Quarterly Commentary
Q4 2022

CRUX ASSET MANAGEMENT

Fund Managers: James Milne & Richard Pease

TM CRUX European Fund

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Fund Performance

Equitites rose during the October and November. In the month of December, equities dipped back slightly, despite the weakness of sterling benefitting UK investors. During December economic data remained in prime focus, firstly US employment data showed a continued tight labour market and rising wages. Secondly, US consumer price inflation was +7.1% since last year. As this reading was slightly cooler than forecast, it led to a lowering of interest rate expectations coupled with a significant rally in more highly rated names including technology as well as cyclicals. However this trend quickly reversed as the European Central Bank appeared to become noticeably more hawkish than expected on raising rates to tame inflation. The US Federal Reserve raised rates by 50 basis points and estimated the rate will rise to 5.1% during 2023. Against this background the TM CRUX European Fund gained 9.4% compared to its performance comparator the IA Europe ex UK which rose 12.8%.*

*Source: FE 30.09.22-31.12.22 Bid-Bid in GBP, TR, net income re-invested.

Attribution Stock Level Q4 2022

Top 5 Contributors (%)	Bottom 5 Contributors (%)
Novo Nordisk +1.36	Alphabet -0.36
LVMH +0.67	Roche -0.31
Nordea +0.60	Porsche -0.29
Schneider +0.53	Microsoft -0.15
ING +0.51	Allfunds -0.13

Source: Stat Pro as at 31.12.22

The fund underperformed its peer group due to being underweight in cyclicals, energy and consumer discretionary which rallied strongly. Performance was held back by more defensive names which trod water such as Nestle and DSM and by a few stocks where management did not upgrade guidance as much as expected such as CapGemini, Deutsche Borse, and Roche. Dassault Systemes slipped on weakening new licence software revenues.

Bright spots included healthcare names Novo Nordisk on increasing optimism over its obesity drug Wegovy and strong results, as well as Merck as analysts upgraded their outlooks. Nordnet and Nordea advanced with optimism on European interest rates rising. Recent purchase Teleperformance continued to recover as management signed a labour agreement with a large employee union. Bright spots were seen in those reporting strong third-quarter results such as reseller SoftwareOne, microchip-maker Infineon, Siemens, ING Bankm Essilor and LVMH. ASML rebounded on continued high new orders from customers. Deutsche Post jumped as it pre-announced strong results particularly from its Express division which saw continued demand for its time-sensitive delivery service.

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Transactions

In terms of transactions, we added NTG which is a freight forwarder with little debt and acquiring small competitors in a highly fragmented market, as well as poaching sales teams from peers and incentivising them via a generous shareholding structure. The founder and management own big stakes, and the share price had fallen back significantly to an attractive valuation. We started a new position in Teleperformance after the shares were over-sold on uncertainty over content moderation for social media platforms and employee treatment; the group has comprehensively addressed these issues.

We sold Vitec Software on a fairly high multiple and re-entered IT reseller Cancom which had fallen back sharply this year on short-term supply chain issues but has a significant net cash balance and lowly valuation in our view. We disposed of Wolters Kluwer having performed strongly, leaving the group on a premium valuation, on overly optimistic expectations of both growth and margin progression, in our view.

Outlook

Although rising interest rates will slow economic growth, it should also dampen inflation. Portfolio holdings are well-placed to handle any kind of downturn as history has shown, and our banks should enjoy higher earnings as rates increase, but are located in more resilient geographies with sensible management. 2022 saw some dramatic share price corrections on a range of businesses. This has uncovered fresh opportunities as valuations are now attractive on companies with the characteristics that we like: capital-light business models with high recurring revenues and capital returns, coupled with good management. We are optimistic about our portfolio, which has rarely had a more robust balance sheet and trading on an attractive valuation, especially given the high return on capital which the underlying companies command.

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