

Fund Managers: Richard Pease & James Milne

TM CRUX European Special Situations Fund

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Market Update

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. Against this background the TM CRUX European Special Situations Fund fell 11.5% compared to its IA Europe ex-UK which fell 9.6% over the quarter.*

*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 (%)
Prosus +0.58	Schneider -1.03
Grifols +0.16	Aroundtown -0.85
Novartis +0.10	Stroeer -0.71
Sampo +0.09	Alphabet -0.61
Novo Nordisk +0.08	Brenntag -0.57

Source: Stat Pro

The fund underperformed due to a lack of exposure to energy and basic materials such as oil majors and steel mills which rallied in the wider market as well as being underweight in consumer staples and telecom stocks which rallied in the wider market. Some higher valued positions lost ground such as Givaudan, Bravida and SGS. Fund performance was held back by some names that were de-rated, indiscriminately in our view, such as resilient chemical distributor Brenntag even

Important Information

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though management raised guidance significantly during the quarter. Some more cyclical stocks which lost ground such as electricals-maker Schneider and micro-chip manufacturers Infineon and STMicro.

Bright spots included Prosus which jumped as management will sell down its stake in Tencent to buyback shares in order to narrow the discount and Grifols advanced after reporting solid growth and recovering plasma collections. Diabetes maker Novo Nordisk surged on raising its growth guidance. Novartis advanced after it announced changes in its organisational structure and management leading to significant cost savings. Deutsche Borse advanced on an up-beat investor day.

Financials versus the Index

	Fund	Index
PE 2022	12x	12x
ROCE	29%	13%
Net debt/EBITDA	0.6x	0.9x

Source: 30.06.22 CRUX/Bloomberg/
Datastream
Index: Datastream 400 Index
upon.

Transactions

In terms of transactions, we sold Grifols after a recent rally, trimmed Trelleborg having performed well since selling its tyre division and took profits in Givaudan. We started a new position in Adidas which had nearly halved from its recent peak leaving it on a modest valuation based on historically low margins and significantly cheaper than US rival Nike despite buying back a significant portion of its shares; demand for its products tend to be fairly resilient in downturns and any inventory discounting has been more than factored into the share price. We disposed of our residual position in Just Eat Takeaway and disposed of our residual position in GN after a bounce. We topped up recent-purchase Allfunds, Stroer and Nordea.

In depth: Stabilus

The fund continues to have a strong focus on stocks with pricing power - ie companies that can fairly easily pass on inflation, which is particularly high at the moment. One such company is Stabilus. Stabilus’s original product is the gas spring, and an easy application to describe is in a car, where a pair of them are used to keep the boot raised open. However gas springs are also found hundreds of other industrial “dampening” applications. The high barrier to entry is making millions of perfect gas spring per year for big customers like Toyota and VW. A fault is extremely costly for the car-makers as the recall costs quickly add up to tens of millions of pounds whereas the cost of the gas spring is a mere couple of pounds each. Moreover, over the decades, the other competitors have fallen by the wayside as they could not keep up with Stabilus’s evolving technologies and expert manufacturing methods; this has left Stabilus with a near-monopoly. This is the perfect situation for pricing power, although Stabilus does often collaborate with customers to alter the design to keep price rises lower but maintaining their own margins.

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-

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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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