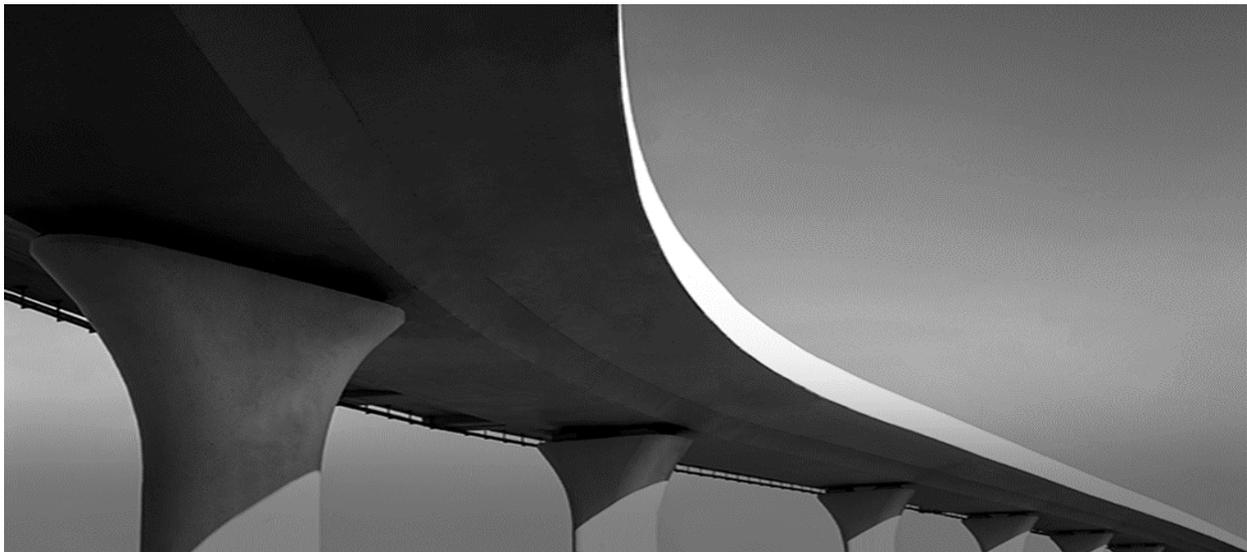


Strategic Selection Fund - European Value

Quarterly report

December 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 3.7% in Q4 and up 13.7% y-t-d at end December (share class A Eur)
- **Portfolio changes**
 - Four new names entered the portfolio and two names were sold.
- **Market environment & Outlook**
 - Value rotation is here
 - 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 34%
 - 6.2% cash left to seize new investment opportunities

MSCI Europe was up 7.68% during the quarter driven by Health Care, Consumer Staples and Industrials, and all sectors positively contributed to the performance.

Our strategy returned 3.7%. and our top 3 contributors this quarter were Boliden (+70 bps), Husqvarna (+58 bps), and Novo Nordisk (+50 bps), while the 3 biggest detractors were Subsea 7 (-46 bps), Atos (-38 bps) and Fresenius (-33 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	34%	
PER current year	14.2	16.2
Dividend yield current year	2.8%	3.0%
ROE current year	14%	10.4%
Net debt / EBITDA	1.3	3.1

Source: ECP internal data as of 18/01/2022

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 3.1 years for the average European company.

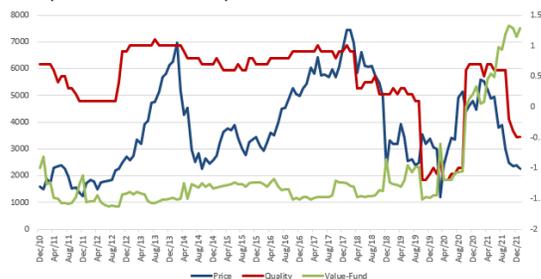
As we continue to optimize the quality and value dynamics of our portfolio through our quality-value framework, we bought **ASOS, BASF, Kering and Delhaize.**

Meanwhile, as disciplined investors we exited Jeronimo Martins (fair value reached) and Origin Enterprises (deteriorating investment case).

Investment case

ASOS

- ASOS is an online only fashion retailer with +26.4 mil. active customers and a 3.9 bn. GBP in sales.
- One stop shop that focus on the 20-somethings, a group with a higher spending on fashion and is benefiting from a long-term growth trend in the total addressable market driven by the continuous shift to online
- Represents both a value play and an impressive growth profile that we buy for free.



Source: ECP

The following note give the opinions of the Investment team at the time of the publication. The present document is supplied for information purposes only and does not constitute a purchase or sale recommendation. The investments must be based only on the prospectus, the key investor information document and the annual or semi-annual reports, which may be obtained on www.ecp.lu or from the local representative agent. Past performance does not guarantee or predict future performance. Strategic Selection Fund is an open-ended investment funds under Luxembourg law that is not open to citizens or residents of the USA. For more information, please refer to the complete disclaimer. **This document is intended exclusively for professional or institutional clients and counterparties.**

BASF

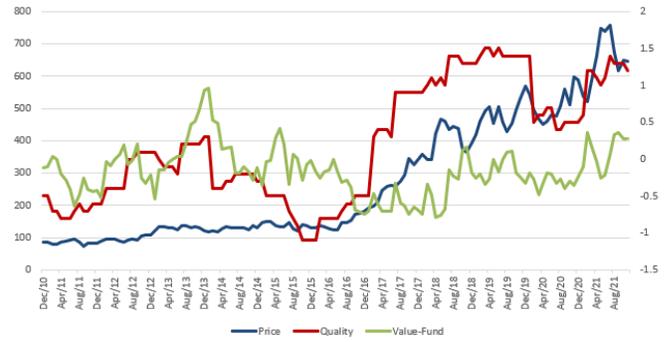
- BASF is the biggest chemicals company in the world, with leading positions in agrochemicals and seeds and has major sites in Europe, North America, and Asia.
- Market leader: BASF holds one of the top three positions in terms of market share in 75% of its businesses.
- Fully integrated "Verbund" system (combining the chemical value chain into a single large facility), creates significant cost synergies, focusing on as few sites as possible in one geography.
- Broad portfolio makes it more robust against cyclical swings, which it has successfully proven so far in the COVID-19 pandemic
- Large chemicals portfolio is a GDP proxy in global recovery.



Source: ECP

Kering

- Kering is a major operator in the luxury goods sector with +10 bn. sales
- Portfolio of major and diversified brands: Gucci, YSL, Bottega Veneta, Balenciaga, Alexander Mc Queen, Boucheron, Pomellato.
- Kering management has a proven history of brand turnaround with examples from YSL, Bottega Veneta and Balenciaga and its recent rejuvenation of the Gucci brand that started with the arrival of a new designer, Alessandro Michele.
- Kering still has a 9.8% Remaining stake in Puma currently valued at +1.5 bn. EUR.



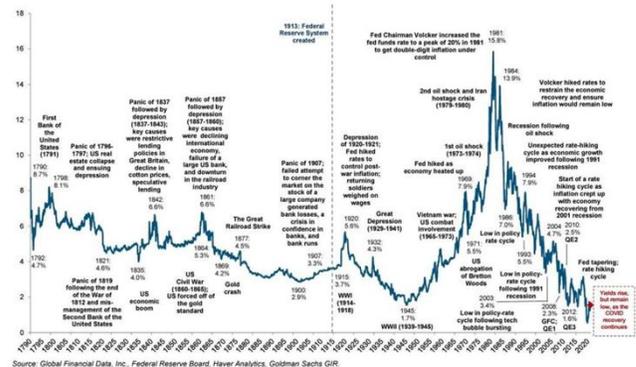
Source: ECP

Market environment & outlook

Since the financial crisis, central banks have been supporting economic activity and financial markets with abundant liquidity by quantitative easing and low interest rates. The side effects have not only been increasing central bank balance sheets but also inflation and soaring stock markets decoupling partly from valuation fundamentals. While the former is not really an issue in our humble opinion, sustained inflation has a hefty price for the economy.

Interest rates at the moment remain abnormally low compared to their own history and compared to the inflationary pressures we are currently seeing; this is mainly due to central bank policies.

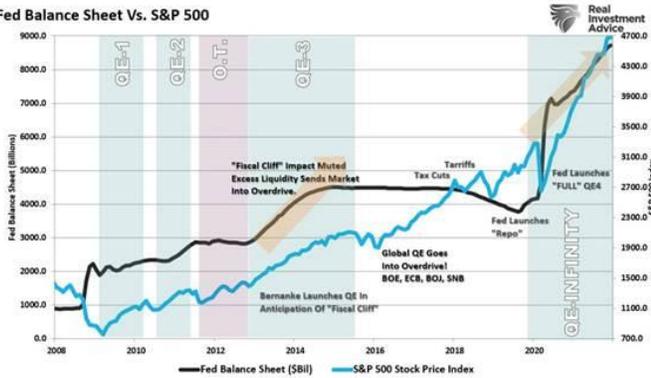
10-year US Treasury yield



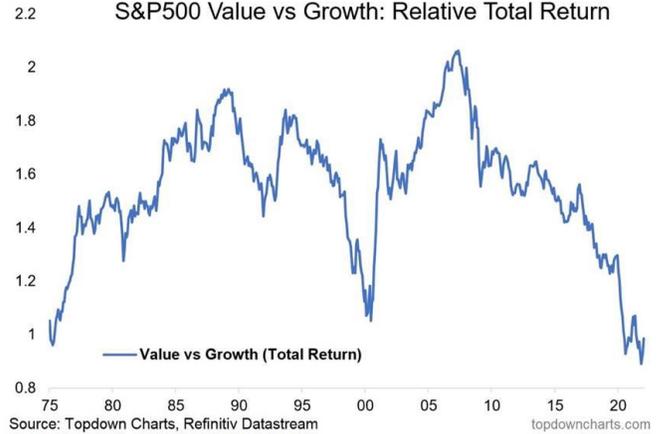
Source: Goldman Sachs

Central banks now have the delicate task to progressively withdraw their help without spooking financial markets, which will challenge the highest valued parts of the stock market.

Fed Balance Sheet Vs. S&P 500



S&P500 Value vs Growth: Relative Total Return



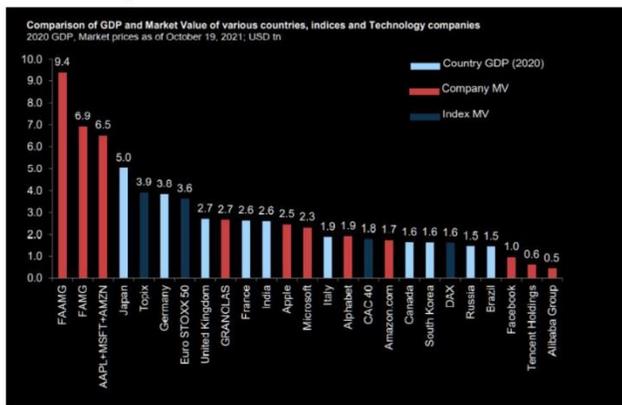
Source: Topdown Charts, www.topdowncharts.com

Previous investors darlings that are highly valued come under selling pressure. Cathy Wood’s ARK Innovation Fund is now down 53% from its peak. Nasdaq is down 11.4% y-t-d versus a Dow Jones Index that has only lost 5.4%.

Facebook, Amazon, Apple, Microsoft, Google (FAAMG) are worth more than twice Eurostoxx 50 or 6 times the German DAX. Is Europe so cheap or Big Tech so overvalued?

We tend to think it is a combination of these two extremes.

FAAMG > 2x Europe



Source: Factset

Source: Charles-Henri Monchau (Syzbank), Factset

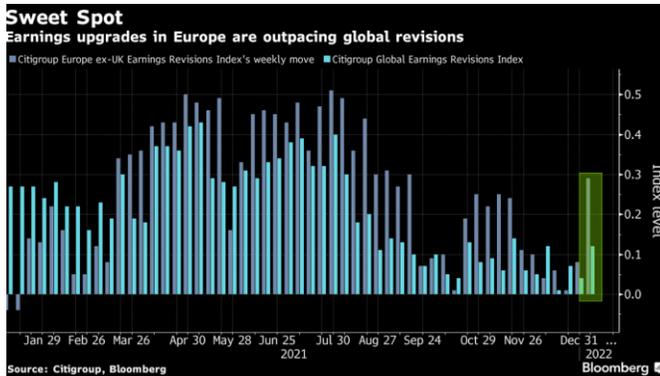
In this environment, the rotation to value stocks could finally gain speed as value stocks benefit from higher interest rates and prices and the performance gap between value and growth is unsustainably high.

Our base scenario remains that the COVID-19 pandemic will become endemic over time. It is not the number of infections that count, it is the hospitalizations and mortality linked to these infections. Make no mistake, Covid-19 remains a serious disease. It may however going forward no longer put the same strain on our healthcare systems that requires authorities to impose generalized lock-downs and other big scale restrictions. The economic result: businesses continue to recover.

In the upcoming US earning seasons, analysts expect profits to grow 20% making Q1 2022 the fourth quarter in a row with double digit earnings growth. There remains still uncertainty with companies needing to deal with inflationary pressures they can not necessarily pass through to their clients. We believe nevertheless an endemic means a normalization of economic conditions.

As we approach the Q4 earnings season, Europe is already ahead of its global peers in earnings upside revisions, which reflect the confidence in European companies’ profitability.

The Citigroup Earnings Revisions Index for Europe, excluding the U.K., has jumped to its highest level since September. Global earnings growth is forecast to slow to 7% this year from 53% in 2021, while Europe should grow 5% after a 70% jump last year, according to Citi strategists.



Source: Bloomberg

Conclusion

What was over the last decade the biggest headwind for value investors is currently turning into its biggest tailwind: the correlation of value to interest rates. As interest rates start to move upwards value tends to outperform. 2 reasons:

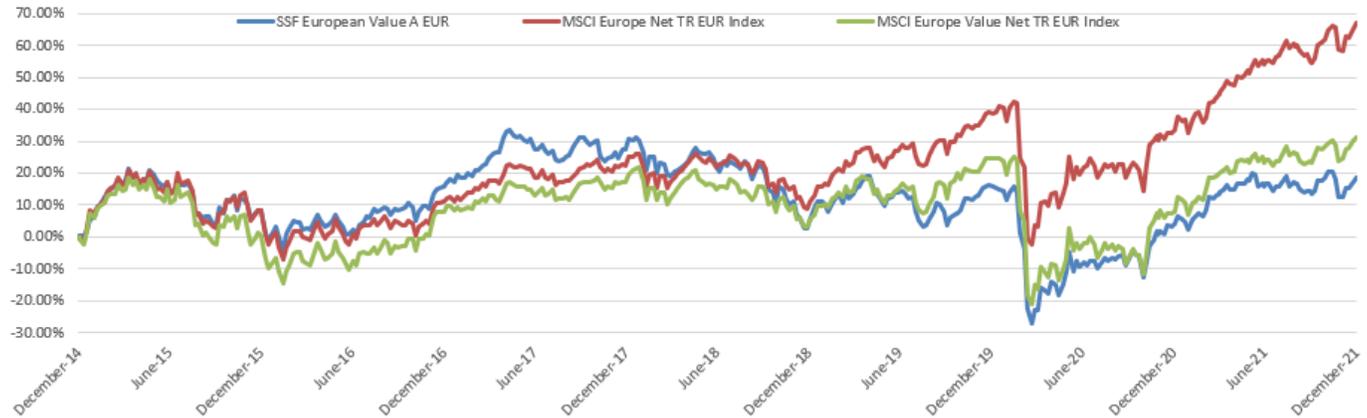
- 1/ with higher interest rates the value of the discounted cash flows of value stocks increases relative to their growth parts and
- 2/ higher interest rates are a sign of more normal economic and business conditions where growing companies are no longer scarce and unloved, undervalued companies can also show earning power.

A solid investment process that selects quality value stocks with pricing power like we have at ECP is a good place to be in this environment.

Portfolio profile

Performance analysis

Cumulative performance since inception¹



Performance statistics

	European Value (A EUR share class)	MSCI Europe NR	MSCI Europe Value NR
Since inception	18.45%	66.89%	31.18%
3 years	14.21%	52.49%	26.85%
1 year	13.70%	25.13%	21.82%
YTD	13.70%	25.13%	21.82%
6 months	2.31%	8.48%	6.43%
3 months	3.70%	7.68%	6.00%
1 month	5.64%	5.52%	6.33%

Risk statistics (3 years rolling- annualised)

	European Value (A EUR share class)	MSCI Europe NR	MSCI Europe Value NR
Standard deviation	21.16%	19.64%	23.44%
Sharpe ratio	0.23	0.79	0.37

		MSCI Europe NR	MSCI Europe Value NR
European Value	Tracking error vs. index	6.24%	6.55%
	Active share vs. index	86.9%	84.1%
	1 yr Beta vs. index	0.952	0.852

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

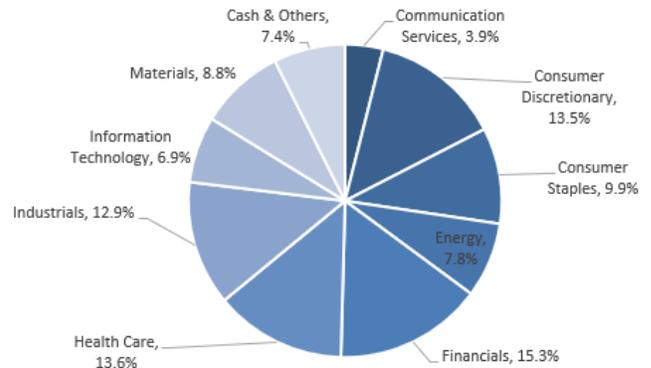
Synthetic Risk and Reward Indicator



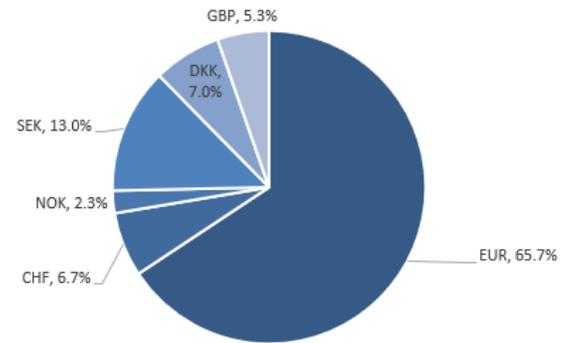
(*) Transformed from an AIF launched on 01/01/2015

Portfolio's breakdown (%)

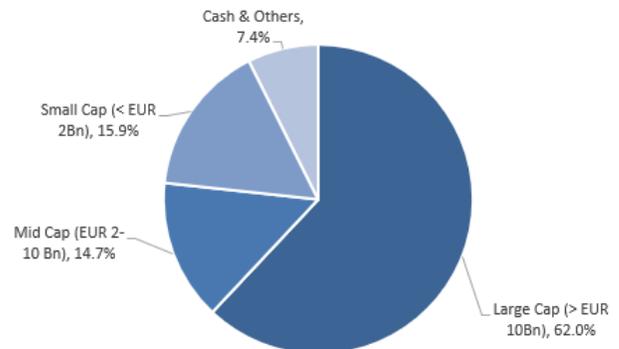
By Sector



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
Asos Plc	Consumer Discretionary	Retailing	BRITAIN	Mid Cap
Atos Se	Information Technology	Software & Services	FRANCE	Mid Cap
Axa Sa	Financials	Insurance	FRANCE	Large Cap
Basf Se	Materials	Materials	GERMANY	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 Kгаа	Health Care	Health Care Equipment & Servic	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	Industrials	Capital Goods	SWEDEN	Mid Cap
Ing Groep Nv	Financials	Banks	NETHERLANDS	Large Cap
Jost Werke Ag	Industrials	Capital Goods	GERMANY	Small Cap
Kering	Consumer Discretionary	Consumer Durables & Apparel	FRANCE	Large Cap
Koninklijke Ahold Delhaize N	Consumer Staples	Food & Staples Retailing	NETHERLANDS	Large 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
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

Company Name	Sector	Industry Group	Country ¹	Market cap
Stmicroelectronics Nv	Information Technology	Semiconductors & Semiconductor	SWITZERLAND	Large Cap
Subsea 7 Sa	Energy	Energy	BRITAIN	Small 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.