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

BLACKROCK

Investment Review

The fund outperformed its benchmark over the quarter.

Market Summary

The Q3'22 reporting season generally delivered positive updates from portfolio companies, yet results across the market were more varied. None-the-less, European equities rallied off the year's low with all sectors higher, led by cyclical areas of the market. There were a number of influences propelling the move higher. As economic data deteriorated, a bullish narrative formed predicting central banks would pull back on their rate hiking cycle. Adding to the positivity, we received key updates on inflation and European gas prices during the quarter. Finally, there were early suggestions that China was ready to take steps to progress out of their COVID Zero policy.

We've now had two consecutive disinflationary US CPI readings and a collapse in EU energy prices. The latest monthly US core CPI level was +0.2% (compared to +0.3% and +0.6% before that) showing that inflation continues to roll. Meanwhile, in Europe, gas prices fell over 45% in December and are down over 75% from 2022's peak levels. Thus far, winter weather has been mild, helping to lower energy demand. Combining that with ample LNG supplies, EU gas storage was unseasonably built during the last week of December. While the weather could yet turn and increase energy demand in Q1'23, this strong foundation represents a de-risking of the European gas crisis.

Performance

The fund returned 9.9% (EUR, primary share class, net of fees), outperforming the MSCI Europe Index's +9.6% return (EUR).

The quarter's outperformance came from stock selection across a wide range of end-markets including companies exposed to healthcare, industrials, consumers, financials, and energy.

Novo Nordisk shares were up after releasing a 2% EPS beat vs Q3'22 consensus, driven by sales and EBIT margin beats, and upgraded guidance. Shares also benefited from positive news flow – the FDA clearing the way for a key Wegovy manufacturer to increase supply – followed by confirmation they've been able to restock US pharmacies with all dose levels before year-end.

Not holding large defensive benchmark positions, Roche and Nestle, was positive for relative returns against the backdrop of a cyclically driven rally. Roche shares were also hit by news of a failed Alzheimer drug trial.

MTU shares benefited from recovery in the aerospace sector. Demand for engine repair is particularly strong, catching up to the earlier pickup seen in passenger travel. They reported Q3'22 results slightly ahead of consensus and tweaked their full year guidance higher. Underlying trends all seem fine, and we still see a great medium to long-term investment case.

DSV shares had come under pressure following market perception of a negative industry read across in September. However, DSV's Q3'22 results highlighted the strength in their underlying business operations and helped shares recover through. EBIT came in 3% ahead of consensus – notably, this beat was after a one-time staff retention bonus paid. Their full year guidance was raised, matching a consensus estimate modelling the top end of the new range. Overall, the company continues to deliver at a time where there is a lot of worry about slowing economic activity negatively impacting freight volumes and yields. DSV, however, is clearly benefitting from being short yields in a falling market, helping to drive impressive results compared with the underlying industry.

CTS Eventim was also amongst top performers, delivering a strong set of Q3'22 results as the company's ticketing and live entertainment segments are benefiting from demand in concerts and festivals. Q3 revenue increased compared to the pre-COVID period of Q3 2019, benefiting from strong volume and pricing. The company is set to deliver a record result for 2022.

Energy companies – Totalenergies and Tenaris – posted strong share price gains. Totalenergies released Q3'22 results broadly in-line with consensus estimates, and beating on Net Income. Cash generation has been very strong, and management confirmed their plans to return cash to shareholders through their buyback plan as well as declaring an ordinary and special dividend. Tenaris held an investor event at the end of September highlighting a number of positives around industry change and company developments throughout previous years. Many of the highlights from the event confirm key points of our investment thesis: global manufacturing reach makes their business more resilient in delivering for customers even through turbulent times, strong growth opportunities outside of the US such as the Middle East and LatAm, OCTG (tubes/pipes used in oil & gas production) demand is likely to be up again in 2023 on top of the strong increase seen in 2022, and they confirmed EBITDA margins should be sustained around 30% for H2'22 and 2023.

The portfolio's European bank holdings also rallied – in particular KBC and FinecoBank – buoyed by higher interest rates supporting Net Interest Income growth.

Omvang fonds

Waarde begin van de periode	€2,712,438
Waarde eind van de periode	€2,858,725

Rendement

%	Kwartaal	Jaar tot op heden	3-Jaars Ann.	5-Jaars Ann.	10-Jaars Ann.
Fonds	8.05%	-23.90%	6.21%	6.53%	15.16%
Benchmark	9.72%	-8.07%	3.97%	4.74%	7.72%

Outlook

There are several potential catalysts for European equities moving into 2023 – inflation is rolling, EU energy prices have collapsed, and China is signaling a readiness to move past COVID Zero policies. While it may be too early to go all in now – expecting equity market volatility continues in the near-term - we note there is a valuation dispersion with areas of the market considered more cyclical trading well below those considered more defensive. Over the last few months, we've seen the market trying to rally around these more cyclical assets on each sign of economic optimism. We also see value where deratings this year have put many companies we see as long-term earnings compounders on attractive valuations.

Finally, we continue to believe in the opportunity presented via long-term trends and spending streams that support structural growth in areas such as digitalization, energy transition, and healthcare. We do not believe that the events of 2022 will ultimately reverse the importance of these investments, and we see Europe as home to companies that stand out as global leaders driving the trends.

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Performance (cont)

Teleperformance shares again came under pressure following announcements that the Ministry of Labour in Colombia has decided to launch an official investigation into the company in regard to its treatment of TikTok content moderators. The company emphasised that they have followed all labour laws in the US and Colombia. The Colombian site has been audited 18 times by the labour ministry in the last 3 years as is a routine procedure with no material issues having come up. However, clearly even if the company has broken no laws there is some discontent present for these allegations to come about. We'd note that the board have now given full mandate to allow for the Colombian site to become unionised. We believe the company have taken steps here to not only act on the allegations but provide significant transparency to the market of how this has been treated and what resolutions are in place. The show of strength of not only the lead management team but the second tier of management has certainly been impressive. Despite this, clearly it will take time for reputation to be rebuilt. We still fundamentally believe in the business model, and note shares are at an attractive valuation on this basis, but we must be cautious also of this overhang in the near-term.

Life sciences companies – Lonza and Sartorius Stedim – detracted over the quarter on familiar concerns around a normalization for COVID related revenues, expectations for higher energy costs, and a tougher environment for bio-tech funding. We see this as manageable for these companies and not of great concern.

Semiconductor companies – ASMI and STMicro – were up in absolute terms but detracted from the portfolio's relative returns as they trailed the market rally. Both released positive Q3'22 results but worries around the outlook for orderbooks put pressure on shares versus the rising market. ASMI reported sales growth 41% YoY, beating company guidance and analyst consensus. Margins also beat with EBIT 3% ahead of consensus due to the higher sales. However, a weaker outlook for WFE memory, and steps taken by the US to further restrict China's access to semi equipment, weighed on the orders in Q3 and their outlook. Given these unknowns, they did not guide on 2023 but the company expects a strong backlog by year-end and traction in new tools. STMicro posted another beat and raise. Sales of $4.3b were 2% ahead of consensus while gross profit beat by 3% and EBIT was 9% ahead. The company's Q4'22 guidance was solid with sales in-line with consensus, expecting +24% growth YoY, implying EBIT goes up by 5%. The full year 2022 consensus EPS should also go up by around 5% from here. The market however is waiting to see how they guide for 2023 which we won't get until January.

A number of the more defensive companies we've put into the fund to add balance this year trailed the cyclically driven market rally and weighed on active returns – RELX, Pernod Ricard, L'Oreal. Royal Unibrew shares also trailed the market with Q3'22 results lower than expected. The results were accompanied by warnings of a weaker business environment of late due to pressure on consumers and noting they are finding it harder put through price increases. The weaker Q3'22 implied a 7% cut to full year consensus earnings. Given our expectations margins may suffer for the next few quarters, we had been managing the position size coming into this update.

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