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TM CRUX European Special Situations Fund

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Market Update

After equities rebounded strongly in July they lost ground during August and September, with macro-economic sentiment once again driving share price movements. At the beginning of the September, US jobs data showed the continued strength of the labour market, but US inflation remained high at 8.3% in August, albeit down from the peak. The US Federal Reserve and the ECB raised interest rates by 75 basis points, and warned of continued rate hikes to reduce inflation. Investors became increasingly concerned about the resolve of central banks to tame inflation at the expense of economy. Trading updates from companies were a mixed bag but generally showed a weak consumer (FedEx warning over falling parcel volumes, Nike having to discount sporting goods in the US and Apple apparently clipping their iPhone volume outlook) whereas optimistic statements mainly came from business-to-business niches such as IT services. Against this background the TM CRUX European Special Situations Fund lost 0.6% compared to its performance comparator the IA Europe ex UK Sector which fell 2.6%.*

*Source: FE 30.06.22-30.09.22 Bid-Bid in GBP, TR, net income re-invested.

Attribution Stock Level Q2 2022

Top 5 Contributors (%)	Bottom 5 Contributors (%)
Bawag +0.31	Alphabet -0.40
Fineco +0.28	Stroeer -0.39
Wolters Kluwer +0.22	Aroundtown -0.36
Deutsche Boerse +0.20	Majorel -0.33
Sampo +0.19	Adidas -0.31

Source: Stat Pro

The fund outperformed the market over the quarter. Bright spots included Sampo which raised guidance and showed why Nordic insurance is an attractive region for disciplined pricing and managing cost inflation. Both our large bank positions, Bawag and Nordea, released good results with robust capital positions. They also benefited as interest rates rose, and as their loan books have been historically resilient in downturns. Infineon saw strong growth and margins for microchips due

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to continued high demand and prices from industry and autos, ending flat over the quarter. Strong performance was seen at Fineco, as investors became more optimistic over the potential earnings uplift from rising interest rates on their deposits, but without the worry of a loan book. Companies with large US revenues climbed as dollar strengthened such as Wolters Kluwer.

Performance was held back by Schneider on recession concerns even though it raised guidance in July. Performance was held back by our logistics names DSV and Kuehne + Nagel on reduced freight rates and recession fears, and some cyclical names such as Smurfit Kappa and Stabilus.

Financials versus the Index

	Fund	Index
PE 2022	11.5x	11.4x
ROCE Financials	28% ex	13%
Net debt/EBITDA	0.6	0.9

Source: 30.09.22 CRUX/Bloomberg/
Datastream
Index: Datastream 400 Index
upon.

Transactions

In terms of transactions, we sold Givaudan which we have held for over a decade on concerns of high leverage and a premium valuation. We disposed of our residual position in SAP and topped up Stroer where we think the core business is under-valued given the likely valuations attached to fast-growing Statista and Asam. We trimmed Deutsche Borse and Trelleborg after performing well this year; we recycled the proceeds into existing positions including Nordea, Roche and Zurich. We also trimmed Rubis, and sold Trelleborg after the share price had performed well this year after disposing of a division.

We started a new position in Eurofins as the share price had recently halved leaving it on a lowly valuation given the organic sales growth target of 6.5%, which is before acquisitions where it has excelled in the past. It runs diagnostic labs that test food, drugs, clinical health tests, environmental analysis, which is resilient in downturns; the founder/CEO owns 33%.

Outlook

Equity markets have now dropped back significantly since their highs, and many companies have already warned about declining trends. Indeed there have been a few cases where share prices have risen when management has slashed guidance as the bad news was more than priced in. Furthermore, investors have recently reacted positively to weak economic data because it should slow inflation, allowing central banks to ease back further interest rate increases. Finally, sentiment is extraordinarily bearish. In our view, the portfolio is attractively valued and well-placed to perform in a range of scenarios, as most holdings are resilient in the event of a downturn, yet should quickly re-rate from extremely low levels when investors become more positive. Moreover, their solid balance sheets can be used to acquire weak competitors to boost growth, or on the flip side, given the depressed euro, many of our positions could be targets themselves.

Important Information

Please note: Due to rounding the figures in the holdings breakdown may not add up to 100%. Unless otherwise indicated all figures are sourced from Financial Express, Datastream, State Street and CRUX Asset Management Ltd. Third party data is believed to be reliable, but its completeness and accuracy is not guaranteed.

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