Oriflex BP Regeling
Oriflex Europa
Stichting Pensioenfonds Atos Origin
Eerste Kwartaal 2022

BLACKROCK

Investment Review

The fund underperformed its benchmark over the quarter.

Market Summary

Markets digested a difficult start to 2022. The quarter began with a material re-pricing of interest rate expectations, prompting the largest value/growth factor rotation in the European market since before the global financial crisis. Lower quality names were bought while longer duration assets and those which had been well owned through 2021 were aggressively sold by the market. The period then saw an equity market sell-off and a spike in commodity prices as President Putin of Russia ordered an invasion of Ukraine, prompting a preference for defensive assets in the latter stages of the period. MSCI Europe Index fell -5.3% in the quarter.

The energy sector delivered the highest returns in the market, up in the region of 18%. Healthcare, materials, and communication services delivered small positive returns while all other sectors were negative. The consumer discretionary, IT, and industrials sectors delivered the worst returns.

Performance

The fund returned -12.5% (A2 share class, EUR, Net), underperforming the market by -7.2%. Negative return attribution was split between allocation and selection effect. From a sector perspective, the biggest headwinds to performance were the overweight to the IT sector, overweight to the industrials sector, and underweight to the energy sector.

A position in Netcompany detracted after the company missed Q4 sales and margin estimates while also disappointing on guidance. The recently announced Intrasoft acquisition has complicated the investment case and we took action to reduce the position size in December before exiting the remaining holding in Q1.

JD Sports fell as the market worried about a squeeze in consumer spending in the US, as well as a warning from US rival Foot Locker who expect to be negatively affected by Nike incrementally moving towards a D2C model. We do not expect a similar dynamic at JD Sports given they have a strong partnership with brands including Nike, as well as a more diversified mix.

After strong trading in 2021, Straumann shares sold off early in Q1'22 and remained under pressure as concerns over a weakening consumer intensified in the face of higher inflation. This is a cyclical business, and we must be cautious of any consumer weakness that may come later in the year, but we have conviction in the strength of the management team and their capital allocation. The company's capital markets day in December underscored the long-term opportunity to do at least 10% average organic growth, increase market share through geographic expansion and product innovation, and maintain EBIT margins between 25-30%.

Sika shares de-rated in January's market rotation, falling around 16%. Meanwhile, the company reported an overall 4% sales beat for Q4'21 which included strong organic growth coming in just above 10% - around 6% ahead of consensus. Beyond the positive results, nothing has changed in their position as a world leader in specialty chemicals that benefit from areas of construction and infrastructure expected to be well supported for years to come, whilst the onboarding of acquisitions can also help expand earnings growth.

VAT Group shares fell c.25% in the quarter – a move disconnected from a positive pre-release of Q4 results showing orders up 107% y/y, sales up 36% y/y, Q1 sales guidance ahead of estimates, and an order book of CHF460m vs total 2021 sales of CHF900m.

Tenaris was the top positive contributor in Q1. The steel tubing producer will benefit from higher oil prices and more drilling activity. We expect to see future strength come through from ex US customers, which comes at a higher margin and should support earnings growth in the near to medium term.

One of our recent additions, Hotel operator IHG, did well to post positive returns in the quarter, reporting sales and profits ahead of estimates. We see the potential for mid-high single digit revenue growth and strong cash conversion driving attractive returns and rapid de-gearing of the balance sheet giving opportunities for buybacks and special dividends.

The portfolio's position in Novo Nordisk aided returns following some weakness in the shares at the end of 2021. The company reported good results with a 2% sales beat and guidance of 4-8% operating profit growth for FY22 which was ahead of market expectations. Previous concerns about delays to its Wegovy obesity drug resulting from a supplier backlog were relieved as the company indicated that they expect capacity to recover during the first half of the year.

BESI contributed to performance. The operating performance of the company is progressing well, with demand for its products increasing and order backlogs lengthening even as the company brings more capacity on line. Meanwhile investment in new product areas is increasing the resilience of the business model.

Omvang fonds

Waarde begin van de periode	€4,045,866
Waarde eind van de periode	€ 3,575,099

Rendement

%	Kwartaal	Jaar tot op heden	3-Jaars Ann.	5-Jaars Ann.	10-Jaars Ann.
Fonds	-11.55%	-11.55%	17.66%	10.64%	10.07%
Benchmark	-5.08%	-5.08%	8.98%	6.52%	8.91%

Outlook

Whilst we are aware of macro-economic and geopolitical developments, our role as stewards of our clients' capital requires that our focus remains firmly on company fundamentals – including how current events may affect the earnings profile of businesses in the portfolio. The majority of these companies are progressing strongly from an operational standpoint, with many seeing earnings upgrades. Yet, share prices YTD have not followed the fundamentals, resulting in a very material de-rating of several of our favourite companies, presenting an attractive entry point to add to positions.

It seems likely that economic growth will slow, and global fiscal support will fade as the year progresses. The damaging impacts of the Russia-Ukraine war may exacerbate a real income squeeze for consumers in the lower quartiles of the income distribution curve; and will likely cause margin compression and/or demand destruction for energy intensive industries. The portfolio has little exposure to energy intensive industries, and our consumer facing companies generally sell to higher-end consumers whose discretionary expenditure is relatively well insulated against higher prices.

With Q1'22 earnings releases starting in the coming weeks we will begin to get a better picture of what companies are seeing and willing to say about the year ahead. Our expectation is for positive updates from companies in the portfolio, though, also a more cautious tone around outlooks given the uncertainty created by Russia's invasion of Ukraine. In this environment, we believe we have the right portfolio – better balance sheets, higher margins, and paths to earnings upgrades – while more downgrades could start to come through for weaker companies in the market.