

Fund Manager: Richard Pease

CRUX Pan-European Growth Fund

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Equity markets were volatile in May. Initially, news was focussed on the US: investor sentiment was boosted by several announced mergers and acquisitions and the Federal Reserve kept interest rates unchanged. The US withdrew from the Iran nuclear deal, prompting Brent crude oil to reach nearly \$80 per barrel before retreating after fears of severe sanctions subsided. This helped lift energy share prices in particular. However, at the end of the month, the focus shifted to Italian politics, as investors fretted that a new government might leave the euro. Italy has one of the world's largest government debt levels which leaves it vulnerable to bond market sentiment. Italian ten-year government bond yields briefly breached 3%, a level not seen since 2014. Against this background, the CRUX Pan-European Growth Fund gained 0.5% compared to its benchmark which rose 0.3%.

The fund slightly outperformed due to being underweight in banks, which fell back in the wider market. Bright spots included companies reporting strong results, such as Ramirent (+23%) and Bravida (+14%). Distributor Brenntag advanced 4% on continued robust growth. Performance was held back by our few banks (Bawag and Banca Ifis) which fell on the uncertain Italian outlook and Spie, Ceconomy and Telenet which continued to underperform on poor earnings momentum. Few transactions were made in the month but we purchased a stake in Brenntag.

Our continued focus on pan-regional and non-financial companies has meant the fund mostly avoided the recent Italian fallout. Although the market has quickly priced in continued political uncertainty, particularly with banking stocks, we continue to be underweight in Italy, as even though there are some quality non-financial companies there, the valuations are still a little rich for us. More broadly, and as usual, in market set-backs such as these, there are often overreactions in the types of stocks we like, which result in attractive entry multiples for capital-light companies, which have a high degree of recurring earnings, and therefore should prove resilient in uncertain times.

*Source: FE 30.04.18 - 31.05.18 Bid-Bid, EUR, net income re-invested.

Benchmark: MSCI Europe All Cap TR in EUR Index

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