Strategic Selection Fund - European Value

Quarterly report

September 2021

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

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Portfolio review

Executive Summary

- **Performance overview**
  - Strategy down -1.35% in Q3 but up 9.64% y-t-d at end September (share class A Eur)
- **Portfolio changes**
  - One new name entered the portfolio and four names were sold.
- **Market environment & Outlook**
  - Normalization trade in full play
  - European equities and especially the value names we own are extremely attractively valued
  - Companies need to deal with high freight rates, energy crunch, supply chain bottlenecks, all fuelling the inflation theme
  - 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 33%
  - 10.2% cash left to seize new investment opportunities

MSCI Europe was up 0.73% during the quarter driven by Energy, Information technology and Financials, whereas the biggest decliners were consumer discretionary, utilities and materials.

Our strategy returned -1.35%. and our top 3 contributors this quarter were Bawag (+58 bps), Novo Nordisk (+53 bps), and Duerr (+48 bps), while the 3 biggest detractors were Boliden (-49 bps), Elekta (-46 bps) and Swatch (-45 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 33%.

Our median portfolio company trades at a substantial discount to the Market overall while being of higher quality than the average European company in the Stoxx 600.

	SSF EU Value	SXXP
Margin of safety	33%	
PER current year	13.7	16.2
Dividend yield current year	2.7 %	2.9%
ROE current year	13.9%	10.4%
Net debt / EBITDA	1.3	3.4

Source: ECP internal data as of 02/11/2021

At the same time the balance sheets are strong. It takes the median company in our portfolio 1.3 years to reimburse its debt (net debt / ebitda) while it takes almost 3 ½ years for the average European company.

As we continue to optimize the quality and value dynamics of our portfolio through our quality-value framework, we bought **Deutsche Telekom.**

Meanwhile, as disciplined investors we exited John Wood (deteriorating investment case), Norma (fair value reached), Ontex (deteriorating investment case) and Stabilus (fair value reached).

Investment case

Deutsche Telekom

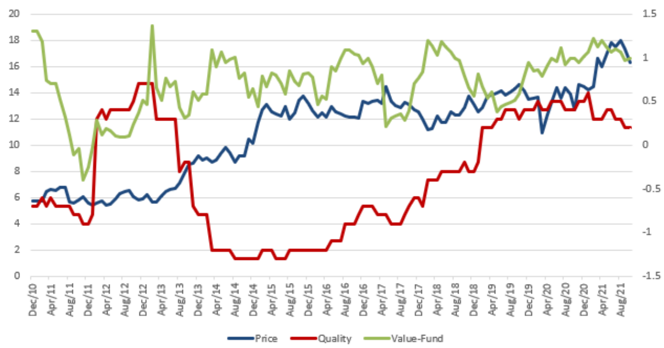
Deutsche Telekom is one of the largest telecom operators in Europe. The company operates within all the main areas of telecommunications: traditional fixed-line and mobile telephony, data transmissions, broadband internet access, IPTV, and corporate ICT services in its domestic German markets and several European markets.
DT also owns +46% of T-Mobile US, the third-largest mobile operator in the US, and 12% of BT, the UK incumbent.

DT is expected to show continued momentum, benefiting from its strong market position in its domestic market, the US, as a clear 'king-maker' asset and Europe showing commercial momentum

The Sprint deal should be considered a game-changer, supported by synergies, which are bigger and are coming faster than originally planned. DT is expected to participate in the T-Mobile upside through its +46% holding, which it is planning to increase to boost to over 50%, giving a clearer ownership structure and would also increase DT's exposure to a market with much healthier dynamics.

DT is trading at 12.8 times forward earnings, has an expected dividend yield of 3.7%, and a return on equity of 14%.

Finally, the company scores well in our proprietary quality-value framework – on both parameters even. Deutsche Telekom is of a higher quality and better valuation than the median European company.

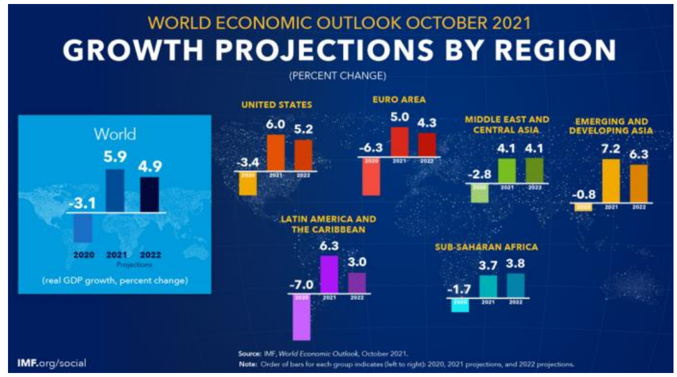


Source: ECP

Market environment & outlook

Since the through of the pandemic, financial markets have been driven by the so-called "reflation" trade. Central banks and governments have been strongly supporting our economies to absorb the choc from the pandemic. Over the past months central banks worldwide started to become more vocal about their wish to progressively withdraw some these exceptional measures. The discussion around tapering of the Fed was the most obvious example of this. It is clear central banks need to walk a fine line between avoiding to withdraw liquidity to soon and endanger the economic rebound and being too late and creating inflation and financial bubbles. Risk of so-called stagflation, id est economic contraction with inflationary pressures, became a hotly discussed topic amongst economist.

Our base case scenario is a scenario of "normalization", with a normalization of economic growth and interest rates.

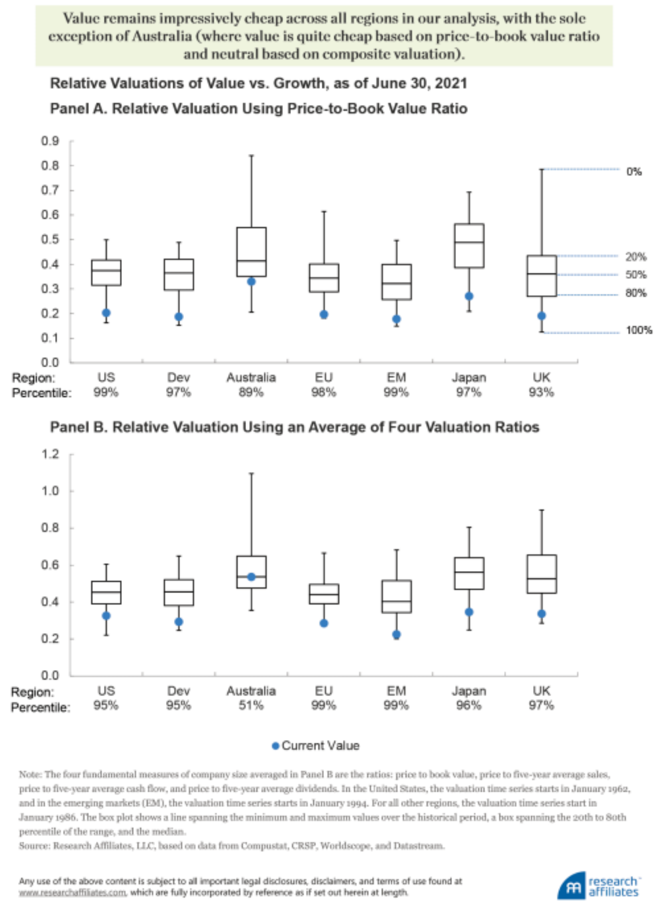


Under this normalization scenario, we believe our current portfolio is exceptionally well positioned for three reasons :

1) In an environment of rising interest rates, valuation suddenly matter again and the type of value investment style we apply should gain more traction. There has indeed been historically at strong positive correlation between value outperformance and rising interest rates.

Source: Bloomberg

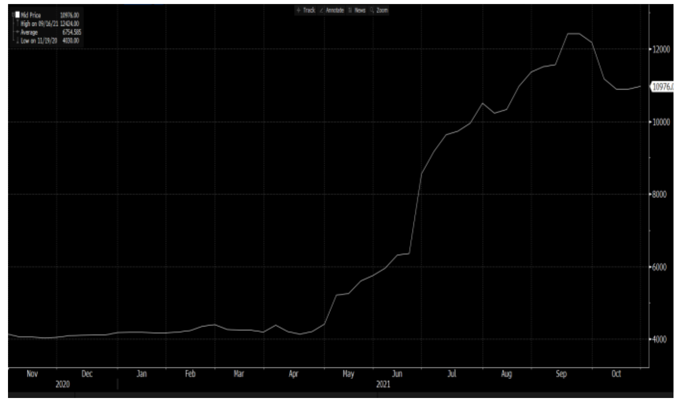
2) Value remains exceptionally cheap on historic measures and not only in Europe. We compare this valuation gap to a rubberband: the more it is stretched the higher the forces to bring it back to normal. This is clearly where the lowly valued parts we are invested in of the market should benefit.



3) Since the start of the pandemic we shifted our focus in the portfolio to what we call "quality value companies". These companies are mastering their own destinies because of strong moats, solid and defendable market positions, strong balance sheets and sustainable cash flow generation. Investment opportunities in the current environment remain as we continue to find companies that trade at our required safety margin of 40% or more.

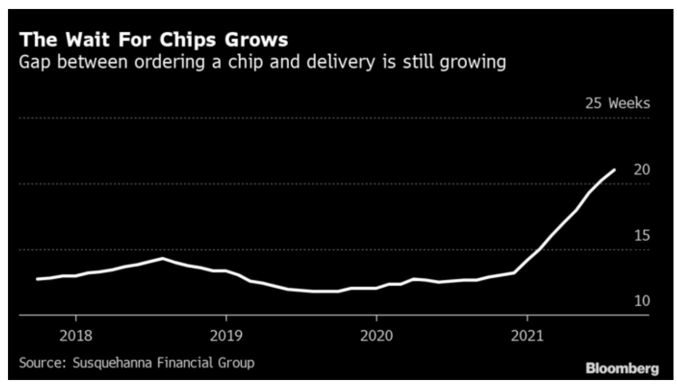
Shipping prices continue to rise like there would be no tomorrow due to the shortages of container ships and logjams at ports. Pre-covid, the cost of a container from Shanghai to Long Beach was 2,500 USD, today it is above 10,000 USD. Average lead time is around 70 days, compared with an average pre covid lead time of 45 days. No wonder AP Moller Maersk, which handles 1 in 5 containers worldwide, lifted again its profit outlook for the year by more than 10%. Most other companies' dependent on transportation costs need however to think hard on how to pass these costs through to their customers.

Shanghai to Los Angeles Container Freight Benchmark rate per 40 Foot Box (USD)



Source: Bloomberg

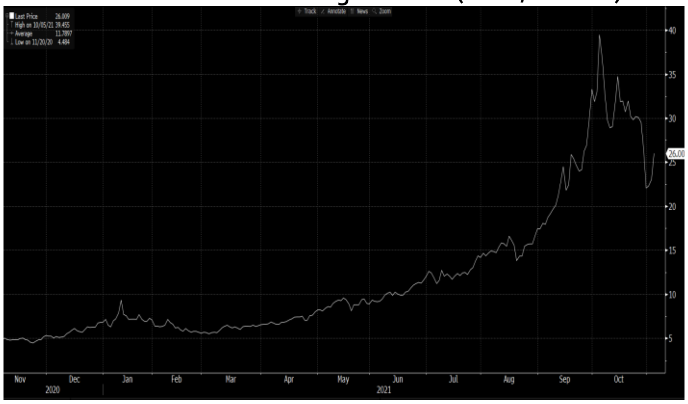
Semiconductor shortages are growing worse, where the time between ordering chips and delivery rose for the 8th consecutive month. The current lead times increased to about 21 weeks well into what is being called by the "danger zone." according to a new report from Susquehanna Financial Group.
These delays are impacting a wide range of industries that relies on chips as a core input in their end product.
The automotive industry was one of the biggest hit industries by the lack of available chips, where from one side demand for new vehicles is very big, but form the other side, auto makers are struggling to get their hand on chips for their production process.



Source: Bloomberg

The world is currently facing a gas shortage. Fears started first in Europe due to the historically low levels of European storage facilities inventories as we are entering the winter season. Gas flowing in the pipelines from Russia and Norway has been limited, at the same time calm weather have reduced the output from wind turbines and the European nuclear plants are either being phased out or more prone to outages. It seems like that in the process of trying to achieve carbon neutrality goals, we have become more reliant on natural gas as many countries are stopping the use of coal and increasing the use of cleaner energy sources, and this winter we are going to find out just how important natural gas is for the global economy.

Dutch Front-month natural gas futures (USD / MMBtu)



Source: Bloomberg

The three issues mentioned above; high freight cost, semiconductors shortage and high energy costs are all feeding into a global inflation theme, which highlights the importance of how we should be positioned in this market. We continue to look for investments in quality companies that have pricing power and are able to push through the high input costs to their end clients. Over the medium term we also believe the bottlenecks in global chains should progressively ease as the normalization process continues.

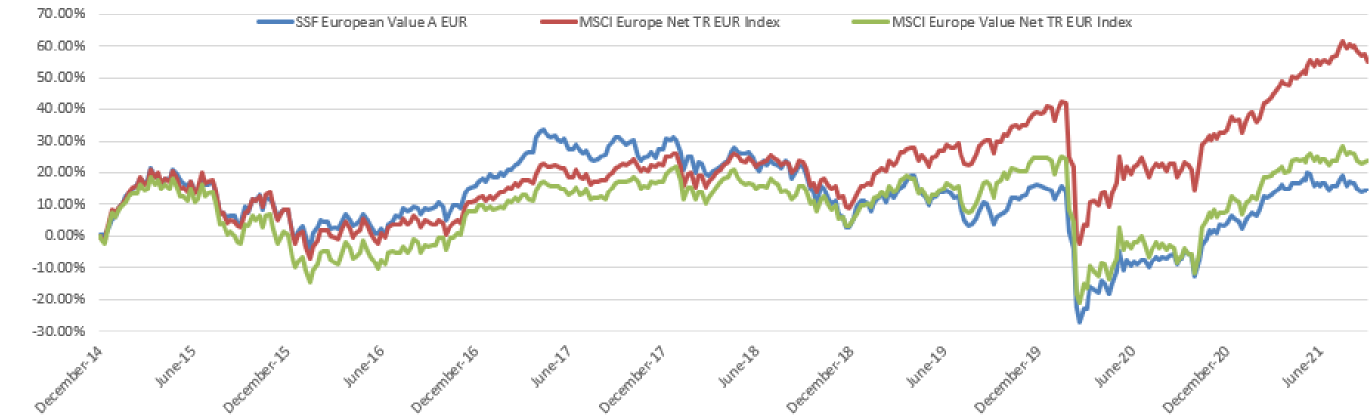
Conclusion

As mentioned before, any view of the financial market is determined by the evolution of the pandemic, but there are other factors contributing as well, from the booming energy prices, to the supply chain disruptions to the inflation theme that is getting even more attention.
The vaccinated population percentage in Europe and the rest of the developed world continue to grow, and that is the biggest driver for the reopening which helps in the pickup of economic activity and it is expected to continue throughout the year. Our portfolio is well positioned to benefit from this normalization trade.
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[1]



Performance statistics

	European Value (A EUR share class)	MSCI Europe NR	MSCI Europe Value NR
Since inception	14.22%	54.98%	23.76%
3 years	-6.33%	25.58%	6.90%
1 year	22.79%	28.76%	32.57%
YTD	9.64%	16.20%	14.93%
6 months	0.46%	7.25%	3.27%
3 months	-1.35%	0.74%	0.40%
1 month	-2.20%	-3.01%	-1.83%

Risk statistics (3 years rolling- annualised)

	European Value (A EUR share class)	MSCI Europe NR	MSCI Europe Value NR
Standard deviation	21.34%	19.66%	23.54%
Sharpe ratio	-0.09	0.42	0.11

		MSCI Europe NR	MSCI Europe Value NR
European Value	Tracking error vs. index	6.54%	6.77%
	Active share vs. index	88.6%	86.0%
	1 yr Beta vs. index	0.968	0.788

[1] 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.

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

Lower Risk
Potentially Lower Reward

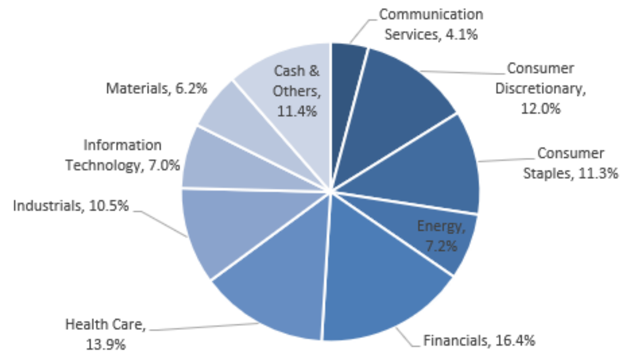
Higher Risk
Potentially Higher Rewards

1	2	3	4	5	6	7

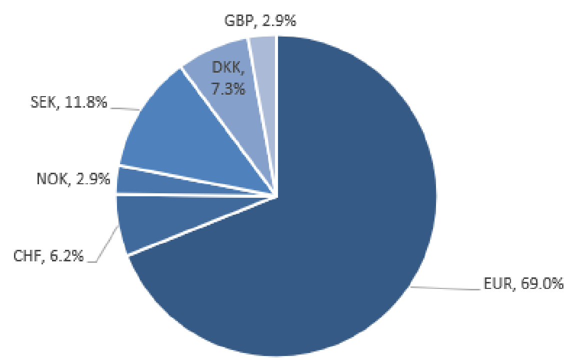
(*) Transformed from an AIF launched on 01/01/2015

Portfolio's breakdown (%)

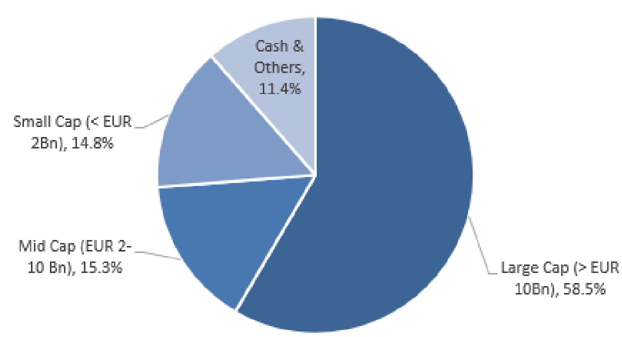
By Sector



By Currency



By Market Cap (*)



Portfolio holdings

Company Name	Sector	Industry Group	Country[1]	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
Deutsche Telekom Ag-Reg	Communication Services	Telecommunication Services	GERMANY	Large Cap
Duerr Ag	Industrials	Capital Goods	GERMANY	Mid Cap
Elekta Ab-B Shs	Health Care	Health Care Equipment & Servic	SWEDEN	Mid Cap
Exor Nv	Financials	Diversified Financials	NETHERLANDS	Large Cap
Flsmidth & Co A/S	Industrials	Capital Goods	DENMARK	Small Cap
Fresenius Se & Co Kgaa	Health Care	Health Care Equipment & Servic	GERMANY	Large Cap
Henkel Ag & Co Kgaa	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
Jost Werke Ag	Industrials	Capital Goods	GERMANY	Small Cap
Koninklijke Philips Nv	Health Care	Health Care Equipment & Servic	NETHERLANDS	Large Cap
Loomis Ab	Industrials	Commercial & Professional Serv	SWEDEN	Small Cap
Matas A/S	Consumer Discretionary	Retailing	DENMARK	Small Cap
Michelin (Cgde)	Consumer Discretionary	Automobiles & Components	FRANCE	Large Cap
Novartis Ag-Reg	Health Care	Pharmaceuticals, Biotechnology	SWITZERLAND	Large Cap
Novo Nordisk A/S-B	Health Care	Pharmaceuticals, Biotechnology	DENMARK	Large 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	Small 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
Stmicroelectronics Nv	Information Technology	Semiconductors & Semiconductor	SWITZERLAND	Large Cap
Subsea 7 Sa	Energy	Energy	BRITAIN	Mid Cap

Company Name	Sector	Industry Group	Country[1]	Market 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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The legal representative in **Switzerland** is ACOLIN Fund Services AG, Affolternstrasse 56, CH-8050 Zurich. The Paying Agent in Switzerland is Banque Cantonale de Genève, Quai de l'Ile 17, CH-1204 Geneva. The relevant documents, such as the complete sales prospectus including the articles of association and the key investor information, as well as the semi-annual and annual reports, can be obtained free of charge from the representative in Switzerland, ACOLIN Fund Services AG.
In **Germany**, the paying agent is Marcard, Stein & Co, Ballindamm 36, D-20095 Hamburg.