

SVS Dowgate Wealth European Growth Fund Quarterly Commentary: 30 June 2023

MARKET UPDATE

Southern Europe performed well with Italy and Spain +4.3% and +2.4% respectively, meanwhile Portugal was the outlier down -3.6% for the period. The Nordics remained negative with Finland, Sweden, Norway, and Denmark down -9.5%, -5.2%, -4.8% and -0.8% respectively. The rest of Europe was subdued except for Belgium which was down -8.2%. The Netherlands, Switzerland, France, and Germany were +1.3%, +0.9%, +0.4% and -0.2%. Looking at the Europe ex UK market segmented by market capitalisation, large caps remained roughly flat at +0.6%, while small and micro caps declined -3.1% and -5.9% respectively.

PERFORMANCE

The fund closed the quarter down 6.5%. This was disappointing compared to the market but can be explained by the fund's high exposure to smaller companies and relatively overweight Technology and Industry sectors where companies are navigating short term supply chain volatility and negative timing effects.

At a stock level, the best performers over the quarter were German semiconductor manufacturer **Simcorp** (takeover offer from Deutsche Borse at 39% premium), Swedish fastener distributor **Bufab** (seeing growth across the business at the start of the year), French reinsurer **Scor** (the passing of Chairman opens up the potential for more deals), Danish hearing aid manufacturer **Demant** (strong organic growth in hearing healthcare) and Danish IT services business **Netcompany** (new financial target imply annual double-digit sales growth for the next 4 years).

The worst performers over the quarter were Swedish telecoms software developer **Enea** (one of the company's largest customers has decided to switch to a single supplier solution), Italian hardware and software distributor **Esprinet** (VAT inquiry from the Italian tax authorities that was subsequently settled), Swedish telecom fibre solutions provider **Hexatronic** (investor concern of a slowdown in growth given profit warning from US peer), French customer services outsourcer **Teleperformance** (concerns about the negative impacts from AI substituting the company's services) and Swedish supply chain services group **Elanders** (customers seeing a volume slowdown in their end markets).

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PORTFOLIO ACTIVITY

During the quarter, the fund started a position in Swedish apparel brand **Bjorn Borg** (believe that the company can continue to gain traction with their sports apparel). We added to French digital panellist provider **Bilendi** (higher quality panels will continue to drive improved profitability), Swedish telecom fibre solutions provider **Hexatronic** (valuation attractive given structural growth divers from end markets) and German semiconductor manufacturer **Elmos** (agreement to sell wafer fab allows the company to focus purely on chip design). We made a full exit of several holdings including French seed and plant producer **Graines Voltz** (poor management decisions leaves the companies with a leveraged balance sheet on softening demand), Danish building materials group **H+H** (sold after management downgraded sales guidance but maintain profitability which looked unreasonable), and Italian electronics retailer **Unieuro** (weaker consumer spending power and rising costs likely to put pressure on margins).

INVESTMENT OUTLOOK

Higher interest rates and elevated inflation rates are now filtering down into consumer and corporate spending. On the consumer side, the savings buffer built up throughout covid is being spent while wage increases are not enough to offset higher costs across the board. On the corporate side, increasing prices to offset volume decline is becoming a tougher balancing act while higher debt servicing costs are contributing to negative surprises on analysts' forecasts. Short-term prospects are tricky for corporates to navigate especially with timing effects between adjusting costs and prices. We are focusing on companies with strong fundamentals and effective business models that should outperform when the economic environment improves.

Source: Bloomberg, FE fundinfo, country indices are MSCI All Cap using net prices and rebased to GBP.



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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 June 2023

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

An investor must always read these before investing.