

Fund Managers: Richard Pease & James Milne

## TM CRUX European Special Situations Fund

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### Market Update

Equity markets ended flat in March after a volatile month. Initially share prices fell on news of a bank run at Silicon Valley Bank in the US after making losses on its bond portfolio as interest rates rose. The US government stepped in to protect the depositors as it closed down the bank. Subsequently in Europe, Credit Suisse's share price sank, particularly after a large shareholder ruled out providing more funding; it merged with UBS with Swiss government support. Economic data generally showed that inflation is cooling, but perhaps not as fast as expected. The US Federal Reserve raised interest rates by 25 basis points and hinted that it is nearing the end of this rate cycle, acknowledging that recent banking events are likely to result in tighter credit conditions. The end of the month saw a significant rally, with banks rebounding strongly as investors drew a line under the recent bank crisis. Against this background the Crux European Special Situations Fund lost 3.1% compared to its IA peer group which fell 0.2%\*

\*Source: FE 01.03.23-31.03.23 Bid-Bid in GBP, TR, net income re-invested.

### Attribution Stock Level Q1 2023

Top 5 Contributors (%)	Bottom 5 Contributors (%)
Novo Nordisk 1.01%	Bawag -0.78%
STMicroelectronics 0.99%	Aroundtown -0.28%
LVMH 0.67%	Sampo -0.21%
Kuehne + Nagel 0.64%	Eurofins -0.20%
Brenntag 0.57%	Total Energies 0.19%

Source: Stat Pro as at 31.03.23

The fund underperformed as its financial positions declined with the overall sector, particularly Bawag and Nordea; however we believe these banks are well capitalised and well-managed especially in terms of conservative lending. History shows that Nordea, for example, made minimal bad loan losses in previous downturns. All funds slipped on fears that a proportion of its assets under administration could be linked to Credit Suisse clients, who may redeem. Teleperformance slipped on

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news that US senators were looking to ban TikTok in the US, however analysts estimate this represents a small proportion of revenues. Bright spots included Novo Nordisk which rose on continued strong consumer interest in its obesity franchise. Infineon raised its revenue and margin forecasts for the year on strong demand from electric cars and energy-transition trends in industry. Freight forwarders DSV and Kuehne gained as some peers beat expectations, and NTG advanced on strong results and outlook. Novartis surged on a positive outcome for a breast cancer drug which is in development.

### Transactions

In terms of transactions, we trimmed Kuehne and SoftwareOne. [specific to March only]

### Outlook

US central bankers are hinting that inflation is slowly cooling and that interest rate rises may be coming to an end. Economists are predicting little economic growth for a while. However, we believe the fund is well-positioned in this scenario as we continue to favour companies who can grow independently of the economic cycle, for example by bolt-on acquisitions or structural growth in their particular niches. These niches include energy efficiency, automation, digital transformation and sustainable packaging. Our portfolio companies have strong balance sheets and have significant scope to do accretive acquisitions. The fund valuation is attractive in our opinion: it is at a discount to the overall market despite being much better placed to handle inflation and downturns, and also commands a much higher underlying return on capital.

### 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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