SVS Dowgate Wealth European Growth Fund Monthly Commentary: 30 December 2022

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PERFORMANCE

European equities were mixed as they finished the year with small caps continuing to rally compared to large caps that declined following their strong run in November. The Fund returned +0.82% (net income reinvested, GBP) during the month, outperforming the large cap segment and in line with the small cap segment of the market.

For the period from Fund launch (March 2022) to year end, the Fund returned -9.95% (net income reinvested, GBP). This this is in line with the smaller segment of the market, however, underperformed the large cap segment which was just about positive over the period. The fund's strategy is to focus on well managed quality growth companies that are undervalued. We were and remain underweight the best performing sector of the 2022, energy. We believe that this sector is generally lower quality and heavily reliant on cyclical commodity prices, this makes it harder to gain an understanding of their growth prospects over the next few years and therefore ascertain if they are undervalued. We have also remained focused on our preference for smaller companies, this too has led to short term underperformance.

The best performers over the month were French reinsurer **Scor** (increasing reinsurance prices), Irish agri-services business **Origin Enterprises** (management buying shares), Danish pharmaceutical group **Novo Nordisk** (improving supply situation of key obesity drug Wegovy), Swedish mobile game developer **Stillfront** (extension of revolving credit facility) and French temperature controlled logistics provider **Stef** (opening of new warehouse in partnership with Carrefour).

The worst performers over the month were French LNG technology provider **GTT** (concerns tighter EU sanctions would impact revenue related to Russian projects), Danish telecom equipment and consultancy group **RTX** (uncertain much macro volatility will impact 2023 results), Dutch semiconductor equipment manufacturer **ASML** (worries of a slowdown capex investments), Danish IT services business **Netcompany** (shares slipping after recent rally) and Italian appliance component manufacturer **Sabaf** (slowdown in household appliances market).

PORTFOLIO ACTIVITY

During the month, the fund reduced several positions, including Danish building materials group **H+H** (likely have overcapacity this year despite pricing power) and Danish kitchen manufacturer **TCM Group** (key management change heading into a tougher consumer environment). The Fund added to its position in German internet and mobile provider **United Internet** (continuing to build out their mobile network to transition from a virtual mobile network operator).

INVESTMENT OUTLOOK

2022 has been a year dominated by the Ukraine war, rising inflation and Global interest rates. Second and third order effects from Covid-19 led to supply chain shortages, low unemployment and high levels of demand coupled with the Ukraine war, saw very high levels of inflation. Throughout the year, central banks started the process of increasing interest rates aimed at containing inflation. This kicked off a wave of re-valuations in the equity market as investors reassessed the risk reward of equities compared to other asset classes. This volatility in the market has impacted smaller companies more than their larger peers as investors reduce their weighting to smaller companies.

However, if there's a stabilisation or improvement in the macro situation driven by plateauing interest rates and a lowering of inflation this could lead to an outperformance of the small cap sector. Many of the companies we've spoken to still have strong operating models and although cautious for the beginning of 2023, there is scope for upgrades later in the year if some of these macro uncertainties can be stabilised.

Source: Bloomberg

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We believe the information provided here is reliable but should not be assumed to be accurate or complete.

All information accurate as at 30 December 2022

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https://dowgatewealth.co.uk/fund-management

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