Oriflex BP Regeling
Oriflex Europa
Stichting Pensioenfonds Atos Origin
Eerste Kwartaal 2024

BLACKROCK

Investment Review

The fund outperformed its benchmark over the quarter.

After a brief period questioning whether the 'lower rates' narrative had gone too far into year-end 2023, several positive indicators emerged to keep the European equity rally on track. Amongst those indicators were US and European inflation prints remaining nearer to target, initial US GDP estimates well above economist estimates, and several bellwether corporates releasing encouraging updates showing better than expected business results. As the Q4 and full year 2023 earnings season progressed, the market continued to welcome signs of resilience and more positive forward-looking guidance. Those messages from corporate reporting propelled the market higher with a clear tilt towards cyclical and quality growth assets over defensive and value assets.

As equity markets in Europe and beyond have had a strong run of late, it wouldn't come as a surprise to see a degree of consolidation as the market begins to digest Q1'24 results which are likely to confirm what we've known for a while; earnings growth will be H2 weighted. Regardless of any consolidation, our constructive outlook – believing we are in a broadening bull market - remains intact as the consumer and corporate balance sheet remain strong, inflation is easing, and we are starting to get more evidence of parts of the economy turning.

Attribution

The Fund returned +11.5% (EUR, primary share class, net of fees), outperforming the MSCI Europe Index's +7.6% return (EUR).

Outperformance in the quarter came from both stock selection and sector allocation effect, with positive attribution coming from a breadth of end-market opportunities we are finding.

Stock selection within more defensive areas of the market – preferring to own businesses with clear catalysts for resilience in earnings growth – contributed to outperformance. This included owning Novo Nordisk and Linde while being underweight (not holding) large benchmark constituents such as Nestle and Roche.

Novo Nordisk released Q4'23 results that beat consensus expectations with sales 4% ahead and EPS 5% ahead. Company issued guidance for 2024 suggests sales and EBIT will grow in the mid 20% range. While growth has been impressive over the past year, we believe we are still in the early stages of growth potential here, as prescription trends required to meet consensus is undemanding in our view while the use of GLP-1 drugs in other categories such as diabetes, cardiovascular, liver disease, and potentially Alzheimer's as we look to 2025, is underestimated. Indeed, developments towards the end of the quarter were supportive of a growing total addressable market for their GLP-1 treatments. The US approved Wegovy for cardiovascular risk reduction in people with obesity, and in doing so, opened the door for Medicare coverage, where the first US insurers agreed to begin paying for the drug.

Lonza was another top contributor to outperformance with shares ending Q'24 above 2023 starting levels after a positive company update supported a rally of more than +70% from October 2023 lows. Management reported a topline and margin beat driven by their most important division, biologics, while no further bad news in their small molecules and capsules divisions was good news. The market also reacted favourably to an announcement of transition in the chairman role, headlines that a key Chinese competitor is facing the threat of restricted access to the US market, and news they are acquiring a biologics manufacturing site in California from Roche. The addition should accelerate their capacity expansion to fulfil extremely strong demand.

Banks owned in the portfolio positively contributed this quarter, with share prices for Unicredit, Allied Irish Bank, and Caixabank all gaining between 28%-43%. The sector rallied late in the quarter on a mix of generally better economic activity, rate expectations holding up better than some had feared, and support from share buybacks. Unicredit was the single best performer in the sector. The Italian bank completed their current share buyback programme with more programmes to come and also offered confident messages at a financials conference in March. Spanish Caixabank benefited from the supportive rate environment with the company's financial guidance now looking conservative. Elsewhere, Allied Irish Bank reported strong 2023 results with good revenue visibility.

Omvang fonds

Waarde begin van de periode	€ 2,990,481
Waarde eind van de periode	€ 3,255,156

Rendement

%	Kwartaal	Jaar tot op heden	3-Jaars Ann.	5-Jaars Ann.	10-Jaars Ann.
Fonds	11.37%	16.33%	7.52%	13.24%	8.12%
Benchmark	7.45%	14.55%	9.68%	9.27%	7.74%

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Attribution (continued)

The portfolio's high end consumer exposure – such as Ferrari, Hermes, and LVMH- also added to relative returns. Hermes' Q4'23 report showed strong momentum into year end with beats vs consensus sales growth and margins driving a mid-single digit beat on H2'23 EBIT. Ferrari also released favourable results with management noting that exceptional visibility in their order book (now covered into 2026) gives them confidence in hitting the high-end of 2026 targets.

On the mass-market consumer side, a holding in JD Sports was the top detractor in the quarter following a disappointing update from the company. The company issued a profit warning early in January, cutting PBT guidance by about 10% upon softer demand and weaker holiday trading provided a milder Autumn. Management also cited heavier discounting than expected in key markets during the peak trading season. The update showed us that the business is more heavily reliant on narrow product range sales than we had expected. After a full review of our investment thesis, this is a company we still see as undervalued, yet, we have reduced the portfolio's active weight to reflect the incremental risk in the business.

Owning ST Micro was another detractor in the quarter with the company disappointing on their guidance for Q1 and full year 2024 after seeing orders decreasing through Q4'23. Management pointed to weakness in industrial end-markets where inventory channels remain overstocked while saying demand in Autos remains stable. However, the market appears to be discounting that stability given headlines of weakening EV demand in developed markets. We continue to see good value in STMicro shares, expecting a rerating opportunity to come as orders bottom and inflect this year.

Not holding SAP detracted from relative returns as the large benchmark constituent's shares rose c.30% in the quarter.

A holding in DSV detracted. The company's Q4'23 results included a 4% EBIT miss versus consensus driven by their Air and Sea division which was impacted by 'other' costs which some brokers flagged as IT related. The leadership change announced last year also went into effect during the quarter with Jens Lund, former COO, stepping into the CEO role. Finally, speculation around a potential large M&A deal ramped up again following the CFO's presentation on their conference call which included similar buy-back and treasury management strategies seen carried out preceding previous deals.

A position in BNP was another detractor as shares fell after management pushed out profit targets, in part, blaming a more cautious outlook on Europe as well as a changing interest rate environment.

Portfolio positioning and changes

We continued to lean the portfolio into our constructive outlook driven by both cyclical and structural catalysts for earnings growth. In doing so, we reduced portfolio holdings intended to be more defensive positions including a trim to RELX, selling Totalenergies, reducing the Fund's cash balance, and finalising an exit of Royal Unibrew after a string of earnings downgrades and missteps on acquisition integrations brought their ability to execute on strategy into question.

Signs of resilience from the luxury consumer, and strong operational execution led to a top-up in LVMH. We continued to add to luxury positions on a sector wide pull back following a profit warning from Kering (not held) which we believe to be a stock specific issue. This included adding a new position in Richemont where we see an attractive valuation at which to own world class brands such as Cartier. Meanwhile, on a disappointing update from JD Sports, we reassessed our investment thesis which resulted in a trim to the portfolio's active weight.

ASML shares were topped up with the company progressing into an up-cycle, evidenced by the strong order figures reported at Q4'23 and industry expectations that H2'24 will outpace H1 as further end-markets recover. With cyclical and structural trends supporting semiconductor businesses, BE Semi and STMicro were topped up as well. We also added to Lonza and Partners Group where reassuring results and meetings point to improved business results ahead.

A new position in London Stock Exchange (LSEG) was added to the portfolio. Shares are trading at an attractive valuation following the past years of disappointment around their integration of Refinitiv. With an attractive top-line margin profile, and 77% of their business now data and analytics related, the big discount to fellow financial data peers such as S&P Global and MSCI stands out.

Omvang fonds

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Portfolio positioning and changes (continued)

After a difficult Q4'23 earnings season for banks – following almost 2 years of positive updates – we made positioning changes within the sector; selling BNP and trimming Caixabank. Guidance from European banks now looks reasonable, making it harder to see a scenario where external factors create the meaningful surprise upside seen over the past few years. While many shares remain cheap – with P/E multiples failing to re-rate alongside earnings upgrades – we've concentrated capital within banks where we also have the highest conviction around catalysts for further upside in shares; ability to control cost as the interest rate tailwind fades and a willingness to return significant capital to shareholders.

At the end of the quarter, our bottom-up convictions resulted in the fund's largest overweight positioning to Industrials, Consumer Discretionary, and Technology. 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. After a strong run of late, it wouldn't come as a surprise to see a degree of consolidation as the market begins to digest Q1'24 results which are likely to confirm what we've known for a while; earnings growth will be H2 weighted. While a degree of volatility may occur as the inflation and interest rate path 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 conservative. As more and more of these signs emerge, a broader market risk appetite should be supportive for the portfolio.

We are currently finding the broadest opportunity set in Europe we have seen for many years and generally expect company messaging to be more positive in the coming quarters. The portfolio is positioned to benefit as the market moves towards areas showing they are at or near the bottom of their cycle (e.g. construction, semiconductors, and luxury); industrials that can continue to prove their transformation into higher quality duration assets; areas of undemanding valuations such as European banks; and where we can see clear growth catalysts for businesses with resilience through cycle. 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.

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