Monthly Commentary
December 2021

CRUX ASSET MANAGEMENT

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TM CRUX European Fund

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Equities lost ground in November. Initially markets were cheered by Pfizer announcing a new pill to reduce COVID-19 hospitalisations and the US unemployment rate dropped to 4.8%. US consumer price inflation rose to 6.2% in October versus a year ago and observers continued to fret about energy and food inflation spilling over into general inflation. Most central bankers, particularly in Europe, remain insistent that this is transitory and should fade in 2022. Share prices headed south towards the end of the month as many European countries re-introduced lockdowns or restrictions as covid cases jumped higher, and as South Africa reported a new omicron covid variant. The oil price fell sharply as a result, after a volatile month as many nations are desperate for a lower energy price whereas OPEC+ said they will counter with output reductions. However, European gas prices rallied with delays to turning on the new Nord Stream pipeline to Germany. Against this background, the TM CRUX European Fund gained 0.4% compared to the IA Europe ex UK sector which fell 1.7%.*

Strong performance was seen at Eurofins which rebounded on expectations of more testing revenue given the new omicron variant. Wolters Kluwer advanced which reported reassuring results. Vitec Software climbed on little news. Trelleborg rose as it disposed of some non-core divisions and as raw material prices eased. Performance was held back by adidas which slipped on lack-lustre results and continued supply chain fears. After performing very strongly, freight forwarders Kuehne + Nagel and DSV lost ground as the sea-freight rates dropped back from recent all-time highs. In terms of transactions, we trimmed Kuehne and DSV, and invested in Majorel, which provides customer experience and is expanding due to more outsourcing as it is getting more complex for brands to manage. After its recent listing, the share price had dropped sharply after a badly received results conference call, and we subsequently started our position, leaving it on an attractive valuation with growth of over 10% and no debt, compared to its main peer on nearly double the rating. We purchased shares in mutual fund platform Allfunds which is growing strongly at 10-15% from continued outsourcing, has a capital-light business model, but which had slipped back on little news after its IPO earlier in the year.

*Source: FE 31.10.21-30.11.21 Bid-Bid, income re-invested. GBP

Stock markets have been volatile after being buffeted by jumps in inflation, uncertainty over interest rate rises, further covid restrictions and a new variant. As is often the case, this has uncovered plenty of new attractive opportunities for us where there has been unwarranted sell-offs in our view. As usual, we continue to focus on companies that earn a high return on invested capital, resulting in a much higher metric than the wider market, but yet this is not yet reflected in valuations. Another common theme is that we like resilient growth which is often augmented with bolt-on acquisitions. This growth, coupled with high returns on capital and incentivised management but on undemanding valuations, make for an attractive fund proposition in our view.