Quarterly Commentary
Q3 2022

CRUX ASSET MANAGEMENT

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TM CRUX European Fund

> "Sampo which raised guidance and showed why Nordic insurance is an attractive region for disciplined pricing and managing cost inflation."

Fund Performance

After equities rebounded strongly in July they lost ground during August and September, with macro-economic sentiment once again driving share price movements. At the beginning of the month, US jobs data showed the continued strength of the labour market, but US inflation remained high at 8.3% in August, albeit down from the peak. The US Federal Reserve and the ECB raised interest rates by 75 basis points, and warned of continued rate hikes to reduce inflation. Investors became increasingly concerned about the resolve of central banks to tame inflation at the expense of economy. Trading updates from companies were a mixed bag but generally showed a weak consumer (FedEx warning over falling parcel volumes, Nike having to discount sporting goods in the US and Apple apparently clipping their iPhone volume outlook) whereas optimistic statements mainly came from business-to-business niches such as IT services. Against this background the TM CRUX European Fund lost 0.7% compared to its performance comparator the IA Europe ex UK Sector which fell 2.6%.*

*Source: FE 30.06.22-30.09.22 Bid-Bid in GBP, TR, net income re-invested.

Attribution Stock Level Q2 2022

Top 5 Contributors (%)	Bottom 5 Contributors (%)
Wolters Kluwer +0.25	Alphabet -2.02
Sampo +0.24	Majorel -0.44
Fineco +0.22	Adidas -0.29
Deutche Boerse +0.20	Suse -0.26
Nordea +0.17	Eurofins -0.23

Source: Stat Pro

Strong performance was seen at Fineco, as investors became more optimistic over the potential earnings uplift from rising interest rates on their deposits, but without the worry of a loan book. Companies with large US revenues climbed as dollar strengthened such as Wolters Kluwer. Roche gained on increased optimism over its Alzheimer's potential new drug. Sampo which raised guidance and showed why Nordic insurance is an attractive region for disciplined pricing and managing

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cost inflation. Carlsberg advanced on results showing how price rises offset inflation yet demand remained solid. Several holdings reported very strong second-quarter results, and enjoyed sharp rebounds as a result: LVMH saw continued demand for luxury, seeing 19% increase in sales in its fashion & leather goods division; STMicroelectronics raised sales growth guidance for the year to 26% due to continued high demand for its microchips in electric cars and industrial automation. Similarly, Schneider management raised sales growth expectations for the full year as they cited robust demand for their energy efficiency and automation solutions given tight labour markets. Nordea released good results with robust capital positions.

Performance was held back by Eurofins where the non-covid growth slowed slightly, although management increased full year guidance on continued covid sales momentum. Novo Nordisk slipped as its new drug Wegovy did not grow quite as fast as hoped in the quarter. Our logistics names DSV and Kuehne + Nagel lost ground on reduced freight rates and recession fears, and Deutsche Post lost ground with FedEx’s warning even though management were not seeing similar dynamics. Some cyclical names lost ground such as Kingspan and Smurfit.

Transactions

In terms of transactions, we took partial profits in Equinor, having made a big gain since first purchase a year ago, as they supply a significant amount of European gas, but it seems unlikely that prices can sustainably rise that much again. We sold Trelleborg after the share price had performed well this year after disposing of a division. We disposed of SIG Combibloc after a strong rally, but where two large acquisitions have left it with leverage and inflation will continue to be a challenge. We trimmed Roche and Nestle after holding up well, and topped up Novo Nordisk after its slight set-back. We sold our residual position in BNP and added Merck KGAA whose main division is manufacturing consumables for customers producing biologic drugs and enjoying secular growth; the group was trading on 17x price/earnings, a significant discount to peers.

Outlook

Equity markets have now dropped back significantly since their highs, and many companies have already warned about declining trends. Indeed there have been a few cases where share prices have risen when management has slashed guidance as the bad news was more than priced in. Furthermore, investors have recently reacted positively to weak economic data because it should slow inflation, allowing central banks to ease back further interest rate increases. Finally, sentiment is extraordinarily bearish. In our view, the portfolio is attractively valued and well-placed to perform in a range of scenarios, as most holdings are resilient in the event of a downturn, yet should quickly re-rate from extremely low levels when investors become more positive. Moreover, their solid balance sheets can be used to acquire weak competitors to boost growth, or on the flip side, given the depressed euro, many of our positions could be targets themselves.

