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

BLACKROCK

Investment Review

The fund outperformed its benchmark over the quarter.

Market Summary

The European equity market traded in a range before ending the second quarter higher. Early narratives drove a brief change in market leadership towards more defensive assets while participants digested March's banking stress, signs of tighter lending conditions, and evidence that interest rates have entered restrictive territory, such as slowing US consumer spending and measures of manufacturing looking poor. However, the Q1'23 earnings season was generally supportive for the market and moved leadership back to more cyclical end-markets such as financials and industrials. Areas within technology were also well supported by a step change in the use of generative AI.

On balance, markets have remained strong while participants continue to seek out evidence of an expected economic slowdown. Unlike synchronized slowdowns the market is accustomed to through history, what we've been experiencing is a rolling recession in different sectors. The latest examples have been in pockets of destocking such as chemicals and medtech. Meanwhile, what we have been hearing through channel checks and industry conferences ahead of Q2 earnings gives us confidence that earnings remain underpinned in areas such as industrials and European banks.

Attribution

The fund returned 2.8% (EUR, primary share class, net of fees), outperforming the MSCI Europe Index's +2.3% return (EUR).

Sector allocations and stock selection each contributed to outperformance over the quarter. Key sector positioning included underweights to Energy and Consumer Staples as well as overweight positions within Technology and Industrials.

Shares in BE Semi posted strong gains, supporting the portfolio's outperformance. The company's Q1'23 results showed consensus beats on all metrics except for orders where in our view estimates were too high given management had flagged order pull-ins for smartphones and strong hybrid bonding (HB) orders benefiting Q4'22. We expect 2023 to be the trough in orders and sales, with the second half of the year showing more recovery driven by China orders and the HB opportunity ramping up into outer years. The long runway for hybrid bonding was highlighted at a capital markets day in June where BE Semi upgraded their sales target for cumulative HB tools by 2030 and via advances in generative AI where HB will help to solve the need for smarter and more powerful chips.

A position in Ferrari aided relative returns on excitement for a new 2024 limited release model. The SF90 XX Stradale is a road-legal limited series car that merges the best of the Speciale and XX programs. This will be the first time an XX car will be road-legal, with all previous models being sold as track-only. The SF90 XX Stradale is scheduled to be available from February 2024 followed by the Spider in April 2024. Both cars are expected to come at higher price points that will be additive to Ferrari's overall revenue mix.

Holding DSV was also positive with shares gaining on further evidence of yields staying higher for longer while the freight forwarding industry goes through a period of normalization which appears to have stabilised, suggesting it may have found its trough. This is an example of an end market exiting its recession.

JD Sports detracted with shares off slightly after flagging a deterioration in US sales. The slowdown was expected though and geographies such as Europe, the UK, and Asia have been resilient if not better than expected. The company has reiterated FY guidance and is expecting acceleration in H2'23 from incremental store openings.

A holding in IMCD came under pressure as more warnings came through in the European chemicals space which has been going through a destocking cycle. We've yet to see anything from IMCD itself. While it's reasonable to think the company could be impacted with a quarter or two of weaker growth, we don't see issue with the strength of the business and future potential.

Sartorius Stedim detracted with shares falling post a company warning. Whilst destocking of biopharma equipment, which Sartorius make, had been well flagged, the magnitude of weakness surprised the market.

Omvang fonds

Waarde begin van de periode	€ 3,216,539
Waarde eind van de periode	€ 3,214,622

Rendement

%	Kwartaal	Jaar tot op heden	3-Jaars Ann.	5-Jaars Ann.	10-Jaars Ann.
Fonds	2.84%	17.46%	11.73%	9.92%	8.47%
Benchmark	2.10%	10.73%	11.77%	6.95%	8.20%

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Portfolio positioning and changes

We continued to lean into industrials – Ashtead, Saint Gobain and Schneider Electric - where we can see underlying support for earnings while valuations are undemanding as the market prices in unwarranted pessimism. Ashtead Management have been confident that the market for new construction equipment remains supply constrained as infrastructure projects scale and private construction has picked up much faster than expected supported by government plans such as the US Inflation Reduction Act that drives spending on sustainable transition.

We also topped up IMCD on a relative setback. The weakness in chemicals end-markets is well flagged and should prove temporary in nature.

We bought more STMicro as shares fell to 10x 2024 PE on our estimates. History has shown the right time to buy semis is towards the end of a destock cycle, and at this valuation, STMicro shares look very attractive considering their mid and long-term targets and improving margin profile.

Seeking to add some balance in the fund, we topped up one of the portfolio's more defensive businesses, Royal Unibrew and Novo Nordisk. Consumer cyclical exposures were also trimmed after a strong run in LVMH shares as well as JD Sports which also has the potential to be negatively impacted by signs of slower consumer activity in the US.

We also took profits in European banks – trimming Caixabank, Nordea, and KBC – taking some risk in the portfolio's overweight to the industry off the table as we get closer to peak interest rates. While we still see a value opportunity in banks, from here, shareholder capital returns are likely to be more important to the investment case than rate sensitivity. With that in mind, we added to a position in Ireland based AIB.

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

Outlook

Unlike synchronized slowdowns the market is accustomed to through history, what we've been experiencing is a rolling recession in different sectors. As some end-markets slow more than others, we could see a period where growth in companies once again becomes valued at a premium. We continue to reassess the opportunities in the market and feel good about the areas we are taking cyclical risk. The portfolio is positioned towards those companies we expect to realize a growth premium and see the real test coming after the summer period when we are updated as to whether company operations remain supported.

Finally, we continue to believe in the opportunity presented via long-term trends and spending streams that support structural growth in areas such as digitalisation, energy transition, and healthcare where Europe is home to global-leading companies driving the trends.

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