Quarterly Commentary

Q1 2023

CRUX ASSET MANAGEMENT

Fund Managers: James Milne & Richard Pease

TM CRUX European Fund

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Fund Performance

Equity markets ended flat in March after a volatile month. Initially share prices fell on news of a bank run at Silicon Valley Bank in the US after making losses on its bond portfolio as interest rates rose. The US government stepped in to protect the depositors as it closed down the bank. Subsequently in Europe, Credit Suisse's share price sank, particularly after a large shareholder ruled out providing more funding; it merged with UBS with Swiss government support. Economic data generally showed that inflation is cooling, but perhaps not as fast as expected. The US Federal Reserve raised interest rates by 25 basis points and hinted that it is nearing the end of this rate cycle, acknowledging that recent banking events are likely to results in tighter credit conditions. The end of the month saw a significant rally, with banks rebounding strongly as investors drew a line under the recent bank crisis. Against this background the CRUX European Fund lost 0.1% compared to its IA peer group which fell 0.2%.*

*Source: FE 01.03.23-31.03.23 Bid-Bid in GBP, TR, net income re-invested.

Attribution Stock Level Q1 2023

Top 5 Contributors (%)	Bottom 5 Contributors (%)
STMicroelectronics 1.09%	Sampo -0.47%
LVMH 1.07%	Roche -0.20%
Novo Nordisk 0.85%	Azelis -0.19%
ASML 0.84%	Merck Kgaa -0.17%
Infineon 0.64%	Eurofins -0.16%

Source: Stat Pro as at 31.03.23

Bright spots included technology stocks which rallied, such as Infineon which raised its revenue and margin forecasts for the year on strong demand from electric cars and energy-transition trends in industry. Semiconductor equipment-makers ASML and VAT also rose. Freight forwarders DSV and Kuehne gained as some peers beat expectations, and NTG advanced on strong results and outlook. Performance was held back by the fund's financials positions such as Nordea which we believe is well capitalised and well-managed especially in terms of conservative lending. History shows that Nordea made minimal bad loan losses in previous downturns. Allfunds slipped on fears that a proportion of its assets under administration could be linked to Credit Suisse clients, who may redeem. Teleperformance slipped on news that US senators were looking to ban TikTok in the US, however analysts estimate this represents a small proportion of revenues.

Outlook

US central bankers are hinting that inflation is slowly cooling and that interest rate rises may be coming to an end. Economists are predicting little economic growth for a while. However, we believe the fund is well-positioned in this scenario as we continue to favour companies who can grow independently of the economic cycle, for example by bolt-on acquisitions or structural growth in their particular niches. These niches include energy efficiency, automation, digital transformation and sustainable packaging. Our portfolio companies have strong balance sheets and have significant scope to do accretive acquisitions. The fund valuation is attractive in our opinion: it trades roughly in line with the overall market despite being much better placed to handle inflation and downturns, and also commands a much higher underlying return on capital.

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