Monthly Commentary
November 2018

CRUX
ASSET MANAGEMENT

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CRUX European Special Situations 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 Special Situations Fund lost 8.8% 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. The few bright spots included drug-makers Novartis and Sanofi, as well as Nestle and Givaudan, which rose slightly. 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 IMCD after a good performance since we acquired shares in its IPO in 2014 and 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.

*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)

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