

SVS Dowgate Wealth European Growth Fund Quarterly Commentary: 31 March 2023

PERFORMANCE

European equities initially rallied at the start of the year and heading into March. However, this was largely undone by the unfolding bankruptcy of several mid-tier banks in the US and the rescue merger of Credit Suisse by UBS in Europe. As central governments continue to raise rates aggressively in an effort to put a ceiling on inflation there have been several unforeseen second and third order effects. The Fund returned +3.85% (net income reinvested, GBP) during the month, behind large and small caps but ahead of microcaps.

The best performers over the quarter were German semiconductor manufacturer Elmos Semiconductors (seeing continued strong demand for products), Swedish fastener manufacturer and distributor Bulten (already achieving 2024 profit targets), Italian IT hardware and software distributor Esprinet (successfully shifting the offering mix towards solutions), Danish Jewellery retailer Pandora (management continuing to execute strategy and maintain profitability) and Spanish travel IT provider Amadeus IT (benefitting off the back of continued Global air traffic recovery).

The worst performers over the quarter were French seeds and plants grower Graines Voltz (softer demand following an unusually dry February), Italian boiler component & smart meter manufacturer SIT (concerns of slower heating sales due to lower levels of home renovation), Swedish telecom fibre solutions provider Hexatronic (management note that smaller customers having difficulties securing finance of planned projects), Spanish bank Bankinter (sector worries about contagion from SVB and Credit Suisse fallout) and German internet and mobile provider United Internet (web hosting spin-off, Ionos poorly received by the market).

PORTFOLIO ACTIVITY

During the quarter, the fund started a position in Italian luxury good manufacturer Gentili Mosconi (growing through onboarding new luxury clients and consolidating the regional market). We added to French software developer Axway (foundations now in place to deliver strong organic growth) French LNG and hydrogen technology provider GTT (continuing to win new ship orders alongside commercialisation of hydrogen assets) Italian specialty finance provider

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BFF Bank (well capitalised and should benefit from higher interest rates) and Swedish mobile game developer Stillfront (diversified game portfolio should be able to perform better than the market with their centralised platform). We made a full exit of Danish kitchen manufacturer TCM Group (Key management change and concern of a slower end market).

INVESTMENT OUTLOOK

Despite the negative investor sentiment at the beginning of March following the previously mentioned troubles in the banking sector, there has been a remarkably strong recovery that has continued into April. The feedback from company meetings and site visits for both current holdings and new ideas has been positive. There are good long term growth prospects, however there are still cost pressures that need to be digested and will likely limit margin expansion in the short term. The fund has held a higher weighting in cash for the time being to take advantage of these opportunities. It has hindered performance of the fund in the short term but we believe that first quarter results will provide some interesting entry points at attractive valuations.

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 31 March 2023

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

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