HEPTAGON Capital

European Focus Equity Fund

Market commentary and attribution analysis as of 30th September 2024

Portfolio Management

Christian Diebitsch

Investment Objective

The Fund aims to deliver long-term capital appreciation by investing in European equities. The Fund employs a high conviction, bottom-up, low turnover, research driven strategy with a focus on companies that exhibit sustainable long- term growth.

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Opinions expressed whether in general or in both on the performance of individual investments and in a wider economic context represent the views of the contributor at the time of preparation.

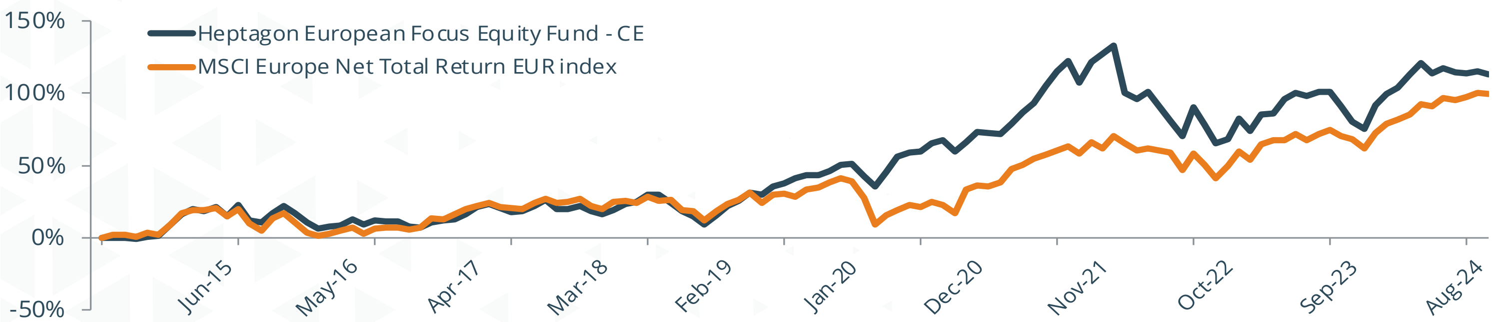
Performance and executive summary

During 9M24, the Heptagon European Focus Equity Fund appreciated by +6.9% in absolute terms to a NAV of €212.90, but the Fund underperformed the benchmark MSCI Europe Net (EUR) index which rose by +11.6% in comparison. The main reason for the weakness in relative performance vs. the benchmark related to investors' concern that interest rates would continue to be higher-for-longer.

From August, however, leading Central Banks uniformly turned more dovish after nearly three years of tightening. The first Bank to announce a 25bps interest rate cut was Bank of England (1st Aug). This move was followed by a 25bps cut by the European Central Bank (12th Sep) and finally by the Federal Reserve (18th Sep), which decided to reduce the Fed Funds rate by a larger-than-expected 50bps. Given the sound communication of these Banks, the timing of these rate-cuts was to some extent expected. *First*, inflation and wage pressures had been falling for some time. *Secondly*, an average rate hike cycle by the leading Central Bank, the Federal Reserve, has averaged around 2.5 years. As the Fed's first rate-hike was announced in Mar-22, it was therefore only a matter of time when the Bank would start lowering US interest rates.

At the time of writing, since most leading Central Banks (bar Bank of Japan) are now supporting as opposed restricting economic activity, we construe that there ought to be a sea-change in favour of investors' attitude to 'risk' and particularly to growth stocks but such an improvement in sentiment is temporarily being held back by the escalating conflict in the Middle East.

The European Focus CE share class performance since inception on 26 August 2014



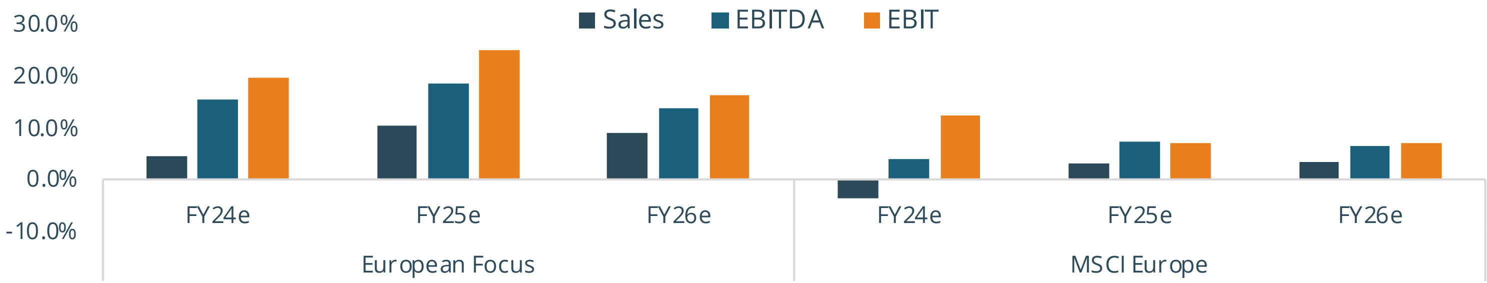
Source: FactSet Research Systems

Past performance is no guide to future performance, and the value of investments and income from them can fall as well as rise

Why Europe and why now?

European Focus was behind the benchmark during 2Q24 and 3Q24, but from a tactical perspective we now believe the Portfolio is uniquely positioned to take advantage of what is likely to be a recovering macroeconomic environment and a greater appetite to risk over the next 6-12 months.

Consensus Sales & Profits Estimates for European Focus vs MSCI Europe



Source: Bloomberg

- **US economic activity has proven to be stronger-than-expected** and GDP forecasts for 2023-25e have been gradually raised (see table on page 4).
- **US corporate activity is expected to pick up** with EPS growth of the S&P500 forecast to rise from +7.8% in 2023 to +8.0% in 2024e and further to +13.3% in 2025.

While this is not yet fully visible in the numbers for the broader European equity markets (possibly because of the region's export-dependency from the US), the above consensus sales and profit forecasts of European Focus show that growth is expected to accelerate from 2024e to 2025e and further into 2026e, well ahead if the broader market.

Sector performance in 3Q24 and 9M24

Clusters of sectors stocks and their price action vs. the broader equity market often gives insight to investors' appetite and aversion to risk. The table below sets out the performance of European sectors over 9M24. We have included 1Q24 and 2Q24 as a reference points to illustrate the considerable change in attitude investors assumed in respect of the 'higher-for-longer' doctrine which started in April. Having comfortably outperformed most sectors in 1Q24 in absolute as well as relative terms, European Focus' fortunes dramatically changed in in 2Q24 when the Portfolio generated a slight negative absolute return. For European investors, this was further exacerbated by the announcement of the French President, Emmanuel Macron, to call for a snap general election in June and early July.

We construe that the timing of France's announcement to hold a general election at the beginning of 3Q24 put a cap on further economic expansion during the summer months. Not only did this affect France, but also other countries in the region as it did not make sense to make any investment decisions until September normal business were to resume after the seasonal holiday weakness in July and August. Two other factors added to the sharp overall slowdown in European business activity. *First*, the common view that by deferring investment decisions until after summer, the global economy would be closer to when Central Banks were likely to start cutting interest rates. *Secondly*, the Labour victory of British general election (4th July) added to uncertainty.

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Sector performance of the MSCI Europe NR (EUR) index and European Focus in 9M24

Sector	1Q24	Sector	2Q24	Sector	Jul-24	Sector	Aug-24	Sector	Sep-24	Sector	3Q24	Sector	9M24
Technology	17.6%	Healthcare	6.5%	Utilities	5.92%	Real estate	3.9%	Materials	5.1%	Real estate	12.4%	Finance	11.6%
Cons disc	11.6%	Technology	5.2%	Finance	3.69%	Healthcare	3.9%	Real estate	4.7%	Utilities	12.4%	Industrials	13.1%
Euro Focus	**10.7%**	Energy	1.6%	Real estate	3.29%	Comm serv	3.2%	Utilities	3.7%	Comm serv	7.6%	Comm serv	13.0%
Finance	10.1%	**MSCI Europe**	**1.3%**	Industrials	2.46%	Cons stapl	2.9%	Comm serv	2.6%	Finance	6.5%	Healthcare	12.5%
Industrials	9.2%	Comm serv	0.7%	Healthcare	2.35%	Cons disc	2.8%	Industrials	1.8%	Cons stapl	5.0%	**MSCI Europe**	**11.6%**
MSCI Europe	**7.6%**	Finance	-0.7%	Cons stapl	2.25%	Utilities	2.3%	Finance	1.6%	Materials	4.7%	Technology	10.9%
Healthcare	7.0%	Utilities	-0.8%	Comm serv	1.64%	**MSCI Europe**	**1.6%**	Cons disc	1.0%	Industrials	4.7%	Real estate	7.7%
Comm serv	4.3%	Industrials	-1.1%	**MSCI Europe**	**1.17%**	Finance	1.0%	Cons stapl	-0.2%	**MSCI Europe**	**2.4%**	**Euro Focus**	**6.9%**
Materials	3.2%	Materials	-1.6%	**Euro Focus**	**-0.09%**	**Euro Focus**	**0.49%**	**MSCI Europe**	**-0.4%**	Cons disc	0.7%	Materials	6.4%
Energy	2.5%	Cons stapl	-2.0%	Materials	-0.02%	Industrials	0.4%	**Euro Focus**	**-1.0%**	**Euro Focus**	**-0.6%**	Utilities	5.5%
Real estate	-1.4%	Real estate	-2.8%	Energy	-0.59%	Materials	-0.3%	Technology	-2.8%	Healthcare	-1.0%	Cons disc	3.3%
Cons stapl	-1.5%	**Euro Focus**	**-2.9%**	Cons disc	-3.07%	Technology	-1.4%	Healthcare	-6.9%	Technology	-10.4%	Cons stapl	1.4%
Utilities	-5.4%	Cons disc	-8.4%	Technology	-6.53%	Energy	-3.7%	Energy	-7.3%	Energy	-11.3%	Energy	-7.6%

Source: Bloomberg

Ultimately, we believe that what drives the medium to long-term performance of European Focus growth is not which sector to be exposed to, but hold on to top-quality businesses, which have stood the test of time.

Possible drivers for equities in 4Q24 and going into 2025

After 2-3 years of the leading Central Banks having be raising interest rates – thus creating more risk-adversity – investor sentiment should have turned after the Fed's first rate cut on 18th Sep. Not only did Chair Jerome Powell communicate the Bank's more dovish stance to inflation, but he also emphasised that the Fed's focus would move to stimulate the Bank's second mandate – employment. Against this backdrop, we believe that investors' attitude to risk – and growth stocks in particular – has now turned the corner.

Top-down

The table below sets out annual top-down GDP growth expectations for 2024-26 for some of the world's largest economic areas. The table shows that economic activity decelerated in 2022 as countries felt the adverse impact of Central Banks' interest rate hikes and Vladimir Putin's attempt to invade Ukraine. We argue that economic activity regained momentum in most regions (bar the Eurozone) in 2023 for two reasons. *First*, there was a lag between the negative impact of higher interest rates and buoyant labour markets due to *'talent shortage'*, which meant that wages continued to rise thereby underpinning consumers' disposable income. *Secondly*, while supply-chain constraints were gradually easing after the pandemic, consumption resumed as spending was also bolstered by excessive household savings that were built up during the Covid-19 lockdowns.

Consensus annual GDP growth forecasts for leading economic regions

% change	2021	2022	2023	2024e	2025e	2026e
USA	6.1%	2.5%	2.9%	2.6%	1.8%	2.0%
Eurozone	6.2%	3.3%	0.4%	0.7%	1.3%	1.5%
China	8.4%	3.0%	5.2%	4.8%	4.5%	4.2%
Japan	2.8%	1.2%	1.7%	0.0%	1.2%	0.9%
Average	**5.9%**	**2.5%**	**2.6%**	**2.0%**	**2.2%**	**2.2%**

Source: Bloomberg

Looking ahead, while the above table also shows that all economic regions (bar the Eurozone) are expected to slightly sequentially decelerate in 2024 and 2025 (bar the Eurozone), the US as well as the Eurozone are expected to accelerate in

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2026. China is expected to continue to grow at a +4% level, albeit registering sequential slowdown (possibly bolstered by various government-driven stimuli programs). Meanwhile, after a temporary dip in 2024, Japan should register growth at around 1% in 2025-26.

The table below, which covers years 2023-25. It is decomposed so that annual GDP growth forecasts reflect the average of four rolling quarters ahead at each period when the data was recorded (the 1st of every quarter from Apr-23). In other words, each forecasts look 12-months ahead on a continuous basis illustrating how economists' view has evolved from quarter-to-quarter.

Evolution of consensus rolling four-quarter GDP forecasts for leading economic regions

% change	23e Apr-23	23e Jul-23	23e Oct-23	23e Jan-24	24e Apr-23	24e Jul-23	24e Oct-23	24e Jan-24	24e Apr-24	24e Jul-24	24e Oct-24	25e Apr-24	25e Jul-24	25e Oct-24
USA	1.1%	1.3%	2.1%	2.4%	0.7%	0.6%	0.9%	1.4%	2.3%	2.4%	2.6%	1.6%	1.8%	1.9%
EZ	0.6%	0.7%	0.6%	0.5%	1.1%	1.2%	0.8%	0.5%	0.6%	0.8%	0.7%	1.4%	1.5%	1.3%
JAP	1.0%	1.3%	1.9%	2.0%	1.2%	1.1%	1.0%	0.7%	0.6%	0.1%	-0.1%	1.1%	1.2%	1.2%
CHI	5.4%	5.6%	5.0%	5.2%	5.1%	4.7%	4.5%	4.5%	4.7%	5.0%	4.8%	4.4%	4.5%	4.4%
Avg	**2.0%**	**2.2%**	**2.4%**	**2.5%**	**1.8%**	**2.0%**	**2.1%**	**1.8%**	**2.0%**	**2.1%**	**2.0%**	**2.1%**	**2.2%**	**2.2%**

Note: EZ=Eurozone
Source: Bloomberg

The above table shows that the average GDP forecast view for the four regions was at their lowest level in Apr-23 (the left-hand column average 2.0%), but as 2023 and 2024 have progressed, expectations have improved implying that reality has turned out better compared with economists' initial expectations.

Bottom-up
At the same time as we collect consensus GDP growth data on monthly/quarterly basis, we also note how the consensus the EPS growth expectations of the S&P500 index is evolving.

According to Bloomberg's consensus data from 1st Oct, EPS growth is expected to rise by +8.0% in 2024 (up from +7.8% in 2023) and further to +13.3% in 2025. Noting the same data from According to Bloomberg's consensus estimates from 1st Jul-24, EPS growth was expected to rise to +9.8% and further to +12.5% in 2025 (i.e. slightly higher for FY24 but lower for FY25). When looking at the growth rates for the same years but with estimates taken from 1st Apr-24, EPS growth was expected to be +11.7% in 2024 (up from +5.0% in 2023) and +10.5% in 2025. In other words, it looks as if expectations for a bottom-up recovery has been slightly delayed (possibly caused by the earlier 'higher-for-longer' doctrine and the escalation of the Middle Eastern conflict). However, when the economic recovery returns, it will reflect more 'thrust'.

The power of compounding

We first introduced the below table in 2021 to depict the benefits of compounding. The top-part of the table shows how sales, EBITDA and EBIT growth have developed and are expected to progress for the European Focus Fund and for Europe (the MSCI index) during 2020-26e, according to Bloomberg's consensus estimates.

The lower part of the table illustrates how these growth rates impact the overall sales and profits bases given current prospects. We have anchored the numbers to 2019, i.e. one year before the pandemic. The table shows the benefit of not *'foregoing'* sales and profit growth during periods of economic weakness as an increasingly higher base from where to grow business can continue from enhances the sheet amount of sales and profits.

Projection of sales and profit growth of European Focus and MSCI Europe index)

HEFEF	FY19	FY20	FY21	FY22	FY23	FY24e	FY25e	FY26e	MSCI	FY19	FY20	FY21	FY22	FY23	FY24e	FY25e	FY26e
Sales		2.2%	20.9%	13.2%	10.6%	4.6%	10.5%	8.9%	**Sales**		-14.1%	4.1%	24.4%	1.9%	-3.5%	3.1%	3.5%
EBITDA		5.0%	31.3%	16.9%	10.7%	15.4%	18.5%	13.7%	**EBITDA**		-23.9%	32.6%	23.4%	-0.4%	4.1%	7.3%	6.4%
EBIT		4.8%	61.6%	22.1%	21.1%	19.7%	24.9%	16.2%	**EBIT**		-39.8%	82.9%	26.2%	6.3%	12.3%	7.1%	7.0%

HEFEF	FY19	FY20	FY21	FY22	FY23	FY24e	FY25e	FY26e	MSCI	FY19	FY20	FY21	FY22	FY23	FY24e	FY25e	FY26e
Sales	100	102.2	123.6	139.9	154.7	161.9	179.0	194.9	**Sales**	100	85.9	89.4	111.2	113.3	109.3	112.7	116.7
EBITDA	100	105.0	137.8	161.1	178.3	205.7	243.7	277.1	**EBITDA**	100	76.1	100.9	124.5	124.0	129.1	138.5	147.4
EBIT	100	104.8	169.4	206.8	250.4	299.6	374.1	434.8	**EBIT**	100	60.2	110.1	138.9	147.6	165.8	177.5	190.0

Source: Bloomberg

The above tables are based on the Portfolio weightings of European Focus at the end of 9M24 for the purpose of forecasting. For the prior years (2019-2023), the year-end weightings of the Portfolio have been used. Based on Bloomberg's consensus forecasts, European Focus and the MSCI Europe index are expected to show the following:

- **Sales:** European Focus is expected to grow its sales by 4.6% in FY24 compared with a -3.5% sales decline of the MSCI Europe index. For FY25, European Focus is expected to grow its sales by 10.5% compared with only 3.1% of the MSCI Europe index. For FY26, European Focus is expected to grow sales by 8.9% vs. only 3.5% of the MSCI Europe index.
- **EBITDA:** European Focus is expected to grow its EBITDA by 15.4% in FY24 compared with only 4.1% of the MSCI Europe index. For FY25, European Focus is expected to show EBITDA growth at 18.5% compared to only 7.3% of the MSCI Europe index. For FY26, European Focus is expected to grow EBITDA by 13.7% compared to only 6.4% of the MSCI Europe index.
- **EBIT:** European Focus is expected to grow its EBIT by 19.7% in FY24 compared with 12.3% of the MSCI Europe index. For FY25, European Focus is expected to grow its EBIT by 24.9% compared to only 7.1% of the MSCI Europe index. For FY26, European Focus is expected to grow EBIT by 16.2% compared to 7.0% of the MSCI Europe index.

Analysing how the revenue profiles of European Focus and the MSCI Europe index have progressed since the pre-pandemic year 2019 and what their impacts are on the profit progressions clearly illustrates the importance of not *'foregoing'* sales during a period of economic weakness.

- **Sales:** European Focus' 'revenue base' is expected to stand at 161.9 at the end of FY24, i.e. close to 62% ahead of its pre-pandemic level, while the MSCI Europe index is only expected to be 109.3, i.e. less than 10% higher than its pre-pandemic level. This is further amplified in FY25 when European Focus is expected to have a revenue base that is 79% higher than its pre-pandemic level, which compares with a revenue base of the MSCI Europe index which is less than 13% higher. Further in FY26, European Focus' revenue base is expected to be nearly 2x higher than its pre-pandemic level, which compares with less than 17% higher of the MSCI Europe index.
- **EBITDA:** European Focus' EBITDA base is expected to stand at 205.7 at the end of FY24, i.e. more than twice of its pre-pandemic level in 2019 while the MSCI Europe index is only expected to be less than 30% higher (i.e. 129.1) than its pre-pandemic level. This is further amplified in FY25 when European Focus is expected to have an EBITDA base more than 140% higher than its pre-pandemic level, which compares an EBITDA base that of the MSCI Europe index which is less than 40% higher. Further in FY26, European Focus' EBITDA base is expected to be nearly 180% higher than its pre-pandemic level, which compares the corresponding EBITDA base at less than 50% of the MSCI Europe index vs. its pre-pandemic level.
- **EBIT:** European Focus' EBIT base is expected to stand at 299.6 at the end of FY24, i.e. nearly 3x ahead of its pre-pandemic level in 2019, while the MSCI Europe index is only expected to be some 65% (i.e. 165.8) higher than its pre-pandemic level. This is further amplified in FY25 when European Focus is expected to have an EBIT base that is around 144% higher than its pre-pandemic level, which compares with less than 40% of the MSCI Europe index.

Further in FY26, European Focus' EBIT base is expected to be substantially more than 4x higher than its pre-pandemic level, which compares with the MSCI Europe index where the EBIT base is only some 90% higher compared with its pre-pandemic level.

If these growth trajectories were to extend, which we believe is a fair assumption given that the average year of foundation of a Portfolio company goes back to 1933, the compounding effect should continue to amplify. Over time, this should support the strong underpinnings for a premium valuation of European Focus against the MSCI Europe index.

ESG considerations

European Focus is classified as an **'Article 8 Fund'**, which means that the Fund promotes – among other characteristics – environmental and social factors in businesses in which investments are made follow good governance practices. ESG as a concept has always been integrated part of the investment philosophy of European Focus. This stance is based on the belief that *'doing well and doing good is mutually dependent'* for businesses to be successful in the long-term. In other words, the strategy does not believe that it is good business to cut corners in any of the 'ESG-verticals' given potential repercussions – be it financial risk – such as becoming liable to fines and other damages, reputational issues etc. To facilitate this approach, European Focus has an exclusion list which restricts the strategy from investing in businesses that are generally regarded as harmful to society (fossil-fuel, nuclear, weapons, tobacco, adult entertainment and gambling).

As investors and companies are continuously re-assessing different aspects of ESG, we note that our Portfolio companies in one way or another have aligned part of their managers' remuneration to measurable ESG targets. We estimate that such ESG-related targets affect individual managers' variable compensation by up to 20% depending on industry and company.

Having gone through our Portfolio companies' 2022, and currently analysing the progress made during 2023 in annual and SRI reports, we note that businesses are again making substantial progress in improving CO_2 emissions, waste, water etc Y/Y. While companies' ESG-disclosures visibly stepped up in 2019, the pandemic caused a severe disruption to how companies could improve going forward.

Given a few years since the pandemic, we have noted the following pattern by most companies: CO_2 emissions, waste, water etc. fell sharply in 2020 due to the lockdowns which had a significant effect on business volumes for most of our Portfolio companies. In 2021, however, most businesses focused on recovering lost income from the prior year and consequently, environmental metrics (CO_2 emissions, waste, water and proportion of energy-sourcing from renewables) saw a sharp increase. This contrasts with the corresponding readings for 2022 – and further in 2023 – which show real improvement, both in terms of the reduction of CO_2 emissions, waste, water and proportion of energy-sourcing from renewables in absolute terms – but also in terms of disclosure.

Risks and uncertainties

Our perception of risks and uncertainties remains the same, but in our view their order has changed from the end of 2Q24 to the end of 3Q24.

- **Geopolitical conflicts:** the Israeli/Middle Eastern conflict and Vladimir Putin's war with Ukraine have become our most pressing cause concern. In terms of priority, Putin's failed attempt to occupy Ukraine after more than 2.5 years has become a much more entrenched story and therefore more marginalised. Against this backdrop, we consider the Gaza conflict to be much more pertinent. The Hamas unprovoked terrorist attack against Israel lapsed its first year on 7th Oct with the situation in the Middle East steadily deteriorating and with no apparent will from either side to start cease-fire negotiations. At the time of writing, we sadly believe that the situation in this region will become worse before it gets better.

- **Indebtedness of China:** China's property-driven credit crisis continues to impact domestic spending as the defaults of several real-estate giants (such as Evergrande, Country Garden and Shimao) continue to hold consumer confidence at bay. Although the Chinese government recently announced a significant stimulus package, we doubt this will have any lasting structural impact.
- **European right-wing movement:** after the poor outcome of the legacy parties in France in the European Parliamentary election in early June and Emmanuel Macron's call for a snap general election (on 30th Jun and 7th Jul), we see a new political risk with the rise of Europe's right-wing / populist parties. Since this time, other right-wing movements in Germany and Austria have gained in popularity. Given the higher fragmentation this has had to the political establishment in Europe, it could have a lasting impact on European interest rates, which in turn could affect the valuation of the region's equity markets.
- **US Presidential Election:** we added a *'Donald Trump Risk'* if the ex-President get re-elected on 5th Nov. Should Trump serve a second Presidential Term, we anticipate considerable populistic ideas to be brought to light (many which are unlikely to be appreciated by the investment community). Against this backdrop, we note that during Trump's previous term in Office (Jan-17 to Jan-21), the S&P500 index advanced by +78%, which is considerably higher than +35% for the average Presidential first term in office since 1929.

Attribution analysis for 9M24

Contributors

Lonza (LONN SW)

LONN (Switzerland: +51.2% and 4.7% exposure), the world's largest CDMO (Contract Development Manufacturing Organization) was the best-performing stock in the Portfolio in 9M24 (and the third best performer in 1H24 and the best-performer in 1Q24). This is a far cry from 2023 when it was the third worst performing stock in the Fund. The problems last year arose following the release of the 1H23 results (21st Jul-23), which disappointed. *First*, there was under-utilization in early-stage biotechnology services (caused by higher funding costs). *Secondly*, there was lower demand for consumer-facing nutraceutical capsules (due to weaker consumer-spending). Management thus cut the FY23 sales as well as the EBITDA margin guidance. To add insult to injury, LONN soon thereafter announced (18th Sep-23) that CEO Pierre-Alain Ruffieux would leave the company and this raised concern about the company's medium-term outlook. Around the same time, there was another press release referring to the discontinuation of the joint-venture between LONN and Moderna in respect of Covid-19 vaccines. LONN swiftly organised an Investor Day (17th Oct-23) from which the takeaways related to the medium-term (2024-28) annual LfL sales growth rate should be in the 11-13% range (FY23: 10.9%) and core EBITDA margin in the 32-34% range (FY23: 29.8%).

We consider LONN's Board to have been commendably quick in addressing investor-concerns. While the FY23 results (26th Feb) contained several restatements, the market took a liking to the report as the long-standing Chairman and CEO, Albert Baehny, announced that he would (finally) step down. The incoming Chairman, Jean-Marc Huët (Unilever's former CFO and the current Chairman of Heineken), assumed this role at the AGM (8th May). Albert Baehny remained acting CEO until 1st Jul when he was succeeded by Wolfgang Wienand (the former CEO of another Swiss CDMO – Siegfried Holding AG).

As a long-standing investor of several Swiss companies, we consider Switzerland to often foster world-leading businesses where the requirement for extremely high *'precision'* in the widest sense is critical (such as in traditional industries such as weaving-machinery, watchmaking and later medical-technology etc). Against this backdrop, we cannot see why LONN – as a reputable company and world-leading CDMO – would be an exception. LONN will next publish FY24 results on 30th Jan-25.

Givaudan (GIVN SW)

GIVN (Switzerland: +31.4% and 4.8% exposure), the world's largest 'flavour and fragrance' business was the second best-performing stock in the Portfolio in 9M24 (and the fifth best performer in 1H24). It is pleasing to see that this fine company finally appears to have turned the corner. GIVN, which supplies most of

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the world's leading food and fragrance businesses, had a tough time when inflation picked up in 2022. The company typically uses some 12,0000 compounds in its product offering and these compounds recorded average price increases of 8-9% in 2022. Time and time again, GIVN's management has commented that the company can only implement price increases on 'gradual' basis (we assumed circa 4.5% price hikes per year), implying that there would be a time lag before profitability could be fully restored. While GIVN's business may appear to be partly commodity-driven, management has gone to great length to clarify that this is of no interest to the company. Instead, two key strategic criteria are: *(i)* customers should benefit from GIVN's product offering in a wider sense and *(ii)* GIVN's products should offer customers a high level of support customers in making their brands unique and/or give them a competitive edge. We suspect the recent strength in the GIVN stock price relates to an informal comment by CEO, Gilles Andrier, that the company may enter the flavouring segment in the globally fast-growing pet food industry. GIVN publishes (comprehensive) quarterly sales figures and half-yearly full results, cash flow and balance sheet disclosures. The 3Q24 sales report (10th Oct) was better than market expectations. The FY24 set of results are scheduled for 24th Jan-25.

Adidas (ADS GY)

ADS (Germany: +29.2% and 6.4% exposure), the world's #2 sports-shoe manufacturer after Nike, was the third best-performing stock in the Portfolio in 9M24. We construe that since the arrival of Bjørn Gulden as CEO in 2023, sentiment to the ADS share has significantly improved as the company has gotten its 'house in order'. Not only has ADS' communication with the investment community improved dramatically, but we sense that internally there is a much stronger sense of purpose amongst the staff and the different departments, which in turn has led to a much stronger product pipeline. There are some tangible indicators to support this view. *First*, according to management the order intake of ADS' higher-end ranges has been stronger than the order intake of the lower-end ranges implying that more affluent consumers are still willing to spend. *Secondly*, due to a successful sell-out of ADS' inventory of older items, the order intake for 2H24 looks solid as the company should be able to supply retailers with new products rather than selling out legacy stock. At the investor call in connection with the 1Q24 set of results (30th Apr), management commented that over-and-above the several new teams and athletes which have signed up for sponsorship agreements, ADS would supply sports shoes to 41 different sports activities at the Paris Olympics. The company's 2Q24 statement on 31st Jul was to some extent a 'non-event' as management had pre-announced better-than-expected headline sales and profits (16th Jul) following another successful online sell-out of the *Yeezy* stock. While we do not expect another pre-announcement or profit upgrade ahead of these numbers, we anticipate ADS's 3Q24 set of results, which is due on 29th Oct, to be strong. Not only should the quarter showcase several new product launches, but also due to the Paris Olympics, we expect most of the company's product range will have done well.

Tomra (TOM NO)

TOM (Norway: +20.4% and 4.3% exposure), the world's leading provider of deposit systems for beverage cans and bottles, was the fourth best-performing stock in the Portfolio in 9M24. The decision by the EU Council and Parliament regarding recycling rates, which states that Member States must ensure separate collection of at least 90% of single-use plastic bottles and metal beverage containers annually by 2029, finally appears to have gained traction. To achieve this target, EU Members will need to set up deposit-systems for such packaging solutions. In our opinion, TOM's main competitive edge does not relate specifically to the machinery (so called Reverse Vending Machines, or 'RVMs') – but in how to implement deposit-systems for different jurisdictions depending on their legislative nature and how to optimally fund them. This is normally achieved by incentivising consumers to return empty bottles/cans in exchange for compensation which is embedded in the price of bottles/cans when they are purchased. Consequently, TOM acts as a consultant to central and local governments by advising how to best go about implementing such systems. TOM's financial track-record in the YTD has been somewhat mediocre. Although the 4Q23 set of results (15th Feb) reflected a strong order intake and an order backlog which was near an all-time high, the 1Q24 statement (26th Apr) fell short of market expectations. To add insult to injury, TOM's management announced that the company would change reporting currency from NOK to EUR as of 2Q24, when the company's Food division (circa 30% of group sales) is under restructuring. The 2Q24 set of results (19th Jul) beat lowly set consensus forecasts, but management hosted a well-attended investor day in Alicante/Spain (5th Sep). TOM's 3Q24 result statement is due on 22nd Oct. We expect a continued strong performance of the core Collection division (circa 50% of group sales) and ongoing profitability improvement in the Food business.

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Hermès (RMS FP)

RMS (France: +15.0% and 5.5% exposure), the world's premier luxury goods company, was the fifth best-performing stock in the Portfolio in 9M24 (the RMS share has outperformed the benchmark index in each of the three quarters in the YTD but was never in the 'top 5 category'). The company's 1Q24 sales report (25th Apr), which was ahead of highly set market expectations, reflected continued *'high-teens'* LfL revenue growth. At that stage, management commented that average price increases in 2024 would be in the 8-9% range. The 1H24 set of results (25th Jul) was also ahead of highly set market expectations. Although sequential LfL sales growth slowed down to 13.3% in 2Q24 Y/Y (1Q24: 17.0%), it was pleasing to see that both France and Continental Europe were the two regions which acted as main drivers to top-line growth. During summer, RMS' management made the remark that the global macroeconomic environment had become more 'complex' as all regions bar China posted double-digit revenue growth in 2Q24. From a more strategic perspective, we consider RMS to have the strongest competitive edge amongst its other listed peers (such as LVMH and Kering). The company operates a 'supply-driven' business model, which not only ensures lower risk of inventory build-ups, but it also gives the company stronger pricing power as it controls the entire value-chain – from the sourcing of raw materials to the final interaction with the end-buyer. Against this backdrop, RMS finds a much higher proportion of customers from the HNI (High Networth Individual) segment and less aspirational buying, which tends to be more dependent on the economic cycle and fashion trends. RMS' 3Q24 sales report, is due on 24th Oct. We anticipate continued sequential slowdown Y/Y in LfL sales growth, but nonetheless a solid quarter due to buoyant sales during the Paris Olympics.

Detractors

Dassault Systèmes (DSY FP)

DSY (France: -19.5% and 4.9% exposure), the world's leading provider of software for 3D-applications was the weakest performer in the Portfolio in 9M24 (and second weakest performer in 1H24 as well as in 1Q24). We continue to be somewhat confounded by the poor performance of this fine company as the underlying share has done considerably worse in comparison to many other leading technology businesses. There are a few possible shortcomings. *First*, DSY's 4Q23 set of results (1st Feb) fell short of market expectations as sales and profit growth came in at the lower end of management's guidance. *Secondly*, given the formal appointment of Pascal Daloz – a 25-year veteran in DSY (with prior roles as COO and CFO) to CEO, as of 1st Jan and the long-standing CEO, Bernard Charlès, moving to an Executive Chairman position, it is possible that Daloz may have come across as too negative due to the conservative FY24 outlook when he and his management team guided for 8-10% LfL top-line growth (FY23: 9%) and an EBITA margin guidance in the range of 32.5-32.8% (FY23: 32.4%).

DSY's 1Q24 report (24th Apr) fell slightly short of market expectations. While management tried to put a positive spin to the report, they acknowledged that the reported numbers were at the *'lower end of their internal projections'*. DSY's 2Q24 results (24th Jul), which were proceeded a pre-announcement (9th Jul), fell short of lowly set market expectations. Management commented that DSY was wrongfooted because of the *'sudden change in customers' decision-delays in late 2Q24'* (i.e. June), which was most likely caused by the heightened political uncertainty due to France's call for a snap general election. At the 2Q24 webcast, management tried to be as clear as they could about the near-term prospects breaking down the outlook for each industry category by region (which has not been done before). In conclusion, DSY anticipates an overall sequential improvement in business momentum in 2H24, but we suspect a considerable part of this recovery is likely to be back-end loaded to 4Q24 as customers are unlikely to commit until they get back from their summer-breaks (which only leaves the month of September to conduct 'meaningful' business). However, management was quite clear that 2Q24 and 3Q24 should see the business cycle bottoming out as *'customers have huge order backlogs in front of them'* as they need to *'upgrade and/or add capacity'*. DSY will publish 3Q24 results on 24th Oct.

Page Group (PAGE LN)

PAGE (the UK: -17.3% and 4.9% exposure), Europe's second largest specialist recruitment company was the second weakest performer in the Portfolio in 9M24 (and the fifth weakest performing stock in the Portfolio in 1H24). We initiated a position in PAGE in 3Q23 on the grounds that base numbers for comparison were poised to improve in the coming 2-4 quarters due to ongoing *'talent shortage'*. What has happened since is that employment conditions have continued to grind lower with the US creating fewer new jobs and job-openings having fallen to similar levels as in 1Q21, i.e. shortly after the nadir of the pandemic.

PAGE's LfL net fee growth rate has been in negative territory since 4Q22 with 2Q24 showing a first narrowing decline of -12.0% Y/Y (1Q24: -12.7%). As PAGE's base numbers for comparison are becoming notably easier in 3Q24 and 4Q24, we anticipate an imminent return to 'positive growth'. As we have mentioned in previous quarterly reports, once such a reversal kicks in, the PAGE share – and its peers – have tended to bounce back in the range of 80-120% over the 12-18 months ahead. It is our aim to continue to add to the PAGE position in 2H24 once we see such a change in the company's net-fee growth trajectory. Unfortunately, PAGE's trading statements have been disappointing in the YTD. The 1Q24 trading statement (15th Apr) was at the lower end of market expectations and management came across as somewhat downbeat. PAGE pre-announced the 2Q24 trading statement by one day (9th Jul) as net fees in the period fell short of expectations. However, we construe this to have been caused by the French market (PAGE's largest Continental European market representing circa 14% of group net fees), which effectively came to a standstill during the last two weeks of June after Emmanuel Macron had announced a snap general election. PAGE's CEO commented that the business saw challenging market conditions throughout the organisation in 2Q24: *'Particularly in terms of new jobs registered and number of interviews with the conversion of interviews to accepted offers being the most significant area of challenge, as candidate and client confidence remains subdued.'* PAGE's 3Q24 trading statement (14th Oct) was lacklustre showing no immediate improvement in trading conditions. As the 4Q24 trading statement is scheduled for 13th Jan-25, we still expect an improvement LfL net fee growth due to easier base numbers for comparison.

Hays (HAS LN)

HAS (the UK: -11.5% and 3.9% exposure), Europe's largest specialist recruitment company was the third weakest performing stock in the Portfolio in 9M24. As in the case of Page Group, the HAS share typically displays excellent bounce back characteristics once underlying business conditions (i.e. LfL net fee growth) start to improve. In our view, what makes HAS (and Page Group) interesting is the underlying *'talent shortage'* caused by continuingly tight labour markets. HAS closes its accounts by the end of June; although the company's 1H23/24 results (22nd Feb) fell short of market expectations, the stock still responded positively by investors. Like its UK peer, Page Group, HAS' management commented that candidate confidence had fallen in line with lower wage growth in conjunction with longer lead-times for clients (i.e. companies) to reach hiring decisions. Largely for this reason, the 3Q23/24 trading statement (16th Apr) fell short of market expectations. While the 4Q23/24 trading statement (11th Jul) was in line with lowly set consensus projections, investors were unimpressed as HAS largest market Germany (circa 30% of group net fees) reported a slowdown in the automotive segment. The FY23/24 set of results (22nd Aug) matched market projections but investors took a positive view to the report. At that time, management commented that it was still too early to provide a more concrete outlook to how the FY24/25 period would evolve (recruitment companies typically have 4-6 forward visibility). HAS will have implemented some 5-6% annual OPEX cost-savings, which should become visible in higher profitability once volume growth starts to recover in 2Q24/25 the latest. HAS 1Q24/25 trading statement (11th Oct) was in line with market expectations prompting only a small reaction on the stock. The 2Q24/25 trading statement is due on 16th Jan-25.

L'Oréal (OR FP)

OR (France: -10.8% and 5.8% exposure), the world's largest supplier of cosmetics and make-up products, was the fourth weakest performer in the Portfolio in 9M24 (and the fifth weakest performing stock in the Portfolio in 1Q24). Unlike FY23, when the business went from strength-to-strength, 9M24 has seen the company's financial performance (and the underlying share price) struggle. The OR share broadly flatlined in 1Q24, but it started to weaken in 2Q24 on concern that the North Asia region (where Greater China represents around 2/3 of sales) would see further weakness in consumer-spending. While the 1Q24 sales (18th Apr) report was ahead of market expectations LfL sales growth stayed at a single-digit level of 9.4% (4Q23: 6.9%; 3Q23: 11.1%). The key highlight in the 1Q24 report related to sequential acceleration in LfL sales growth in the Professional and the Consumer Products divisions (12% and 38% of group sales respectively). Moreover, both Europe and North America (32% and 27% of group sales respectively) recorded sequential acceleration in LfL sales growth. The two shortcomings of the report were in L'Oréal Luxe and North Asia (37% and 24% of group sales respectively) where both segments disappointed.

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OR's 2Q24/1H24 results (30th Jul) were ahead of market expectations. LfL sales growth continued to slow down to 5.3% in 2Q24 as the beauty-market contracted by some -2 to -3%, according to management. OR's LfL growth rate continued to be strong at 9.7% in Europe 2Q24 (1Q24: 12.6%; 4Q23: 11.6%; 3Q23: 16.2%). At the webcast, the CEO commented that that 'new' geographies, such as Poland and other Central European markets, are showing 'real momentum'. In other words, the CEO implied that Europe should continue to show solid growth over the next few quarters. Since OR's 1H24 report consensus sales and EBIT estimates have been broadly unchanged. The company will release the 3Q24 revenue report on 22nd Oct. We believe similar trendlines as in 2Q24 but with management highlighting the likelihood of better prospects in FY25 on the back of a recovery in consumer spending.

LVMH

LVMH (MC FP)

MC (France: -6.1% and 3.6% exposure), the world's leading luxury goods company, was the fifth weakest performer in the Portfolio in 9M24. The MC share outperformed the benchmark index in 1Q24 underpinned by solid 4Q23/FY23 sales/results (25th Jan). At that point, the US market and Asia ex-Japan (25% and 31% of group sales respectively) delivered standout performances with the US showing LfL sales growth of +8% in 4Q23 (3Q23: +2%; 2Q23: -1%) and Asia +15% in 4Q23 (3Q23: +11%; 2Q23: +34%). Investor sentiment swung for worse in 2Q24 on worry that it would take longer for consumer spending in China and other Asian economies to recover. Although MC's 1Q24 revenue statement (16th Apr) proved 'less bad than expected', which prompted a recovery in the stock price, there was still a sharp sequential deceleration in LfL sales growth in this region to +3% in 1Q24 (4Q23: +10%; 3Q23: +9%) primarily because of Asia. This trend continued to amplify in in the 2Q24/1H24 results statement (23rd Jul), which showed the company's LfL sales growth drop to only +1%. However, the MC share started to recover in Aug – possibly driven by speculation that the Paris Olympics (26th Jul to 11th Aug) would help to recover lost sales – but we believe that ultimately French political uncertainty relating to forthcoming tax-hikes has temporarily dented business prospects. Since the 1H24 set of results, consensus sales estimates for MC have been reduced by -1% to -2% while the EBIT estimates have been cut by some -4% to -5% (however we also note that the USD has depreciated by nearly 4% against the EUR over the same time). MC is due to imminently release the 3Q24 revenue statement on 15th Oct. The substantial domestic stimulus package announced by the Chinese government (26th Sep), appears to have improved the negative sentiment to the stock. MC has yet to decide on when the FY24 set of results will be released, but this is typically in late January.

European Focus Portfolio changes

The '5/10/40' UCITS rule states that: *(i)* positions over 5% cannot have an aggregate weighting which exceeds 40% and *(ii)* an individual position cannot have a weighting which exceeds 10%. As trades of less than 1% are too small to have any meaningful impact on the Fund's performance, we generally only comment on trades exceeding this level.

We made 4 changes exceeding +1% to the Portfolio in 9M24 (9M23: 6 trades) – all these changes were made in 3Q24.

- We divested **EssilorLuxottica** (from 4.2% to 0.0%) on 17th July. This holding has been a constituent of European Focus since the inception of the Fund. Our rationale for divesting this fine company is simply that of *'diworsification'*. On 17th Jul, management announced a $1.5bn (€1.4bn) takeover of US skateboard fashion-retailer, Supreme, from VF Corp (the owner of other outdoor brands, such as the NorthFace, Timberland, Vans and more). EssilorLuxottica argued that Supreme's customer base will open up a new venue for growth (*'street fashion'*) which is not yet serviced by the company, whose core expertise lies in eyewear products. To us, the acquisition makes no sense since EssilorLuxottica is by far the world's dominating eyewear and lens craft organisation with leading brand names, such as Essilor (lens crafting), RayBan and Oakley (sunglasses) as well as leading eyewear retailers, such as Sunglass Hut and LensCrafters. Against this backdrop, we strongly believe that the company is much better suited to continue to pursue excellence in the eyewear segment rather than seeking new unrelated venues for growth, such as apparel retailing. Upon hearing this piece of news, we sold the entire stake in EL (circa 4.2% of the Fund). The French part of the current business, Essilor, has been an original holding of European Focus since its inception (26th Aug-14). Essilor merged with Luxottica on 1st Oct-18. The total return of EssilorLuxottica in European Focus (including dividends reinvested) has been +173.6% vs. +92.1% of the benchmark MSCI Europe index.

- We divested **Nestlé** (from 3.6% to 0.0%) on 22nd July. Irrespective of its defensive qualities in the wake of Russia's attack on Ukraine in Feb-22, the Nestlé share has been an underperformer for some time. With hindsight, we construe that higher inflation has been the main culprit. The latest 1H24 set of results fell short of market expectations as volume growth was deemed insufficient as consumers refrained from purchasing branded food, water and petcare products given higher *'cost-of-living'* despite the company's efforts to win back market share after buyers have switched to cheaper white-label substitutes. Against this backdrop, management cut the FY24 sales guidance to 'at least 3%' (from *'approximately 4%'*), but the company maintained the underlying operating profit guidance with a *'moderate increase in the operating margin'*. Having owned Nestlé in European Focus in the past, we repurchased the share (Feb-18). From that time until the end of 2021, the stock outperformed the market (+83.2% vs. +42.0% of the benchmark). The stock started to underperform the benchmark when inflation started to increase in 2022, and management was forced to raise prices (FY22 – price component: +8.2%; volume growth: +0.1%; total organic growth +8.3%). Entering 2023, management anticipated continued price increases along with volume growth. With hindsight, price continued price increases could be implemented as consumers still had accumulated savings in the wake of the pandemic, but volume growth was weak (FY23 – price component: +7.5%; volume growth: -0.3%; total organic growth +7.5%). As the cost-of-living crisis increasingly set in and Nestlé was unable to continue to raise prices, revenue growth grinded to a halt. The 1H24 report showed that both prices and volume growth had slowed down dramatically (1H24 – price component: +2.1%; volume growth: +0.1%; total organic growth +2.2%). The total return of Nestlé in European Focus (including dividends reinvested and converted into EUR) has been +46.7% vs. +63.1% of the benchmark MSCI Europe index (and 15.2% of the MSCI European Consumer Staples index).

- We divested **Zalando** (from 2.2% to 0.0%) on 6th August after having had the stock on our disposal-list for a few months (we first invested in the company in Jun-17). ZAL's 4Q23 results (13th Mar) exceeded lowly set market expectations which prompted an extremely positive reaction by investors as management outlined a new and perhaps workable medium-term strategy during an Investor Day, which followed the formal quarterly results webcast. Since the pandemic, Zalando has failed to meaningfully accelerated LfL sales growth since the pandemic, but the company enjoys solid market shares – not only in the DACH region – but also in other European countries, according to management. Against this backdrop, Zalando's management communicated a 'tweak' to the company's strategy. The idea is that Europe is facing structural *'challenges'*, such as 40+ countries, 30+ languages, multiple currencies along with dozens of payment / delivery / return solutions. Going forward, Zalando wants to promote its leading position as an online retailer to offer Europe a *'platform'* which aims to service customers and their *lifestyles* on a uniform basis. Fashion (i.e. garments, shoes, make-up etc.) will continue to constitute the core of the company's offering but it will be complemented by *'lifestyle'* (i.e. sports, family-and-kids, entertainment and more). We find such an expansion of the business scope too wide, which in turn implies that it will be difficult to analyse the company's progress in the different areas of activity. In other words, we believe company has to some extent gone ex-growth and decided to part ways with this investment.

- We initiated a position in the British non-alcoholic beverage company, **Fevertree** (from 0.0% to 2.4% on 9th August and further to 3.6% over the following 3-4 weeks). While the company had been on our Investment Universe for about one year, we refrained from making an investment as we wanted more evidence that a profit-margin recovery management promised in 1H24 would materialise. Looking ahead, several drivers entice us with this company. *First*, Fevertree's business model is asset-light and management is focused on building up a brand name in the tonic-water and overall drink-mixer segment, where there should be room for considerable market share gains. *Secondly*, while there is essentially only one mass-producer of tonic-water, Schweppes (owned by the Coca Cola Company), it does not make sense that while gin is premiumising, consumers will stick to only by 'basic' tonic water. We consider this view to be neatly summarised in one of the past Fevertree ads: 'If your G&T is 3-for-1 make sure your 3 is a good one.' *Thirdly*, one of the most successful US investment stories in recent years outside of the technology sector is the US energy-drinks company, Monster (MNST US). Assuming that Fevertree's market share will continue to increase over time (which we expect will be the case), we believe the investment community will wake up to the fact that Monster's valuation multiples will be applicable to those of Fevertree. *Fourthly*, Fevertree is a small company in comparison with most other Portfolio holdings in European Focus (market cap of around €1.2bn). Assuming the company ever put itself up for sale (which is relatively common in the UK market), we believe there are plenty of acquirers – notwithstanding the fact that the company's has always shown a net cash position.

Christian Diebitsch, Fund Manager, Heptagon Capital

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