Fund Managers: James Milne, Richard Pease

TM CRUX European Fund

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Equity markets lost ground in January. The majority of developments came from across the Atlantic: share prices started the new year in good form, buoyed by the Democrats gaining both Senate seats in Georgia, ensuring their majority in both houses, albeit slim. There appeared to be some political resistance to the stimulus bills in the US from Congress, not unexpected given the size, but generally observers appeared upbeat about the new administration's spending plans. However, this boost to value and cyclical stocks was short-lived as investor focus quickly switched to rising infection rates, new virus mutations and delayed vaccinations. The last week in January saw an unusual sequence of events which originated from mainly US retail investors buying highly shorted US stocks, leading to a short squeeze that rippled across into similar European names; this caused hedge funds to cover short positions and also scale back long positions, somewhat indiscriminately. Against this background, the TM CRUX European Fund lost 2.4% compared to the IA Europe ex UK sector which fell 1.8%.*

The Fund slightly underperformed its peer group due to a handful of companies, which although have exciting medium-term growth prospects could suffer with extended lockdowns such as adidas, Puma and payments processor Worldline which has many physical store retailers as customers. Our renewable holdings slipped back perhaps linked to hedge funds trimming their long positions. Bright spots included Siemens with good results from its digital and energy efficiency divisions. Eurofins surged after reporting high growth thanks to COVID-19 testing. Semi-conductor names such as ams and STM rose on continued positive updates from the sector. In terms of transactions, we sold Software AG after a bounce perhaps due to the wider short squeeze as the 2021 margin outlook was in fact disappointing; we topped up chip-maker STMicroelectronics and started a position in Adyen which had fallen back and is a fast-growing payments company that focuses on online retailers.

*Source: FE 31.12.20-31.01.21 Bid-Bid, income re-invested. GBP

Stock markets continue to whipsaw between highly-rated growth and lowly-rated value shares depending on levels of enthusiasm over stimulus and vaccinations resulting in reflation compared to continued lockdowns and new virus mutations which derails the recovery. As usual and as bottom-up stock-pickers, the fund is a blend of both groups, though avoiding outliers such as deep value or concept stocks with no earnings. The common link is that all our holdings exhibit growth which is often augmented with bolt-on acquisitions. We continue to focus on companies that earn a high return on invested capital, resulting in a much higher metric than the wider market, but yet this is not yet reflected properly in valuations. This view is shared by the companies' management who tend to have significant stakes in their businesses.

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