



A European fund for volatile times

By James Milne, Fund Manager

The TM CRUX European Fund invests in well-run, resilient companies that are listed in Europe but have a global reach. We like businesses where management can already be sure of the majority of annual revenues on the 1st January because, for example, they possess an essential, subscription-based product such as software or access to data or they supply stable industries such as food and beverages. We tend to avoid companies with too much debt, as it limits management's options in terms of acquisition-led growth and may also make our companies less appealing as possible targets to be acquired themselves

Return on capital

Some people focus too much on high margins or stellar sales growth. We obviously like these attributes too, but what if high growth comes with enormous capital outlays or very high inventory levels? We measure financial success by understanding what return a company makes on every incremental euro it invests. This metric of 'return on capital' is our North Star and the fund's 'look-through' return is much higher than the weighted average for the market. As the valuation of the fund on an earnings basis is about the same as the market, we expect that over time the fund's holdings should outperform as they continually earn higher returns on their capital. Our holdings are able to earn these higher returns because they possess high barriers to entry and employ low levels of capital. Often they require minimal physical capital (in the case of software or data providers) or they may have outsourced the 'metal bashing' aspects of production.

Niche secular growth

Europe is teeming with secular growth companies which dominate their niche. For example, LVMH with leading, globally recognised brands like Dior, Louis Vuitton and Moët or Adidas and Puma with trainers and athleisure. These latter two companies benefit as consumers globally embrace fitness and the lines between sportswear and leisurewear become blurred. Europe also has its own technology stocks but these tend to be more 'business to business' focussed and hence less susceptible to regulatory threats than the larger US tech giants such as Amazon. Semiconductor manufacturer Infineon, for example, benefits from more and more microchips in cars as they become more autonomous and electric and as everyday consumer electronics items like fridges become more connected and "smarter".

Bottom-up stock picking

We have a mix of medium-sized companies and larger companies, and the selection is based on fundamental bottom-up analysis of the stocks. The fund is not benchmark constrained. Key characteristics other than those already mentioned include pricing power, sales growth, free cash flow generation, proven management track records, and management and/or families that invest heavily in their own company shares. The fund tends to invest for the long-term with a buy-and-hold strategy.

Blend of value and growth

Whilst it sounds a great idea to invest in the fastest-growing companies, of course many other investors sometimes have got there first, and might have over-valued the shares. We tend to avoid paying very high multiples but are happy to own shares which trade at a premium to the market but have out-sized sales and profit growth. However, we also hold many companies which trade below the market multiple. We tend to avoid "deep-value" as these can include companies in structural decline or with mountains of debt. Sometimes the stock market can unfairly discard good businesses which may have temporarily faltered or fallen out of vogue. For example, Spie is a leader in hard outsourcing, for example maintaining the high voltage cables in Germany; it has low but consistent sales growth augmented with accretive acquisitions but has been de-rated in 2020 even though its prospects look good and management and employees own nearly 10% of the shares.

Seasoned managers

The fund is managed by the seasoned CRUX European team of James Milne and Richard Pease who all invest heavily in CRUX managed funds - we look for management teams who 'eat their own cooking' and we have the same duty to our investors.

Important information

The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested. Past performance is not a reliable indicator of future results. Please note the views, opinions and forecasts expressed in this marketing communication are based on CRUX's research and analysis at the time of publication. Before entering into an investment agreement in respect of an investment referred to in this marketing communication, you should consult your own professional and/or investment adviser. Please read all scheme documents prior to investing. The KIID and Fund Prospectus and other documentation related to the Scheme, are available from the CRUX website www.cruxam.com or 0800 304 7424.

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