

Oriflex BP Regeling

Oriflex Europa

Stichting Pensioenfonds Atos Origin

Derde Kwartaal 2024

BLACKROCK

Investment Review

The fund underperformed its benchmark over the quarter.

The third quarter saw an increase in volatility accompanied by a market preference for defensive assets over cyclicals as fears on the health of the economy rose to the fore, creating another 'growth scare'. Macro data was mixed through the quarter, yet, most recent prints showed a level of tepid consumer data, weaker than expected employment reports, and continued weakness of manufacturing PMIs. Reacting to the softer data and lower inflation, the ECB continued to cut rates, while the US Fed initiated its first rate cut, opting for 50bps.

Most impactful at a portfolio level during the quarter was news flow which dragged on semiconductor sentiment, causing large pull backs in European WFE holdings. We expect this to be proven as a short-term set back in time, and discuss our considerations in further detail below.

Attribution

The Fund returned -1.3% in Q3'24 (EUR, primary share class, net of fees), trailing the MSCI Europe Index's +2.4% return (EUR).

Positions in ASML, BE Semiconductor, and ASMI detracted from relative returns despite mostly strong Q2 reports over the earnings season. Their shares were caught up in a wave of negative sentiment following questions on the longevity of US hyperscalers' AI capex, rumours of tougher export restrictions from the US around Chinese customers looking to buy semiconductor equipment tools from the likes of European WFE suppliers, and Intel's profit warning with a plan to cut capex. We see it likely the license issue with China moves on in short order, and market concerns around AI overinvestment dies down as capex figures for hyperscalers are released for coming years. On a recent trip to Japan feedback from Tokyo Electron suggests Japan is lobbying very hard against China restrictions, in particular a full immersion ban. They see Chinese demand down about 10% in 2025, estimates we regard as sensible for ASML too, but elsewhere the cycle remains solid and so a decent growth year is possible despite the drag. We would note we believe ASML estimates already incorporate a -10% year for China next year. Moving forwards, our watch points will be Q3'24 order momentum across the sectors, and on a more individual basis ASML's Capital Markets Day which will take place in Q4. We expect the group to be in a position to raise the mid-point of its 2025 guidance, with more visibility on its 2030 objectives. If these European semiconductor equipment manufacturing companies continue to take market share, in a semis market which is likely growing at a multiple of global GDP over this decade, we believe that the investment cases for these WFE names remain well set.

ST Micro also detracted after their Q2'24 report included sales and margin beats versus consensus for the current quarter, but cuts to full year sales guidance as well as 2024 and 2025 EPS. The weaker outlook came from a lack of recovery in their autos and industrials end-markets. Our thesis of an improved business with greater margin resiliency through cycle has been challenged by the update, leading us to re-assess and exit the position.

The Fund's position in Novo Nordisk was also amongst top detractors in the quarter. Shares pulled back to the largest degree we've seen since 2016. This has come with whispers of potentially weaker Q3'24 results as a consequence of an unknown rebate rate, and trepidation over the forthcoming Cagrisema read out, with "GLP-1 tourists" exiting the position. The equity has become somewhat more volatile owing to the attention garnered in the theme of GLP-1. We do not believe the earnings profile has changed, however. Whilst quarterly results may be lumpy, we'd note that the high rebate weighing on Q2 earnings of 50%, matches the season high of recent years, and thus should not necessarily be directly extrapolated. We also believe the Cagrisema read out, coming in Q4, is likely to continue the trend we've seen between Eli Lilly and Novo Nordisk, with them leapfrogging each other in outcomes with each new generation of a drug.

A position in MTU contributed positively to active returns with growth in the aftermarket services well pinned and positive messaging regarding the GTF engine inspection and repair program supporting shares. Lead times as low as 70-80 days per engine were achieved in the program, showing considerable upside, and to their aim of under 100 days.

IMCD shares aided performance on a well-received capital markets day. We continue to see a slightly better backdrop for the speciality chemicals companies, versus diversified chemicals where pricing is under pressure and volumes remain poor.

Omvang fonds

Waarde begin van de periode € 2,979,728

Waarde eind van de periode € 2,849,690

Rendement

%	Kwartaal	Jaar tot op heden	3-Jaars Ann.	5-Jaars Ann.	10-Jaars Ann.
Fonds	-1.49%	18.03%	1.84%	11.12%	8.34%
Benchmark	1.88%	18.14%	8.14%	8.56%	7.74%

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Attribution (continued)

Shares in JD Sport provided positive attribution during the month following a solid Q2'24 earnings report in late August. This pointed to an improved trading environment with like-for-like sales and organic growth accelerating versus Q1'24. Similar trends were reported by US competitors during September, reaffirming the demand for sporting goods and providing a positive read across.

Updates across European banks showed our investment thesis remains intact as deposit growth and loan growth come through, whilst capital return programs continue. UniCredit shares in particular were strong being bolstered by potential M&A. Positive attribution from financials holdings wasn't limited to banks - London Stock Exchange, CVC, and Partners Group all had strong share price moves in the quarter.

Portfolio positioning and changes

We exited a small remaining position in Ashtead following their disappointing results earlier in the year that suggested a weakening outlook and potential for an earnings downgrade cycle to persist.

Lonza was topped up on an H1 update that reinforced confidence in their ability to execute against targets. Similarly, we added to Straumann as our conviction grew following earnings that showed growth in the US business stepped-up, which had been an area of concern after Q1 results that seemed to evidence an air-pocket in the US consumer. Management also announced an agreement to divest their clear aligners business, Dr. Smile, which was shown to be dilutive within the current product mix.

A position was added in Safran, where the aerospace aftermarket looks robust and profitability should improve from here. We believe the forthcoming capital markets day can act to soothe the market around niggles held about the Leap engine roll out. This was funded by trimming a position in MTU, taking profit after a period of strong share price performance, and selling our position in Melrose after continued disappointment in free cash flow generation.

While we remain positive on the WFE names, we have reduced exposure to lower quality, more cyclical stocks within the sector by exiting STMicro. The company has struggled, primarily due to losing market share in China and seeing its industrial business shrink by half. Challenges were caused by a slowdown in electric vehicle sales in Europe, as well as inventory buildup across different industry verticals. We have used the proceeds to top up ASML, where we hold higher conviction in the sector.

We continued to reduce the fund's active position in LVMH as weaker consumer data, particularly related to Chinese consumption, has remained an overhang of late. Fundamentally, however, we don't believe the business has changed and shares should offer good value at current levels as we see earnings momentum again improve.

We initiated a position in Kone during the quarter. After several years of weakness in Chinese construction, Kone's EBIT from China has decreased to 11%, down from 33% in 2021, mitigating the impact of any further potential downturns in Chinese new construction. The aftermarket business, especially modernisation, has accelerated in recent years, showing faster growth and improved profitability. Low market sentiment and an attractive valuation, coupled with ongoing margin improvement and broader stabilisation in Chinese new construction, present potential to achieve high-single-digit EBIT growth over the medium term.

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

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Outlook

We see the market in the midst of a growth scare; one that is likely to resolve itself over the next few months as the Fed continues to exercise its capacity to reduce rates, and the ECB continues its cutting cycle here too. We believe much of the cyclical concern has already been priced into shares, with the set-up turning more constructive as we move into year-end, expecting European cyclical leadership to reassert itself soon enough. Ultimately, we continue to see a broad opportunity set in Europe and 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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