THE SWMC EUROPEAN FUND

All Cap Pan European Equities
Long Only UCITS Fund

July 2024 **Newsletter**

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INVESTMENT OBJECTIVE

To generate long term capital growth for investors, primarily by investing long in European equities.

FUND MANAGER
Stuart Mitchell

Stuart is the Managing Partner and CIO of S. W. Mitchell Capital.

Prior to founding the firm in 2005, Stuart was Head of Specialist Equities at JO Hambro Investment Management.

Stuart started his career at Morgan Grenfell in 1987 where he subsequently became Head of European Equities.

FUND FACTS

Fund AUM $52m

Manager AUM $853m

Dealing Daily

OCF 2.50% (B Institutional)

ISIN IE00B4LH9995 (Class EUR B)
(Other share classes available)

PERFORMANCE (EUR%)

	Fund	Index
1 Month	2.5	1.2
YTD	7.5	10.9
1 Year	6.1	13.5
3 Years	15.7	24.7
5 Years	48.2	51.2
10 Years	78.5	108.1
SI	154.2	204.1
2023	11.0	16.6
2022	(5.6)	(8.8)
2021	17.6	23.2
2020	3.2	(1.7)
2019	31.9	24.2
2018	(20.1)	(10.3)
2017	20.8	13.5
2016	(5.4)	7.6
2015	7.8	5.5
2014	(3.6)	5.0
2013	32.9	21.9
2012	15.9	16.2
2011	(3.6)	(0.2)

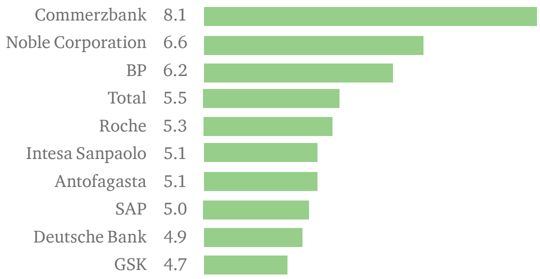
Top Five Contributors

Company	%
Roche	0.7
Commerzbank	0.5
Eurofins	0.4
Lloyds	0.4
Intesa Sanpaolo	0.4

Bottom Five Contributors

Company	%
UMG	(1.0)
BASF	(0.2)
Antofagasta	(0.2)
BP	(0.2)
Deutsche Bank	(0.1)

Top Ten Holdings



Portfolio construction

Number of positions	Top 10 positions %	Invested position %	Cash %
23	56.4	99.0	1.0

Country exposure

Country	%
United Kingdom	30.1
Germany	26.0
France	25.7
Switzerland	8.4
Italy	5.1
Netherlands	3.7

Sector exposure

Sector	%
Financials	28.2
Energy	18.0
Health Care	15.4
Materials	13.2
Information Technology	7.1
Consumer Discretionary	6.5
Industrials	3.7
Communication Services	3.7
Consumer Staples	3.2

Market capitalisation

Market cap	%
Less than €1bn	—
Less than €3bn	4.2
Less than €5bn	2.1
Less than €10bn	14.7
Less than €20bn	10.6
Less than €50bn	29.1
Less than €100bn	22.7
Greater than €100bn	15.6

Risk characteristics

Risk characteristics	
Annualised volatility %	16.1
Beta	1.1
Active share %	88.7
Tracking error %	7.5

1. All data sources: SS&C, FactSet as at 31 July 2024 unless otherwise stated. All figures shown are net of fees and expenses for the SWMC European Fund Class B EUR unless otherwise stated.
2. Index: Fund Benchmark is MSCI Europe 100% € currency hedged until 18 February 2022: since 21 February 2022 the fund has been managed on a non currency hedged basis and measured against MSCI Europe € unhedged
3. The Index is displayed purely for comparative purposes of the investable universe. As a reminder, our portfolios are built in a completely unconstrained and benchmark-agnostic manner.
4. Figures are subject to rounding.
5. Please note that all risk metrics are from inception 1 November 2011.

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European markets rose by 1% in July, boosted by generally better than expected second quarter results.

We outperformed the index over the month. The following investments performed well:

Eurofins	+19%
Roche	+16%
Soitec	+15%
Compass	+12%
Lloyds	+10%

Eurofins bounced back strongly having come under attack from the short seller Muddy Waters. An attack that was based on some of the flimsiest arguments I have seen in my thirty-five years of managing money. Management responded by confidently rebutting the various allegations made, and visited their major shareholders (including ourselves) to answer questions.

Roche also continued to perform well. You may recall that the share rose in the previous month following a well-received diagnostics capital markets day. In addition, CEO Thomas Schinecker held a number of meetings (one of which we attended) in which he suggested that the business would grow faster than most analysts expected. This was topped by a set of second quarter figures which significantly beat market estimates. Sales and earnings per share rose by 8% and 9% respectively. Management also gave some more information on their phase 1 obesity drug trial. As well as having the advantage of being orally administered, it may well have fewer side effects than the first-generation drugs from Novo and Lily.

The following among our investments, on the other hand, acted poorly in July:

UMG	-21%
BASF	-5%
Antofagasta	-4%
Deutsche Bank	-3%
BP	-3%

UMG fell sharply. Although the headline Q2 result was marginally better than we had expected (+8%) with revenues up 10%, the surprise was that streaming growth slowed down from 13% in Q1 to 7% in Q2. It seems that whilst Spotify and YouTube are performing well, Apple and Amazon are struggling. This raises again questions around 'the ability of the industry to better monetise music content'. Perhaps the view that streamed music is great value and can be priced more expensively is too optimistic. We will be revisiting the arguments very carefully in the coming weeks. But again, this is just a single quarter and it should be noted that the leader, Spotify, continues to perform well.

* * *

Since the end of the month, equity markets have come under considerable selling pressure. A number of investors have grown fearful that the US economy may be slowing, and that this will impact other economies around the world. This is, of course, not impossible, but we have never invested on the basis of economic forecasts and we have built a portfolio of world beating companies which should be able to continue to develop into even better businesses irrespective of the economic backdrop. Furthermore, our investments are minimally leveraged – their average net debt to EBITDA is just 0.8 times. This would enable them take advantage in tougher times when their weaker competitors are struggling.

Our hope is that the market turmoil will undermine confidence in the bubble companies, such as ASML and Novo, and reveal the worth of careful value investing. Commerzbank trades on under 5 times earnings, Novo comes in at a hefty 41 times. What is everyone smoking…?

Our portfolio remains compellingly valued:

	2024(e)		
	PER (x)	**Price/Book Value (x)**	**Dividend Yield (%)**
S.W. Mitchell Capital	10.7	1.2	3.7

Source: S. W. Mitchell Capital

CONTACT US

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