 as the shares had become more than fully valued in our view. We also sold our residual position in Spie, having recovered to pre-covid prices. We disposed of our residual position in chip-maker AMS and switched it into the higher quality peer Infineon which had been overly sold-down in our view given its large secular growth opportunities in power microchips. We initiated in Allfunds which is a European fund platform that enjoys high growth as it gains market share off the peers and as its customers grow assets; the shares had de-rated after a recent listing leaving the business on an undemanding valuation with no debt. We trimmed some more richly valued names such as SGS, Fineco and Wolters and topped up more attractively priced holdings including Nordea, Aroundtown, Brenntag and Bawag.

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.

Important Information

Please note: Due to rounding the figures in the holdings breakdown may not add up to 100%. Unless otherwise indicated all figures are sourced from Financial Express, Datastream, State Street and CRUX Asset Management Ltd. Third party data is believed to be reliable, but its completeness and accuracy is not guaranteed.

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