

# Strategic Selection Fund - European Value

**Quarterly report**

**June 2021**



**This document is intended exclusively for professional or institutional clients and counterparties**

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## Portfolio review

### Executive Summary

- **Performance overview**
  - Strategy up 1.83% (share class A Eur)
- **Portfolio changes**
  - One new name entered the portfolio and three names were sold.
- **Market environment & Outlook**
  - The reflation trade is under pressure
  - European equities remain attractively valued relative to the US.
  - We continue to look for high quality businesses with sustainable of cash flow generation, while being extremely careful on what price we pay for them.
  - Median margin of safety of portfolio is 36%
  - 4.5% cash left to seize new investment opportunities

MSCI Europe was up 6.46% during the quarter driven by Health Care, Consumer Staples, and Consumer Discretionary whereas no sector stood out negatively in a significant way.

Our strategy returned 1.83%. Although arguably a solid return, it was the first quarterly underperformance for a year amid a theme driven market apparently betting on a reversal of the reflation trade and therefore, naturally underperformance of value.

Our top 3 contributors this quarter were Matas (+65 bps), Novo Nordisk (+50 bps), and SAP (+38 bps), while the 3 biggest detractors were Atos (-52 bps), Wood Group (-29 bps) and Philips (-25 bps).

### Portfolio changes

We continue to follow our investment process as we have done for many years. We do so regardless of the opinion of Mr. Market. Our investment horizon is oriented towards the long-term with an average holding period of 4 to 5 years; the period normally needed for the market to recognise the earnings power of an undervalued company and thus for the valuation gap between the stock price and the estimated intrinsic value to close.

The median margin of safety of our portfolio, the current discount of the stock prices to our fair value, is 36%.

Earnings for this year should not be confused with the underlying earning power of the businesses we are invested in as they are momentarily depressed due to the impact of the pandemic. Median free cash flow yield of our portfolio is 8%.

At the same time the balance sheets are strong. It takes the median company in our portfolio 1.32 years to reimburse its debt (net debt / ebitda).

As we continue to optimize the quality and value dynamics of our portfolio through our quality-value framework, we bought **Boliden**. Meanwhile, as disciplined investors we sold ASML, Hapag Lloyd and Prada as they reached their fair values.

### Investment case

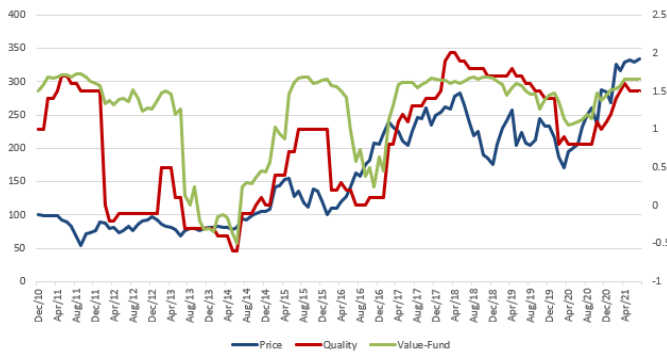
#### Boliden

Boliden is a Swedish miner and smelter. Having both of these activities under one roof results in much more stable earnings generation compared to a traditional miner.

Boliden is an extremely well-run business with a long history, and a solid management that has been allocating capital efficiently over time and that way around managed to prolong the lives of its mines. The all-important Aitik mine in Sweden representing 1/3 of the mining EBIT, thus has a remaining life of 30 years.

Boliden trading at 11.1 times forward earnings has a solid balance sheet and expects to be debt-free this year. Additionally, it has an expected dividend yield of 4.7%, and a return on equity of 15%.

Finally, the company scores well in our proprietary quality-value framework – on both parameters even. In fact, quality score has consistently been above or at least on par with the median European company



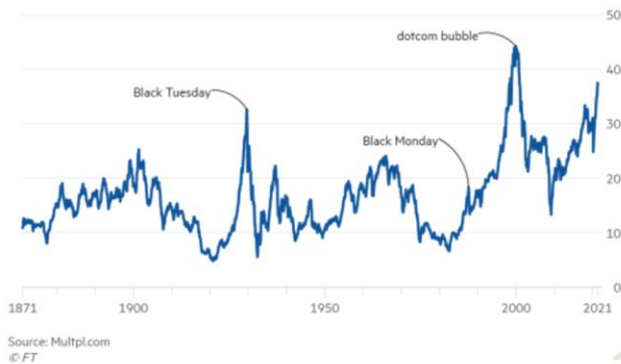
Source: ECP

## Market environment & outlook

Overall valuations of equity markets are high on most metrics used. The so-called Buffet indicator, measuring the market cap compared to GDP, is at an all-time high. Also, the cyclically adjusted price to earnings ratio, CAPE, dividing the current stock prices by the average 10 years inflation adjusted earnings of the US market, is at the highest since the dotcom bubble.

### US stock market valuations are the highest since the dotcom bubble

Shiller's cyclically-adjusted price-to-earnings (Cape) ratio

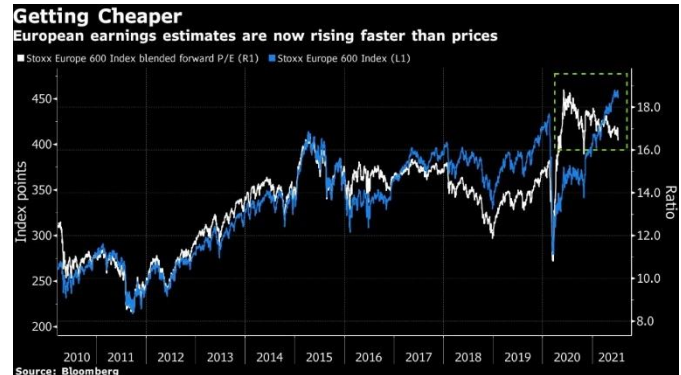


Source: Mulpticom © FT

A lot can be explained by artificially low interest rates after years of quantitative easing by central banks following the financial crisis. Furthermore, the composition of the market indices has changed as the IT industry now carries a much higher weight. Meanwhile IT companies often hold intangibles which the standard valuation metrics may not fully capture. And finally, companies in the US are currently more profitable than they ever were over the last 20 years.

On the other hand, in Europe, there is an accelerated pick up in business activity at the fastest pace in 15 years supported by easing of lockdown measures which unleashed pent-up demand and a boom in the dominant services sector. Therefore, it is not a surprise

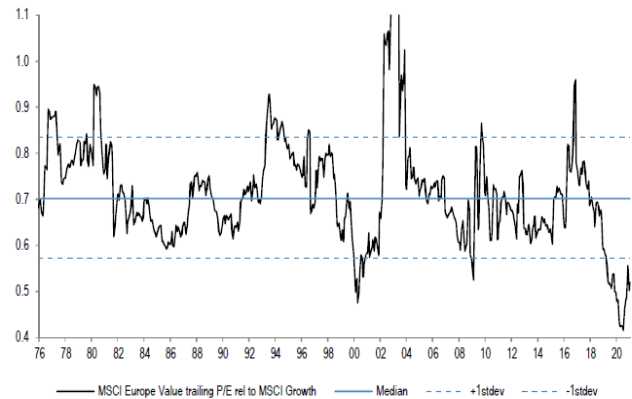
to us, that analysts continue to raise their earnings estimates for European equities.



Source: Bloomberg

Value stocks continue to trade at discounts compared to growth stocks exceeding the levels seen at the peak of the tech bubble and unseen since the 1970's. We often compare this valuation gap to a rubber band. The more it stretches, the higher the tension gets causing an increasingly high probability of a mean reversion.

### Figure 12: European Value vs Growth trailing P/E



Source: Datastream

The factors that would lead to this mean reversion to come in effect includes; first and foremost, better economic conditions and higher interest rates, in short reflation. In this environment, the question of refutation trade is not an if but more of a when?

## Conclusion

As we stated before in our quarterly reports, we cannot escape the fact that any view on the financial markets is determined by the evolution of the pandemic.

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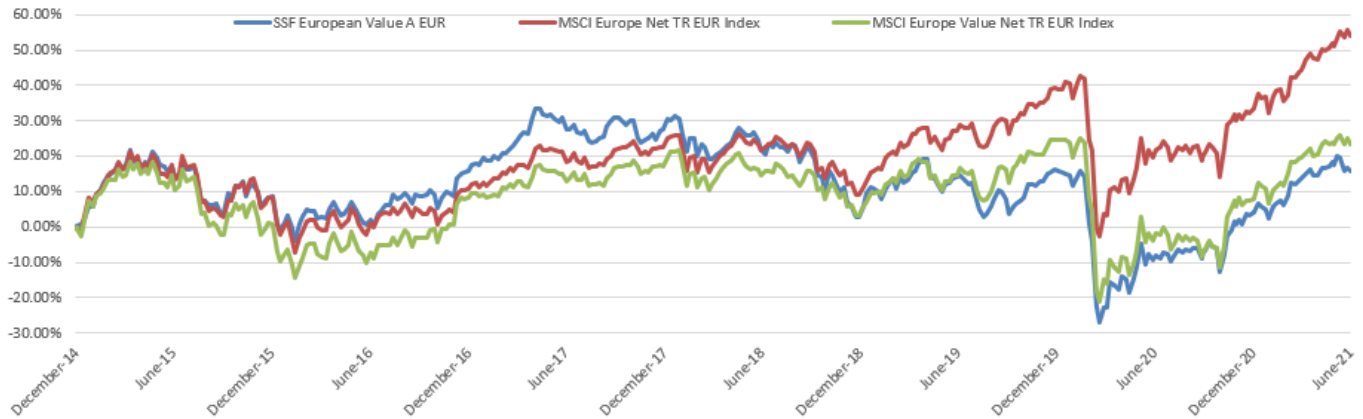
While Europe has picked up its vaccination campaign in comparison to the last quarter, and as a consequence the lockdowns continue to be lifted and the economic activity started to return faster in Q2 and expected to continue throughout the year.

Due to the unpredictable nature of the pandemic, we cannot disregard the risk that all doesn't go according to plan and that is the reason why we continue to look for high quality businesses with a sustainable cash flow generation, whilst being extremely careful on what price we pay for them.

## Portfolio profile

### Performance analysis

#### Cumulative performance since inception<sup>1</sup>



#### Performance statistics

	European Value (A EUR share class)	MSCI Europe NR	MSCI Europe Value NR
Since inception	15.78%	53.85%	23.26%
3 years	-5.04%	26.31%	7.39%
1 year	27.61%	27.94%	27.08%
YTD	11.13%	15.35%	14.46%
6 months	11.13%	15.35%	14.46%
3 months	1.83%	6.46%	2.85%
1 month	-1.56%	1.70%	0.00%

#### Risk statistics (3 years rolling - annualised)

	European Value (A EUR share class)	MSCI Europe NR	MSCI Europe Value NR
Standard deviation	21.91%	20.02%	23.81%
Sharpe ratio	-0.06	0.42	0.11

		MSCI Europe NR	MSCI Europe Value NR
European Value	Tracking error vs. index	6.72%	7.19%
	Active share vs. index	89.0%	88.2%
	1 yr Beta vs. index	0.927	0.758

<sup>1</sup> The sub-fund Strategic Selection Fund European Value has been managed by the same investment manager, with the same investment strategy and a comparable fee structure since 1 January 2015. The sub-fund has been managed under the legal form of an Alternative Investment Fund according to EU Directive 2011/61/UE until 8 August 2015 when it was converted into its current UCITS status according to EU Directive 2009/65/EC. The historic performance, return and risk data presented herein cover the full period from 1 January 2015 to date.

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### Fund Key Facts

- **Legal Form:** UCITS Compliant Luxembourg SICAV
- **Investment Manager:** European Capital Partners
- **Management Company:** European Capital Partners
- **Custodian:** Banque de Luxembourg
- **Administrator:** European Fund Administration
- **Auditor:** Deloitte Audit
- **NAV frequency:** Daily

### European Value

	A EUR	I EUR	C EUR
ISIN Code	LU1169207518	LU1277321912	LU1768645753
Investor focus	Retail	Institutional	Retail
Inception date	08/08/2015 (*)	28/08/2015	28/02/2018
Max. Mgt fees	1.50%	0.80%	0.90%
Performance fee	-	-	-
Min. subscription	-	EUR 1mn	-
Registered in	LU, DE, CH, NL	LU, DE, CH, NL, IT	LU, DE, NL

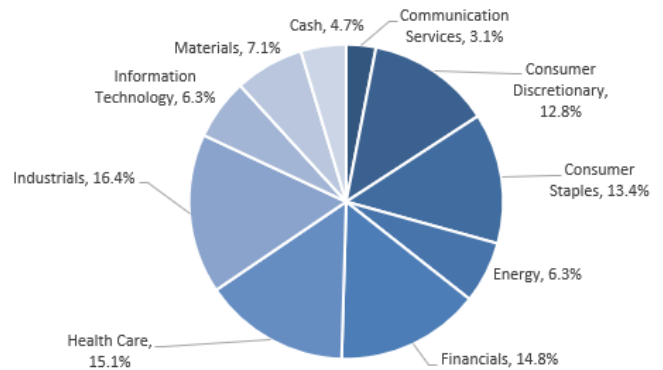
### Synthetic Risk and Reward Indicator



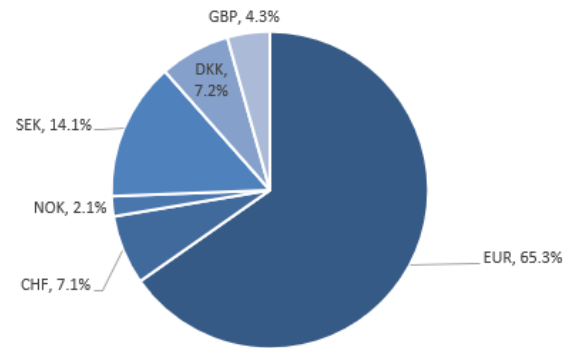
(\*) Transformed from an AIF launched on 01/01/2015

### Portfolio's breakdown (%)

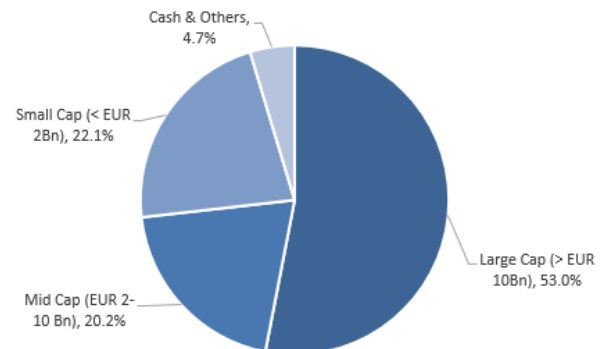
#### By Sector



#### By Currency



#### By Market Cap (\*)



## Portfolio holdings

Company Name	Sector	Industry Group	Country <sup>1</sup>	Market cap
Anima Holding Spa	Financials	Diversified Financials	ITALY	Small Cap
Applus Services Sa	Industrials	Commercial & Professional Serv	SPAIN	Small Cap
Atos Se	Information Technology	Software & Services	FRANCE	Mid Cap
Axa Sa	Financials	Insurance	FRANCE	Large Cap
Bawag Group Ag	Financials	Banks	AUSTRIA	Mid Cap
Boliden Ab	Materials	Materials	SWEDEN	Mid Cap
Caixabank Sa	Financials	Banks	SPAIN	Large Cap
Cloetta Ab-B Shs	Consumer Staples	Food, Beverage & Tobacco	SWEDEN	Small Cap
Duerr Ag	Industrials	Capital Goods	GERMANY	Mid Cap
Elekta Ab-B Shs	Health Care	Health Care Equipment & Serv	SWEDEN	Mid Cap
Exor Nv	Financials	Diversified Financials	NETHERLANDS	Large Cap
Flsmidth & Co A/S	Industrials	Capital Goods	DENMARK	Small Cap
Fresenius Se & Co Kгаа	Health Care	Health Care Equipment & Serv	GERMANY	Large Cap
Henkel Ag & Co Kгаа	Consumer Staples	Household & Personal Products	GERMANY	Large Cap
Holcim Ltd	Materials	Materials	SWITZERLAND	Large Cap
Husqvarna Ab-B Shs	Consumer Discretionary	Consumer Durables & Apparel	SWEDEN	Mid Cap
Ing Groep Nv	Financials	Banks	NETHERLANDS	Large Cap
Jeronimo Martins	Consumer Staples	Food & Staples Retailing	PORTUGAL	Large Cap
John Wood Group Plc	Energy	Energy	BRITAIN	Small Cap
Jost Werke Ag	Industrials	Capital Goods	GERMANY	Small Cap
Koninklijke Philips Nv	Health Care	Health Care Equipment & Serv	NETHERLANDS	Large Cap
Loomis Ab	Industrials	Commercial & Professional Serv	SWEDEN	Mid Cap
Matas A/S	Consumer Discretionary	Retailing	DENMARK	Small Cap
Michelin (Cgde)	Consumer Discretionary	Automobiles & Components	FRANCE	Large Cap
Norma Group Se	Industrials	Capital Goods	GERMANY	Small Cap
Novartis Ag-Reg	Health Care	Pharmaceuticals, Biotechnology	SWITZERLAND	Large Cap
Novo Nordisk A/S-B	Health Care	Pharmaceuticals, Biotechnology	DENMARK	Large Cap
Ontex Group Nv	Consumer Staples	Household & Personal Products	BELGIUM	Small Cap
Origin Enterprises Plc	Consumer Staples	Food, Beverage & Tobacco	IRELAND	Small Cap
Porsche Automobil Hldg-Prf	Consumer Discretionary	Automobiles & Components	GERMANY	Large Cap
Publicis Groupe	Communication Services	Media & Entertainment	FRANCE	Large Cap
Reckitt Benckiser Group Plc	Consumer Staples	Household & Personal Products	BRITAIN	Large Cap
Rhi Magnesita Nv	Materials	Materials	AUSTRIA	Mid Cap
Sandvik Ab	Industrials	Capital Goods	SWEDEN	Large Cap
Sanofi	Health Care	Pharmaceuticals, Biotechnology	FRANCE	Large Cap
Sap Se	Information Technology	Software & Services	GERMANY	Large Cap



Company Name	Sector	Industry Group	Country <sup>1</sup>	Market cap
Stabilus Sa	Industrials	Capital Goods	LUXEMBOURG	Small Cap
Stmicroelectronics Nv	Information Technology	Semiconductors & Semiconductor	SWITZERLAND	Large Cap
Subsea 7 Sa	Energy	Energy	BRITAIN	Mid Cap
Swatch Group Ag/The-Br	Consumer Discretionary	Consumer Durables & Apparel	SWITZERLAND	Large Cap
Totalenergies Se	Energy	Energy	FRANCE	Large Cap
Unilever Plc	Consumer Staples	Household & Personal Products	BRITAIN	Large Cap

[1] Country of Risk as defined by Bloomberg

#### Key risk factors

- **Equity:** The Fund may be affected by stock price variations, the scale of which is dependent on external factors, stock trading volumes or market capitalization.
- **Currency:** Currency risk is linked to exposure to a currency other than the Fund's valuation currency, through direct investments.
- **Liquidity Risk:** A decreased or insufficient liquidity in the markets could negatively impact the prices at which positions are bought or sold by the sub-fund.

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In **Germany**, the paying agent is Marcard, Stein & Co, Ballindamm 36, D-20095 Hamburg.