Oriflex BP Regeling
Oriflex Europa
Stichting Pensioenfonds Atos Origin
Eerste Kwartaal 2025

BLACKROCK

Investment Review

The fund underperformed its benchmark over the quarter.

Q1'25 was an unprecedented quarter in markets with strong momentum reversals characterised and catalysed by numerous evolving factors. On the positive side, Europe is experiencing a renaissance moment, with politicians urgently collaborating to tackle common challenges, significantly increasing defence spending and investments to boost their economies. The change underway has the potential to create lasting positive impacts on corporate earnings. This however had to be weighed against negatives of greater uncertainty from the US, and President Trump's policies, which put pressure on global cyclicals. The introduction of Deepseek also put pressure on one of the markets favourite themes of the past year+, calling into question capex investment surrounding all things AI and datacentres.

Buying of European equities was underlined, in our view, by large policy changes in Germany, allowing for up to EUR1trn of fiscal spend over the next 10 years; a growing likelihood of a ceasefire in Ukraine; and a re-order of the geopolitical landscape. With respect to the latter, Trump's Presidency has started with a significant emphasis on 'America first' which has in turn had some negative consequences on expectations for the US economy. As his narrative moved toward conceding that a recession may be a price he's willing to pay in order to protect US interests longer-term, we have seen a swift and severe fall in consumer confidence. Whilst consumer spending within the quarter remained relatively robust, and consumer balance sheets very healthy, fears for the demand outlook grew deeper. These fears are further amplified by the expectations that tariffs likely raise inflation within the US and potentially threaten the path of rate cuts.

This more gloomy economic outlook that emerged as the quarter progressed further fuelled a momentum rotation. In Europe, this has manifested not only as the strong buying of defence stocks, but a sell off in growth - underperforming value by over 9% through the quarter, and a move of capital into domestic defensive assets. This move has been sharp and severe given the original low level of positioning. It was punctuated especially in the early days of March by a severe Hedge Fund de-grossing event, where we witnessed two consecutive days of trading with >4 standard deviation moves. A move of this size should be a 1 in 300,000 event, exemplifying the magnitude of events we are witnessing. The growth factor underperforming the value factor to this extent over this period of time, is typically a floor to these factor moves, outside of more extreme events such as the dot com bubble, GFC and Covid.

Attribution

The Fund returned -2.9% in Q1'25 (EUR, primary share class, net of fees), behind the MSCI Europe Index's +5.9% return (EUR).

The fund had a difficult first quarter. The market's momentum drawdown hurt performance, while defensive and domestic positioning rallied, global cyclicals fell. It's true the narrowly driven rally in European equities made for a challenging backdrop for most active market participants, yet, we also must acknowledge disappointment in having experienced a number of large drawdowns in fund positions over the quarter and having not moved faster or more meaningfully as the outlook for earnings for individual issuers started to deteriorate.

Novo Nordisk detracted with shares pressured on changing perceptions of the obesity market's potential growth. This comes both as a product of the Cagrisema data release, showing diabetic patients still didn't titrate to highest doses, as well as the longer than expected overhang of compounders which have taken some near-term market share. Whilst the latter likely resolves through the courts, it may weigh on Novo prescription data in 2025. We believe there is upside from the diabetes franchise, as well as optionality on other diseases, but believe the focus on obesity may hold greater influence on the equity return potential in the near-term. The greater uncertainty here has led to a significant reduction in position size within the portfolio, yet we are also mindful shares currently trade on a patent cliff multiple of around 8x end of decade P/E, whilst growth will still likely outstrip other European pharmaceutical players. This suggests a higher risk premium on these shares given an uncertain backdrop for how obesity sales will evolve, and indeed how geopolitical tensions may impact pharmaceuticals, and indeed Novo's home country of Denmark.

The largest negative contribution at a sector level came from technology, primarily driven by the fund's semiconductor and data centre exposure. Holdings in BE Semiconductor, ASMi, Schneider Electric and ABB were amongst the largest detractors. DeepSeek news flow worried investors about a potential shift in market dynamics leading to a reduced demand for semiconductor products and data centres. Later in the quarter, BE Semiconductor reported earnings which included a small miss on Q4'24 revenues and a Q1'25 guide below lofty consensus expectations. The lower guide was driven almost entirely by the core business which awaits a pickup in demand for the likes of PCs and smartphones – something management expects to see in H2'25. Meanwhile, there was better news in Hybrid Bonding where the pace of adoption is accelerating, and new client orders have begun to come through. It was a similar story for a position in ASMi which missed consensus expectations for Q4 order intake driven by parts of the business which masked strong acceleration in their key Gate All Around (GAA) transistors used in leading edge applications.

Omvang fonds

Waarde begin van de periode	€ 2,589,750
Waarde eind van de periode	€ 2,203,560

Rendement

%	Kwartaal	Jaar tot op heden	3-Jaars Ann.	5-Jaars Ann.	10-Jaars Ann.
Fonds	-2.20%	-6.25%	2.34%	12.06%	5.97%
Benchmark	6.23%	6.62%	8.66%	13.64%	6.63%

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Attribution (continued)

A holding in Pandora dragged on relative returns as the shares were caught up in a momentum reversal. Despite reporting solid Q4'24 results, beating organic growth and EBIT consensus expectations, shares were down due to worries regarding the silver price and the impact this would have on margins. However, management reconfirmed margin targets for 2026, indicating their confidence in mitigating these raw material cost increases through further pricing and cost-saving opportunities. The potential of US tariffs was a further headwind over the quarter as consumer businesses with US expose were hit particularly hard.

Shares in CVC fell due to a broader unwind of global private equity companies as economic uncertainty is not conducive to exits or performance fee realisation. Post the US election, there were expectations of deregulation promoting a healthy environment for transactions, however this has been pushed to the right, leading us to reduce weights of the private equity holdings in the Fund.

A holding in specialty chemicals distributor, IMCD, also detracted. Although recent reporting showed organic growth trends are improving, and recent orders have been solid, management said forward visibility is too uncertain to call an inflection in demand with order patterns not quite normalised at this point.

The portfolio's positions in banks – AIB, UniCredit, NatWest - provided positive attribution effect with the industry a significant driver of the European equity market rally. Company reporting continues to show positive trends related to deposits, loan growth, and solid balance sheets. Although shares have rerated this year, they remain well below historical averages on a capital adjusted basis at a time when underlying business is trending in the right direction. Messages we are hearing from the sell-side suggest part of the support for European banks have come from high levels of buying from international investors including the US.

New positions in defensive holdings initiated over the quarter – Zurich Insurance Group and SAP - were also amongst the top contributors. Shares were able to hold up better than the market, doing what we would hope to protect relative returns.

Following a frustrating CMD at the back end of 2024, we have seen some renewed enthusiasm for Safran shares. We believe the management team have guided with conservatism on CFM56 engine revenues and fx assumptions, which means they have room to beat the 2028 guidance of €6-6.5bn of revenues, and so exceed the 21% EPS growth CAGR expected between 2023 and 2028. Read across from other results through the Q4'24 earning period helped underline this conservatism in guidance, as end markets for parts and servicing accelerate.

Portfolio positioning and changes

Coming into the year with a constructive outlook for earnings growth to accelerate in Europe, we leaned into the Fund's cyclical positioning early on, including new positions in Alfa Laval as well as concentrating capital into our highest conviction ideas within construction and infrastructure. We exited small positions in Kone and Kingspan and used the funds to add to Saint Gobain and CRH.

We started a position in UK private equity firm 3i. The investment thesis is based on European discount retailer Action which is >70% of 3i's NAV and >80% of valuation. Action's scale advantage means it can sell items as a >40% discount relative to peers, whist executing a successful store roll out plan. 10% revenue growth and 10-20bps margin expansion each year contributes to Action's long-term high teens earnings CAGR.

As the quarter progressed, trading sought to gradually alter the shape of the fund, creating more balance to help navigate turbulent market conditions. Moves made in attempt to add defensiveness over the quarter have not been sufficient with hindsight. The focus in de-risking had to be around areas where earnings are most in jeopardy of downgrades. This has led to trims in Semis and Luxury as well as parts of industrials with high exposure to global cyclicality, US in particular, or where visibility has become more clouded. In general, we have been adding to defensive names with greater earnings resilience and companies with European domestic exposure.

We have increased our exposure to banks and defence, two industries where outperformance from re-rating has been prevalent but earnings are well underpinned to deliver further upside. We have initiated a new position in Commerzbank. A pullback in share price offered an attractive entry point for the German bank who have committed to a 100% payout to achieve a 13.5% CET-1 ratio by 2027. We also added to our existing position in UniCredit. This was funded by trimming Allied Irish Bank which may be at risk if Ireland is a target of US policy.

We started a position in Kongsberg, a Norwegian company specialising in high-technology systems for various industries including Marine, Aerospace and Defence. We believe the company is well positioned for European rearmament given 45-50% of revenues come from domestic Europe, in addition to having significant contracts with the US.

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Portfolio positioning and changes (Continued)

We initiated a position in Zurich Insurance Group, where the long term nature of the insurance business shields earnings from short term uncertainty, and initiated a position in SAP. The software company is benefitting from trends of digitalisation and growth of the Cloud business' revenue is expected to accelerate from 2025-2027, with the majority of these revenue streams being recurring in nature. A small position in LVMH was exited to fund new additions to the portfolio.

Cyclicality has been reduced by taking the fund's exposure to semiconductors to underweight. We have exited the funds position in ASML due to earnings downgrades. Positions in BE Semiconductor and ASMi were also trimmed.

We reduced the portfolio's active weight to Novo Nordisk given the changing perceptions and larger market share of compounders leading to a greater degree of risk in the investment thesis.

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

Outlook

While near-term uncertainty has increased, we continue to see a resilient bottom-up picture of both consumers and corporates. In our home market, we are encouraged by Europe's renaissance moment bringing potential for lasting impact to earnings. As an investment team, we are focused on analysing change as it relates to positioning the portfolio for both the near-term, but also the duration earnings-streams we see likely to be supported for years and decades to come. We are mindful that there is likely to be a difference between the optimal portfolio needed for next quarter and what the right portfolio looks like for next 12-18 months. From here we need to monitor the next steps in the US tariff policy to see if tensions escalate – likely leading to the need for further defensiveness – or if negotiations can improve the headline negatives and open attractive buying opportunities for that medium to longer-term horizon.

We believe with some of the significant changes going on in the market – fiscal policy change, potential for a Ukraine ceasefire and earnings cycles turning – that the European equity rally can continue although given the geopolitical backdrop this is unlikely to be a straight path. We would expect the shape of market drivers to change in time, with earnings becoming a larger determinant of returns as the narrow areas that have been bid up run out of steam. We believe the portfolio is well positioned for that increased breadth, notwithstanding shorter-term drivers of volatility.

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