Oriflex BP Regeling
Oriflex Europa
Stichting Pensioenfonds Atos Origin
Eerste Kwartaal 2023

BLACKROCK

Investment Review

The fund underperformed its benchmark over the quarter.

Market Summary

The European equity market began the year on strong footing with cyclical assets breaking out, supported from the top-down and the bottom-up. Confidence levels were lifted on an improved inflation trajectory, a de-risking of the EU energy crisis, and increased activity from China reopening. Meanwhile, Q4 and full year 2022 earnings generally delivered consensus beating results and positive 2023 outlooks. What we heard from companies provided fundamental support evidencing ongoing strength within the more cyclical end-markets of discretionary spending, industrials, and banks as well as more defensive businesses providing key products for their customers.

The market has remained resilient in the face of an increasing chorus of caution around 'what-if' macro scenarios related to inflation, rates, and perhaps catalyzed most notably by the second-degree effects of stress witnessed in the banking sector. Pressure on banks – starting within US regional banks and then in Europe with Credit Suisse - dominated headlines in March and drove a degree of panic selling within equities. Timely government intervention providing liquidity measures and brokering takeover deals stemmed the immediate panic of systemic issues.

In our view, the events that unfolded were idiosyncratic and do not pose systemic risks to the European or global financial system. Though, we do note lending standards may tighten. We are paying close attention to indicators that help us judge financial conditions, and are ensuring we understand the potential earnings impact of a tougher financing environment business by business.

Performance

The fund returned 13.5% (EUR, primary share class, net of fees), outperforming the MSCI Europe Index's +8.6% return (EUR).

Strong stock selection effect drove Q1'23 outperformance. Sector allocations also contributed positively from overweight positioning to Industrials & Information Technology as well as an underweight position in Energy.

Semiconductor businesses within the portfolio – STMicro, ASMi, BESemi, ASML – contributed positively to relative returns over the period following strong earnings updates. STMicro released solid Q4'22 results with sales up +24% year-on-year, beating expectations vs consensus on both gross margin and EBIT. Management also guided for a very strong Q1, and full year 2023, expecting higher sales and margins compared to consensus estimates. In two signs of demand strength, their order backlog is now higher than the entry point for 2022 and the company raised expectations for SiC sales again (diodes used in EVs and other power applications) after already upgrading guidance multiple times in the past year.

ASMi issued two positive pre-releases ahead of Q4'22 sales, pointing to improved supply and higher conversion of their backlog. In a more recent conference call, management continue to be upbeat, giving a solid guide on 2023 orders, particularly within their foundry/logic business that makes up 60% of sales.

With China reopening underway, and less pressure expected from high energy prices, holdings in consumer exposed business such as LVMH and Hermes saw their shares supported. Q1'23 broker estimates for LVMH have also begun to filter out following a company pre-close call. Expectations for organic growth have moved well above initial consensus estimates.

The portfolio also benefited from exposure to the mass market consumer with a holding in JD Sports contributing positively to active returns. JD Sports released a trading update that confirmed positive consumer trends we'd been tracking through our alternative data. H2'22 organic sales growth accelerated to more than +10% from +5% in H1. The acceleration came from a recovery in the US and UK, while Europe and APAC maintained strong momentum. Achieving these levels in the face of consumer headwinds shows a strong foundation as the company embarks on a refreshed strategy focusing on their core business.

Omvang fonds

Waarde begin van de periode	€2,858,725
Waarde eind van de periode	€3,216,539

Rendement

%	Kwartaal	Jaar tot op heden	3-Jaars Ann.	5-Jaars Ann.	10-Jaars Ann.
Fonds	14.22%	14.22%	17.46%	10.15%	8.27%
Benchmark	8.45%	8.45%	15.78%	7.46%	7.87%

Outlook

What we've seen and heard from company management continues to support our view that Europe is in a better position than many feared coming into the year. There has yet to be a material rebalancing towards the region, and from a very under-owned position, European equities could see continued upside. We don't subscribe to the view of a recession foretold – believing earnings revisions remain positive – and if we do see an economic downturn this year, we believe the market will be relatively resilient. While remaining positive on balance, we don't expect a smooth path and continue to pay close attention to the price vs cost equation, inventory destocking, and supply chain patterns. Mindful of the year-to-date strength in areas of the market such as quality growth and tech, we are looking for assets on attractive valuations where fear of recession has already been priced in.

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 where Europe is home to global-leading companies driving the trends.

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

BLACKROCK

Performance (cont)

A position in Sartorius Stedim detracted as the company's shares fell sharply into quarter-end after announcing they will acquire Polyplus – a business creating components used in the production of viral vectors for cell and gene therapies. Strategically, the acquisition provides additional exposure to the attractive growth area of cell and gene therapy. The upstream assets being acquired should create synergies with existing downstream products. The negative reaction seen in share prices was likely due to two factors. First, the deal is being financed with a bridge loan which the company plans to replace with longer-term financing that may include an equity raise. Second, with a price tag of 2.4bn EUR, the deal is optically expensive on > 25x sales. We note Polyplus has been delivering strong revenue growth, and will look to interrogate Sartorius Stedim on their expectations that led to comfort with the price paid.

Portfolio positions in European banks – such as Caixabank and Finecobank – provided negative contribution to relative performance as the sector came under pressure following events in the US and Swiss banking markets. While the sector has been volatile, after 15 years of stringent regulation, restructuring, and capital rebuild, we see the banking system in Europe as materially different to the US and we do not see fundamental justification in the recent price moves in European banks. The fund's positions are in banks with strong deposit franchises with low loan-to-deposit ratios and where excess capital is being returned to shareholders. Despite initial fears that banking stress, which we believe to be idiosyncratic cases, might lead to broader regulation preventing capital return, we note recent examples where European banks have been given approval to proceed with capital return to shareholders. All of this drives earnings growth, and upgrades to consensus which continue to come through.

A holding in Genmab detracted as shares gave back following a period of strong gains. Part of the decline came from disappointment in the company's FY'23 guide where increased operating expenditure, including R&D supporting their product pipeline, is expected to weigh on margins.

Over the course of Q1'23, we selectively added to companies considered more cyclical, funded via trims to more defensive shares and price target ideas nearing full valuations.

Semiconductor holdings such as ASML and STMicro were topped up. Shares continue to recover after seeing much of the concern for a slowdown priced in during 2022. While there remains some order book weakness in areas such as PCs and smartphones, we should see this trough in 2023, and management teams remain positive on overall order trends.

We added to LVMH, expecting upgrades in what we see as an inexpensive cyclical business. The company upgraded organic growth guidance in their key fashion and leather goods division and we also saw stronger than anticipated data out of China to start the year. Within luxury, we also topped up Ferrari and added a new position in Hermes.

We added to Schneider where we see demand for energy efficiency underpinning expectations for FY23 earnings. We also added to Sika where we expect gross margin expansion as headwinds from energy input costs fade and the company maintains the benefits of cost cutting and pricing taken over the past 12-months.

We took advantage of the panic selling in banks, topping up European retail banks with high quality deposit bases. Adyen was also topped up on share price weakness following an earnings downgrade and near-term margin pressure that came from spending plans which we believe will drive future growth projects improving their ability to deliver attractive returns on investment over time.

More defensive assets were reduced to fund the above cyclical additions. This included trims to AstraZeneca, RELX, L'Oreal, and Pernod Ricard.

We sold Tenaris after strong gains since brining the stock into the fund as a price target holding in 2022. Though shares are not particularly expensive, we are more cautious on where future earnings upgrades can come from. The company is already earning super-normal profits while the US market is seeing rig counts declining, the Pipelogix index of OCTG prices is coming down, and industry capex is being cut. Similarly, we sold Totalenergies, finding it harder to justify further earnings upgrades after a year of supernormal profits and energy prices declining at the start of this year.

Hexagon was sold from the portfolio. Shares appear fully valued here while there are a number of reasons – new management team, expensive acquisitions going through integration phase, and slower growth in a key division - for us to step back and see how the company progresses from here.

We began selling down DiaSorin after seeing faster than anticipated declines in COVID related business and delays in products associated with their Q2 2021 acquisition of Luminex.

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

Omvang fonds

Waarde begin van de periode	€2,858,725
Waarde eind van de periode	€3,216,539

Rendement

%	Kwartaal	Jaar tot op heden	3-Jaars Ann.	5-Jaars Ann.	10-Jaars Ann.
Fonds	14.22%	14.22%	17.46%	10.15%	8.27%
Benchmark	8.45%	8.45%	15.78%	7.46%	7.87%