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CRUX European Fund

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Equity markets fell back in October, with heightened focus on the well-rehearsed US macro-economic concerns: exceptionally low unemployment with a fairly strong economy resulting in rising interest rates and the end of the cycle. As US bond yields moved up, this prompted investors to rotate from more highly rated growth stocks towards value. The automobile sector took a hammering as European production levels have ground to a halt because testing centres have been overwhelmed by new lengthier emissions testing. However, in Europe, weak economic data has kept interest rate rise predictions more muted. Against this background, the CRUX European Fund lost 7.9% compared to its benchmark which fell 6.1%.*

The fund underperformed due to being underweight in telecoms, utilities and food retailers which buoyed the market, whereas our overweight positions in medium-sized industrials fell back. Several share prices were indiscriminately sold off at the beginning of the month, only to bounce sharply after announcing good results, including Kion and Trelleborg. Bright spots included logistics company Ceva which surged 58% after receiving two bid offers in the month and industrial lift business Alimak rose on good third quarter results. Nordea slipped back on lower revenue, although it has been improving its cost base and now trades on a very attractive dividend yield. Convatec lost ground after announcing that the CEO is to depart and that fourth quarter sales in their smallest division would be weak due to a customer inventory change. We think the sell-off was overdone for what should be a resilient medical devices franchise. In terms of transactions, we disposed of Forbo after a good performance since we acquired shares earlier in the year, on concerns that rising input prices may squeeze margins. We topped up Kuehne+Nagel on an attractive dividend yield with net cash on the balance sheet.

After the recent stock market correction, companies have been de-rated. We believe valuations on the portfolio more than reflect current economic uncertainty. As usual, we continue to focus on companies with resilient earnings; they can supplement growth with small acquisitions and history shows us that they prove fairly defensive in uncertain times. Being capital-light, the holdings often pay out generous dividends which should provide downside support. We also take comfort from companies with good management that are incentivised by share ownership.

Important Information

Please note the views, opinions and forecasts expressed in this document are based on CRUX's research, analysis and house views at the time of publication. Third party data is believed to be reliable, but its completeness and accuracy is not guaranteed. Please read all scheme documents before investing. Before entering into an investment agreement in respect of an investment referred to in this document, you should consult your own professional and/or investment adviser. The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested. Tax assumptions and reliefs depend upon an investor's particular circumstances and may change if those circumstances or the law change. If you invest through a third party provider you are advised to consult them directly as charges, performance and terms and conditions may differ materially than those shown on this document. Past performance is not a guide to future results.

*Source: FE 30.09.18 - 31.10.18 Bid-Bid, net income re-invested. Benchmark: FTSE World Europe (ex-UK) GBP Sector: IA Europe (ex-UK)