Oriflex BP Regeling
Oriflex Europa
Stichting Pensioenfonds Atos Origin
Vierde Kwartaal 2023

BLACKROCK

Omvang fonds

Waarde begin van de periode	€ 2,924,799
Waarde eind van de periode	€ 2,990,481

Rendement

%	Kwartaal	Jaar tot op heden	3-Jaars Ann.	5-Jaars Ann.	10-Jaars Ann.
Fonds	7.13%	19.31%	5.36%	13.54%	7.15%
Benchmark	6.40%	15.62%	9.63%	10.13%	7.19%

Investment Review

The fund outperformed its benchmark over the quarter.

Market Summary

Q4'23 may be remembered as 'the pivot' in central banks' rate hiking cycle – a bullish cue that supported an equity market rally. However, the quarter did not begin this way. Coming into the period, the market was in the midst of a drawdown from a combination of rising interest rates, a skew towards punishing any sign of weakness in Q3'23 earnings updates and outlooks, and geopolitical risks stemming from the Middle East. The marked change in sentiment came as inflation in the US and Europe surprised to the downside while financial conditions were deemed to be restrictive, allowing key central banks such as the US Federal Reserve and European Central Bank to refrain from further rate hikes.

Commentary following these central bank decisions gave rates markets confidence to price further cuts in 2024 and equity markets responded with more cyclical and long-duration assets leading the way higher. While equity markets are likely to remain volatile as the hold/hike/cut debate in the bond market continues to playout, our focus is on the next 6-18 months where we continue to expect incremental signs of improvement in the business cycle and opportunity for companies in the portfolio to beat undemanding consensus earnings expectations.

Attribution

The Fund returned +6.8% (EUR, primary share class, net of fees), outperforming the MSCI Europe Index's +6.4% return (EUR).

Speciality chemicals distributor, IMCD, provided positive attribution effect with shares up after they reported Q3'23 results which missed expectations, but guided to an improvement in the coming quarters, noting that they expect to see an increase in volumes in Q4'23 vs Q3'23.

Several industrial positions in the fund, such as Saint Gobain and Schneider Electric, were also amongst top drivers of positive attribution. These are industrial cyclicals that have improved their businesses over time, showing greater through cycle resilience due in part to their exposure to end-markets driven by structural spending. We see volume growth nearing a trough with improvement expected in 2024 and beyond. For example, Schneider Electric held a capital markets day during which they released new organic revenue growth targets of 7-10% through to 2027 (driven primarily by volume growth outpacing their end-markets), with a small degree of margin expansion in addition. This was taken positively by the market - which had been assuming growth rates of closer to 5% and had been concerned about a cyclical slowdown in the business.

BE Semi bounced back from oversold levels. For most of the year, we've been saying that the time to buy semiconductors is ahead of the trough, and we were pleased to see the portfolio benefit as the market warms to evidence we are past the cycle trough for semiconductor orders. Furthermore, stunning results from Nvidia showed strength in the AI chain which was particularly supportive for BE Semi, seen as one of Europe's top AI beneficiaries.

Shares in Partners Group performed strongly, benefiting from an improved rate environment and outlook for fundraising activity. We spoke to the company's CEO who noted funding is more readily available while expressing an optimistic outlook for deal making.

The above examples demonstrate how the latest earnings season delivered a broad set of favourable updates within the portfolio, driving positive attribution from companies across sectors including Industrials, Technology, and Financials as well as Consumer Discretionary and Healthcare. However, three negative stock specific surprises in the quarter went a long way to offset these gains, accounting for slightly over 150bps headwind on relative performance.

The portfolio's position in Lonza was a top detractor in Q4'23 after a disappointing update delivered at the company's capital markets day. Most notably, management cut revenue growth and margin expectations for 2024 leading to mid-teen percentage downgrades vs consensus expectations. As a company that has accelerated capex in recent years, positioning itself within structurally attractive end-markets, it should be able to deliver mid-teens growth. The updated 2024 guidance of high single digit underlying growth (with actual growth expected to be flat given one-offs) shows 2024 is a transition year. While remaining interesting on a medium to long-term view, we need to rebuild trust in the Lonza's ability to execute on their strategy.

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Attribution (continued)

DSV was the second negative stock specific surprise in the quarter. The company announced a change in leadership which in our view breaks apart one of the strongest management teams in Europe. The current CEO will leave after a transition period concluding in 2024 and the current COO, whom we saw as an excellent partner to the current CEO, will assume the top leadership role. In an unrelated update, the company also announced an unexpected joint venture in Saudi Arabia which was communicated to the market with minimal detail, sending shares tumbling. On the surface, it appears as a change in strategy with high levels of execution risk. However, in follow up calls the company offered additional details that showed the project offers good return on capital employed, with risk mitigation features built into the contract. While this project - providing construction logistics to build a new city in Saudi Arabia for which DSV will be able to provide their core logistics capability in the future - is different than their core business, there are a lot of similarities and the deal is earnings accretive.

A position in Royal Unibrew detracted after the company reported weak Q3'23 results, with sales declining -1% vs expectations of 8% growth. This was driven by much weaker volumes than anticipated - which the company attributed to weather and price increases in Northern Europe in particular. The company also marginally lowered guidance for the rest of the year in part due to a lower contribution from the recently acquired Vrumona (soft drinks manufacturing) business - bringing the reliability of the management team's execution into question.

Portfolio positioning and changes

During the quarter we modestly reduced the portfolio risk as beta had trended higher through the year. We trimmed exposure to those stocks disproportionately driving this risk, such as semiconductor companies. Capital was recycled into ideas across the breadth of the market, including some more defensive, lower beta businesses as our underweight here reached the lower end of our economic risk framework. Overall, the portfolio shape continues to favour more cyclical opportunities we're finding.

On the disappointing update from Lonza, we cut the portfolio's position from a >3% active weight down to an active weight <1%. DSV was also trimmed following the break in investment thesis stemming from their management change. We also exited small weights in Sartorius Stedim, Adyen, Spirax-Sarco, and Genmab where the near-term operating environment remains difficult and the capital can better serve the portfolio in higher conviction positions.

The portfolio's large position in LVMH was trimmed slightly, yet remains a conviction overweight, noting a period of normalisation with evidence of weaker trends in Europe, Americas yet to recover, and lower visibility into China which for now has been resilient.

Capital was redeployed into holdings such as European banks (AIB, Caixabank, KBC, Unicredit), MTU, RELX, and JD Sports. We also bought back a position in Totalenergies as the stock was trading at a cheap valuation with double digit free cashflow yield for what we see as the best positioned energy major within the sector.

Towards the end of the quarter, as market expectations for rate cuts accelerated, small trims were made to rate sensitive banks including Unicredit - taking some profits while shares were trading near all-time highs. Proceeds of those trims were used to top up existing holdings such as L'Oreal.

At the end of the quarter, our bottom-up convictions resulted in the fund's largest overweight positioning to Industrials and Consumer Discretionary. The biggest underweight positioning was in Consumer Staples, Utilities, and Energy.

Outlook

The key for investors is what the market is telling us about companies 12-months from now and beyond. While equity markets are likely to remain volatile as the hold/hike/cut debate in the bond market continues to playout, our focus is on the next 6-18 months looking more interesting. As fundamental investors, we are searching for signs of incremental change in businesses that gives us opportunity to own shares where, in time, consensus estimates can be proven as too bearish. As more and more of these signs emerge, the broader market risk appetite should return which will be supportive for the portfolio.

As always, it will be important to look sector-by-sector and stock-by-stock to find opportunities. We believe companies in the portfolio can continue to deliver on earnings upgrades versus undemanding consensus expectations. We also maintain ample long-term opportunity from the portfolio's exposure to end-markets supported by structural spending streams such as funding digitalisation, capex renaissance, and low-carbon transition.