Quarterly Commentary
Q2 2022

CRUX
ASSET MANAGEMENT

Fund Managers: James Milne & Richard Pease

TM CRUX European Fund

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Fund Performance

Central bank policies were in the limelight as inflation continued to grind higher. The US Federal Reserve hiked interest rates in June, the biggest increase in decades. The ECB announced it would end bond-buying on 1 July and then raise rates. Absent of ECB support, Italian yields initially jumped with memories of the 2011 eurozone crisis recurring, but retreated somewhat as the ECB announced a plan to narrow the spread with German yields. European gas supplies remained a concern as Uniper warned about its predicament of being forced to replace ever-decreasing Russian supplies with sky-high spot prices elsewhere. Several US companies reported disappointing updates that could highlight a stretched consumer such as discount retailer Target and social network Snap on weak advertising income. Retailers started to issue profit warnings about weakening consumer demand and supply chain issues, such as Zalando in Europe. Over the quarter the TM CRUX European Fund fell 12.2% compared to its performance comparator the IA Europe ex UK which fell 9.6%.*

*Source: FE 31.03.22-30.06.22 Bid-Bid in GBP, TR, net income re-invested.

Attribution Stock Level Q2 2022

Top 5 Contributors (%)	Bottom 5 Contributors (%)
Swedish Match +0.56	ASML -0.69
Prosus +0.16	Schneider -0.68
Sampo +0.011	Porsche -0.62
Carlsberg +0.07	STmicroelectronics -0.55
ING Group +0.07	Infineon -0.44

Source: Stat Pro

The fund underperformed due to insufficient exposure to energy and basic materials such as oil majors and steel mills which rallied in the wider market. Some higher valued positions lost ground such as SGS, Essilor and Suse. Equinor advanced due to strength in energy prices. Performance was also held back by slightly more cyclical stocks which lost ground such as electricals-maker Schneider and micro-chip manufacturers Infineon and STMicro, which the market marked down

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regardless of their exciting medium-term secular growth opportunities in electric cars and the internet-of-things. A few names were de-rated, indiscriminately in our view, such as resilient chemical distributor Brenntag even though management raised guidance significantly during June. Bright spots included diabetes maker Novo Nordisk which surged on raising its growth guidance. ING climbed on optimism over rising interest rates. Prosus jumped as management will sell down its stake in Tencent to buyback shares in order to narrow the discount.

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Transactions

We disposed of Swedish Match when it jumped after a bid from Philip Morris. In terms of transactions, we disposed of our residual position in GN after a bounce as well as some smaller positions in Publicis and Nibe.

In depth: Wolters Kluwer

This is a professional publisher, an essential mainly online tool for healthcare (with a medical research platform called Ovid), tax and accounting, compliance and legal. The majority of sales are recurring from electronic subscriptions paid in advance. Wolters has fairly high market shares with only a few other competitors such as Relx, but as their platforms are all different and target varying applications, there is limited real competition. The main input cost is wages, where Wolters has been moving workflows to offshore areas with lower wages as well as making more of the clients move to digital services rather than print; as there is underlying demand growth as well as pricing power to push up subscription rates, Wolters can maintain their high margins. Furthermore, they can extract cost savings from the regular bolt-on acquisitions.

Outlook

Equity markets have dropped back significantly since their highs, and we think that in many instances stock prices are now overly discounting a sharp recession and over-looking the resilience of our companies’ business models. In previous downturns, revenues of our holdings have been resilient; even when we pencil in a worst-case scenario, valuations still appear to be attractive. In most cases, management has improved the business resilience over the years, for example Schneider has a much higher proportion of recurring service sales than ever before. Moreover, balance sheets are very strong which can fund opportunistic acquisitions at bargain prices, which should cheer investors. Or indeed, our holdings could be the target themselves, particularly as private equity needs to put to work its recent large fund raisings.

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