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

BLACKROCK

Investment Review

The fund underperformed its benchmark over the quarter.

Market Summary

Market perception of a weakening macro environment fed through to softer equity markets in Q3'23. Increasing government bond yields, higher energy prices, and the prospect of persistent inflation and tighter financial conditions all led to a cyclically driven drawdown. At a time when most companies were in pre-earnings blackouts, this messaging on macro pessimism likely amplified the risk off sentiment.

Our view of the world is being tested every day at the moment. Too much focus on backward-looking economic measures misses the point in our mind. The key for investors is what the market is telling us about companies 12-months from now and beyond. While equity markets are likely to remain volatile until bond markets steady, our focus is on the next 6-18 months looking more interesting and finding the best opportunities for the portfolio today which position it for the future.

Attribution

The fund returned -5.2% (EUR, primary share class, net of fees), underperforming the MSCI Europe Index's -1.9% return (EUR).

The relative portfolio drawdown came from both stock specific and top-down drivers. Over the period, we saw large single stock moves, some of which we see justification for, others we think represent short term volatility based on sentiment rather than fundamentals. For stocks in the latter camp, we believe it's likely the share price will move again when further hard data is released and revaluated by the market.

Meanwhile, The market's macro focus could be seen in Q3'23 sector performance. Government bond yields rising sharply in September and renewed calls for slowing growth caused a selloff in consumer exposures, technology, and utilities. A higher, yet volatile, oil price created a standout winner in the Energy sector, where the portfolio's underweight positioning dragged on relative returns. The portfolio's overweight positioning within technology and underweight financials also dragged on relative returns while allocations to consumer exposures were almost neutral with negative effect from overweight Consumer Discretionary largely offset by positive effect from underweight Consumer Staples.

The portfolio's position in Adyen was the top detractor in the quarter. Shares fell over 40% on the day of a disappointing earnings update which showed a dramatic slowdown in growth. Of most concern was the speed at which the competitive dynamic has changed. We've owned Adyen on the thesis that its position as the low-cost payments provider, with its best-in-class single-stack technology platform, would continue to drive profitable growth through market share gains. Management's update surprised the market, flagging increased pricing competition in North America (25% of group revenues) as a reason for slowing growth. The step change in competition came from Braintree, a unit within PayPal, which we believe may be now trying to undercut Adyen in a loss leader strategy. This new dynamic is unquestionably a negative to the investment thesis, calling into question whether this is a limited disruption or a sign of what could be faced in the form of competitive pressure in other geographies such as Europe, and whether Adyen's investment in innovation and service can ultimately prove successful over this aggressive price strategy.

Lonza was another detractor in a quarter where they reported a weak set of H1 results, including a cut to full year 2023 guidance and 2024 margin expectations, and subsequently went through a CEO change. The CEO departure was taken poorly by the market, causing a meaningful selloff in shares. We had a meeting with the Chairman during the quarter to explain our recent frustrations with the business, particularly around communication, ahead of their CMD in October. We view the leadership change as decisive action from the chair ahead of that event and are supportive of the action. The core reason we own Lonza – the large-scale commercial biologics business – continues to come through even in this tough year for the overall business. We see margin headwinds as a short-term hit driven by a non-core part of the investment thesis, Lonza's smaller scale bio-tech business where revenues have collapsed while costs to retain key talent such as scientists enabling R&D must be maintained. Lonza has invested a lot of capex to expand capacity to meet increasing demand in biologics outsourcing. As their laboratory projects come to completion, and the biotech landscape strengthens, margins should recover. The company recently reiterated their FY guidance for 28-29% EBITDA growth, and we look forward to an update on 2024 and beyond at the upcoming CMD.

Shares in the portfolio's holding of MTU detracted on negative developments surrounding issues previously identified with the GTF Engine, which MTU make within a consortium. The issue is to do with exposure to a contaminated powder in manufacturing between 2015 and 2020. This will lead to an accelerated inspection schedule which the consortium, in their apportioned share as program partners, would need to pay for. MTU are 18% program partners. The initial expectation was for costs to be somewhat manageable as inspection of parts would take 40-50 days per engine. New news broke from consortium partners RTX in September suggesting parts would be replaced, not just inspected, materially altering the time scale and so compensation payable to airlines for grounding of engines. We are working through a number of events to understand whether the share price move is overdone – this includes MTU's own work on potential costs, data on groundings and RTX confirmation of scope. MTU thinks there is a lot they can do to bring costs down by shortening the timeline within their own repair shops which also stand to act as a partial offset from contracted revenues for servicing the compromised engines. Ultimately, this headwind is not one of MTU's own making and we believe they remain well set to capitalise on decades of growth in engine spares and services as these new GTFs come into their repair shops for mandatory servicing over their lifetime of use.

Omvang fonds

Waarde begin van de periode	€ 3,214,622
Waarde eind van de periode	€ 2,924,799

Rendement

%	Kwartaal	Jaar tot op heden	3-Jaars Ann.	5-Jaars Ann.	10-Jaars Ann.
Fonds	-5.19%	11.37%	7.16%	8.73%	7.03%
Benchmark	-1.87%	8.66%	11.04%	6.23%	7.14%

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Attribution (continued)

Bond market volatility was felt through some of the portfolio's more cyclical long duration growth exposures such as luxury goods (LVMH and Hermes) and semiconductors (AMSL, BE Semi, and STMicro). The macro pressure added to softening industry data and unconstructive headlines of late. We also saw luxury shares come under some pressure towards the end of the quarter on concerns of potential demand weakness both in China and in Europe.

Headlines in the semiconductor space raised new fears including the possibility of the US attempting to further limit China's access to machinery such as ASML's immersion technology, including DUV machines. This is not part of our base case, but should it happen, the potential hit to sales is c. 20% for ASML, albeit many of these sales could likely be displaced into other markets. The market also became worried about TSMC capex cuts. Whilst this may represent slightly weaker demand today – and a slower pace of inventory clearing because of that – we don't think it changes the mid-term picture: whatever doesn't happen in 2024, would happen in 2025. Views here would only change if you believe that the world suddenly needs less semiconductors. We struggle to see that as a base case – we know the route forward at Intel and Samsung in trying to get to 3 nanometer and Apple to 2. With all the demand for high end equipment, especially from AI, 2025 could potentially be a bumper year. ASMI, for example, had an investor day recently, guiding to 12-18% sales CAGR over the 2023-2027 period, noting that this included a view of near-term economic uncertainty. The message helped shares standout amongst semiconductor positions in providing positive attribution effect in the quarter. What we therefore must remain focused on is the long-term superior earnings power on display, as opposed to purely the short-term volatility of shares based on sentiment or phasing of spend/demand.

Novo Nordisk shares rallied after the company reported a successful result from their 'Select' trial which was looking at the use of their obesity drug, Wegovy, for preventing major adverse cardiovascular events (MACE). The trial resulted in a 20% reduction in MACE, a result well beyond expectations which had been tempered when the trial was continued beyond interim checkpoint in Q3'22. We believe these results can help underpin the validity of this new category of obesity drugs, leading to further uptake from commercial insurers and government programmes.

Kingspan also contributed positively with an acquisition announced and results reported mid-quarter, leading to a number of sell-side upgrades. We are convinced the company stands to see massive gains from capex supporting reshoring, electric vehicle, and battery plants. While meeting with their CEO, it was made clear that most of the actual investment behind capex plans is still to come which should keep business momentum on track.

A position in RELX was positive for relative returns. The company released H1'23 results that showed organic growth accelerating to 6% from their usual 4% level. This has long been a quality defensive business which is now in a favourable position to capitalize on incremental growth through generative AI integration in their data products such as legal platform, LexisNexis. The defensive nature of the business amidst September's cyclically driven market sell off also contributed to the relative positive effect.

Linde provided positive attribution effect, reporting a Q2'23 EPS beat 6% ahead of consensus and a small full year 2023 guidance upgrade brining guided earnings growth to between +12% and +14% year-on-year. A growing orders backlog, standing at $4.4b, continues to support long-term growth assumptions. The company's execution on costs has also been excellent which should lead to operational leverage with margin upside as volumes return.

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Portfolio positioning and changes

We continued adding to positions in Schneider Electric and Saint Gobain where Q2 reporting has shown industrial strength persisting. Beyond the resilience seen in the current environment, both businesses have exposure to long-term spending streams funding electrification and low carbon transition that should continue to support earnings.

We added to MTU and IMCD on share price weakness. In both instances, we see the pressure as reactions to short-term concerns that do not impact the long-term investment thesis for owning these businesses.

The active weight in Sika was managed down as we reassessed the overall portfolio exposure to construction. Relative to other holdings in the fund – where we see less demanding valuations and have more visibility into earnings – it's not clear what would drive an upgrade cycle in Sika over the near term.

AutoTrader was topped up as a multiple derating, along with much of UK domestic equities, has given an attractive buying opportunity on a 5% free cash flow yield. We see a good chance that topline could come through better than expected as recent trading has so far shown to be holding up well.

We consolidated our European bank holdings, adding to banks where we have higher conviction from here due to more upside on fair value as well as attractive current valuations. This included top ups to AIB and BNP and exits from Nordea and Finecobank. UniCredit was also added to the portfolio in the quarter. Although the company's share price has done well this year already, it remains very cheap while offering high shareholder returns and earnings upgrades. This was highlighted by an incredibly bullish appearance by the company's CEO at the BAML financials conference. The highlight of which was a new capital return plan that includes bringing 2.5b EUR of buybacks planned for 2024 forward into 2023 as profits are running further ahead of expectations and he views the shares as too cheap. The CEO also committed to 6.5b EUR as a sustainable level of buyback which puts the current yield on 16.5% based on the share price around the time of the announcement.

After a wobble in the Adyen investment thesis, as described above, the position was trimmed to a holding weight. While we believe the derating was overdone relative to the known business impact, there is likely to be an overhang on shares while we await evidence as to how far the competitive threat may go.

AstraZeneca was sold on competition for capital. This asset was brought into the fund in 2022 during a period where we were seeking more balance through defensive business models. While we still see the fundamental case for opportunity through their drug pipeline, we've found better ideas in the market for what we see as an improving business environment.

Pernod Ricard was also exited, opting to concentrate the consumer staples exposure in L'Oreal where we have higher conviction in the market opportunity and margin structure of the business.

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

Outlook

The Q3'23 earnings season is about to begin where we expect a reality check to show that while activity may be a little softer, we are not moving into a severe downturn and recession. As always, it will be important to look sector-by-sector and stock-by-stock to find opportunities. We believe companies in the portfolio can continue to deliver on earnings upgrades versus undemanding consensus expectations. We also maintain ample long-term opportunity from the portfolio's exposure to end-markets supported by structural spending streams such as funding digitalisation, capex renaissance, and low-carbon transition.

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