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

BLACKROCK

Investment Review

The fund outperformed its benchmark over the quarter.

Market Summary

The market environment remained volatile through Q3’22. European equity was well supported in the first half as the Q2 earnings season proved more robust than some expected, 10-year US Treasury rates fell, and spreads narrowed between Italian and German 10-year government bond yields. However, central banks reiterating hawkish stances and overwhelmingly negative economic rhetoric ultimately drove equity markets lower by quarter-end.

Although underlying indicators suggest inflation should start rolling, we have yet to see this in official prints. With inflation data surprising to the upside, rate expectations rose, causing more concern for economic growth. Europe also continues to deal with an energy supply shock, and in the UK, the government introduced a new ‘growth strategy’ that eases fiscal policy at the same time the BOE is trying to tighten. This all adds to uncertainty around how the consumer, and corporates, will navigate through the next few quarters.

Performance

The fund returned -3.4% (EUR, primary share class, net of fees), outperforming the MSCI Europe Index’s -4.1% return (EUR).

European luxury companies showed their resilience against a worsening consumer backdrop with shares in LVMH and Ferrari benefiting the portfolio’s active return.

LVMH released strong results, beating Q2’22 consensus growth estimates by c. 6% while H1’22 EBIT margins were also above consensus. The margin beat included a 41.4% EBIT margin in the key fashion and leather goods (F&LG) division where management commented that 40%+ margin will be the new normal.

Ferrari also released a favorable Q2’22 update with volumes shipped, revenue, and EBIT ahead of expectations. The results were driven across regions, and led to a small upgrade on FY22 earnings guidance. Their business also benefits from a strong US Dollar where a large part of sales come from, while manufacturing in Italy, hence a weaker currency. The recent introduction of the Purosangue, Ferrari's first four-door SUV, created additional excitement as it is seen as a catalyst for next year.

Industrial gas business, Linde, reported solid Q2’22 earnings with a small FY22 EPS upgrade. Commentary from management has also been very reassuring, as they demonstrate the strength of the take or pay contract model, limited impact of wage inflation and ability to drive cost savings and productivity.

Not owning shares in GSK and Sanofi also benefited relative returns as both companies’ shares were hit by sell-side notes highlighting litigation concerning an over-the-counter stomach ulcer and heart burn relief drug – Zantac – which is accused of deteriorating into a carcinogenic substance over time.

Royal Unibrew shares fell in the quarter. Despite rapid moderation in input cots, raw materials continue to eat into strong top-line growth and are expected to put pressure on margins for the next few quarters. Our long-term conviction in the investment case remains unchanged. In our view, Royal Unibrew has been executing on their strategy exceptionally and remains on track to see EBIT growth likely to exceed 10% organically for the next few years.

Teleperformance detracted as the company’s shares fell following allegations of a potentially severe compliance breach. The company – and the contracting client involved – were quick to deny the allegations and immediately set off on multiple audits to investigate the claims. Two internal audits came back with no evidence to support the former employees’ claims and a 3rd audit, conducted by an external entity, is now underway. These allegations raise governance questions that must be taken seriously, and we were encouraged to learn of the speed and depth of action to do so when we spoke with senior management. In a separate update, their CFO stated there are no signs of any slow-down in the broader business with pipeline singings coming in strong this year and expected to continue into 2023. A more flexible cost structure in certain markets should also help protect their margin and lead to a more defensive business than in the past.

Market concern for pressure on the consumer, and cyclical exposures in general, drove share price losses in Straumann, CTS Eventim, MTU, and DSV.

Omvang fonds

Waarde begin van de periode	€2,903,364
Waarde eind van de periode	€2,712,438

Rendement

%	Kwartaal	Jaar tot op heden	3-Jaars Ann.	5-Jaars Ann.	10-Jaars Ann.
Fonds	-2.69%	-29.58%	7.08%	5.28%	7.98%
Benchmark	-3.72%	-16.21%	3.06%	3.55%	7.95%

Outlook

While European headlines remain negative on balance, we are looking forward to the Q3 earnings season where we expect to see more warnings in some areas of the market, but also generally expect companies in the portfolio to show resilient underlying business trends and outlooks.

The next few updates from central banks will also be critical in understanding how they are reacting to economic data and what that means for nearing the end of the current rate hiking cycle. From the current high levels of inflation, a moderate reduction probably won’t be seen as enough progress for central banks to change course any time soon. Until then, market volatility is likely to stay elevated leading us to continue down the path of adding balance to the portfolio in the near term.

However, the market is forward looking, and at some point, will start to focus on what recovery looks like. While it may be too early now, we note there is a massive valuation dispersion with areas of the market considered more cyclical trading well below those considered more defensive. We also see value where deratings this year have put many companies we see as long-term earnings compounders on attractive valuations.