Quarterly Commentary

Q4 2022

CRUX ASSET MANAGEMENT

Fund Managers: Richard Pease & James Milne

TM CRUX European Special Situations Fund

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Market Update

Equitites rose during the October and November. In the month of December, equities dipped back slightly, despite the weakness of sterling benefitting UK investors. During December economic data remained in prime focus, firstly US employment data showed a continued tight labour market and rising wages. Secondly, US consumer price inflation was +7.1% since last year. As this reading was slightly cooler than forecast, it led to a lowering of interest rate expectations coupled with a significant rally in more highly rated names including technology as well as cyclicals. However this trend quickly reversed as the European Central Bank appeared to become noticeably more hawkish than expected on raising rates to tame inflation. The US Federal Reserve raised rates by 50 basis points and estimated the rate will rise to 5.1% during 2023. Against this background the TM CRUX European Special Situations Fund gained 10.1% over the quarter compared to its performance comparator the IA Europe ex UK Sector which rose 12.8%.*

*Source: FE 30.09.22-31.12.22 Bid-Bid in GBP, TR, net income re-invested.

Attribution Stock Level Q4 2022

Top 5 Contributors (%)	Bottom 5 Contributors (%)
Novo Nordisk +1.43	Alphabet -0.66
Bawag +0.84	Roche -0.25
Nordea +0.81	Porsche -0.18
Smurfit Kappa +0.74	Coor -0.18
Fineco +0.73	Allfunds -0.17

Source: Stat Pro as at 31.12.22

The fund benefitted from several strong share price performances from large positions including Novo Nordisk on increasing optimism over its obesity drug Wegovy. Maintenance firm Bravida continued its run since releasing solid results. Bawag and Nordea banks advanced with optimism on European interest rates rising. Recent purchase Teleperformance continued to recover as management signed a labour agreement with a large employee union. Bright spots were seen in those reporting strong third-quarter results such as reseller SoftwareOne and microchip-maker Infineon. Smurfit Kappa rebounded as peer DS Smith reported strong results. Freight forwarders DSV and Kuehne+Nagel also reported strong results during the period, as well as IT distributor Atea.

The fund underperformed its peer group due to being underweight in cyclicals, consumer discretionary and energy which rallied strongly. Performance was held back by more defensive names which trod water such as testing companies SGS and Bureau Veritas, and large pharmaceutical Roche and some cyclicals such as Aalberts and chip-makers STMicroelectronics.

Financials versus the Index

	Fund	Index
PE 2023	12.5x	13.0x
ROCE ex Financials	30%	13%
Net debt / EBITDA	0.6x	0.8x

Source: 31.12..22 CRUX/Bloomberg atastream
Index: Datastream 400 Index upon.

Transactions

In terms of transactions, we added Merck KGAA whose main division is manufacturing consumables for customers producing biologic drugs and enjoys secular growth; the group was trading on 16x price/earnings, a significant discount to peers and attractive compared to its mid-term growth of around 7%. We also re-entered DCC, whose divisions include energy distribution and healthcare, where management have a strong track record of accretive acquisitions and cost cutting, but the shares had de-rated, in our view, to a compelling 10x P/E.

We added NTG which is a freight forwarder with little debt and acquiring small competitors in a highly fragmented market, as well as poaching sales teams from peers and incentivising them via a generous shareholding structure. The founder and management own big stakes, and the share price had fallen back significantly to an attractive valuation. In terms of transactions, we disposed of our residual position in adidas after a well-regarded new CEO was announced and the shares jumped significantly. We trimmed Schneider, Novartis, Fineco and SGS, and topped up recent-addition Eurofins.

Outlook

Although rising interest rates will slow economic growth, it should also dampen inflation. Portfolio holdings are well-placed to handle any kind of downturn as history has shown, and our banks should enjoy higher earnings as rates increase, but are located in more resilient geographies with sensible management. 2022 saw some dramatic share price corrections on a range of businesses. This has uncovered fresh opportunities as valuations are now attractive on companies with the characteristics that we like: capital-light business models with high recurring revenues and capital returns, coupled with good management. We are optimistic about our portfolio, which has rarely had a more robust balance sheet and trading on an attractive valuation, especially given the high return on capital which the underlying companies command.

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