Monthly Newsletter Coeli European â?? August 2024

This material is marketing communication.

Note that the information below describes the share class (I SEK), which is a share class reserved for institutional investors. Investments in other share classes generally have other conditions regarding, among other things, fees, which affects the share classâ?? return. The information below regarding returns therefore differs from the returns in other share classes.

Before making any final investment decisions, please read the prospectus, its Annual Report, and the KID of the relevant Sub-Fund ***here.***

August Performance

The fundâ??s value decreased by 1.9% in August (share class I SEK), while the benchmark decreased by 1.5%. Since the change of the fundâ??s strategy at the beginning of September last year, the fundâ??s value has increased by 24.3% compared to an increase of the benchmark by 10.0%.

Performance (I SEK)		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2024	Coeli European	3,2%	-0,8%	9,6%	-1,7%	3,3%	-4,1%	8,5%	-1,9%					**16,4%**
	Benchmark	0,6%	0,5%	7,2%	0,8%	2,2%	-3,6%	5,3%	-1,5%					**11,6%**
2023	Coeli European									-8,5%	-1,6%	11,4%	6,3%	**6,8%**
	Benchmark									-5,9%	-3,0%	4,7%	3,1%	**-1,5%**

AEE (I SEK)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2023	5,2%	1,6%	-8,2%	3,4%	1,6%	-1,4%	4,9%*	-4,4%**					**1,9%***
2022	-11,5%	-6,0%	2,7%	-0,9%	-6,6%	-6,9%	6,3%	-5,5%	-7,5%	1,1%	2,9%	-1,7%	**-30,1%**
2021	0,0%	4,2%	3,8%	8,3%	0,2%	3,0%	5,9%	0,0%	-5,1%	4,7%	-4,3%	0,4%	**22,3%**
2020	3,2%	-5,7%	-13,3%	8,9%	3,5%	4,3%	4,5%	3,6%	2,2%	-5,5%	11,6%	10,1%	**27,5%**
2019	7,2%	4,5%	1,5%	-0,5%	0,1%	-0,9%	1,2%	-4,7%	1,4%	1,6%	3,7%	2,4%	**18,3%**
2018	1,4%	-4,0%	-0,2%	3,2%	1,7%	-1,4%	5,8%	1,9%	0,4%	-8,1%	0,3%	-2,1%	**-1,9%**

* Adjusted for spin-off of Rejuveron

** Includes September 1 (strategy change to long-only implemented September 4)

Source: Coeli European

*** Adjusted for spin-off of Rejuveron**

**** Includes September 1 (strategy change to long-only implemented September 4 2023)**

Past performance is not a guarantee of future returns. The price of the investment may go up or down and an investor may not get back the amount originally invested.

Equity Markets / Macro Enviroment

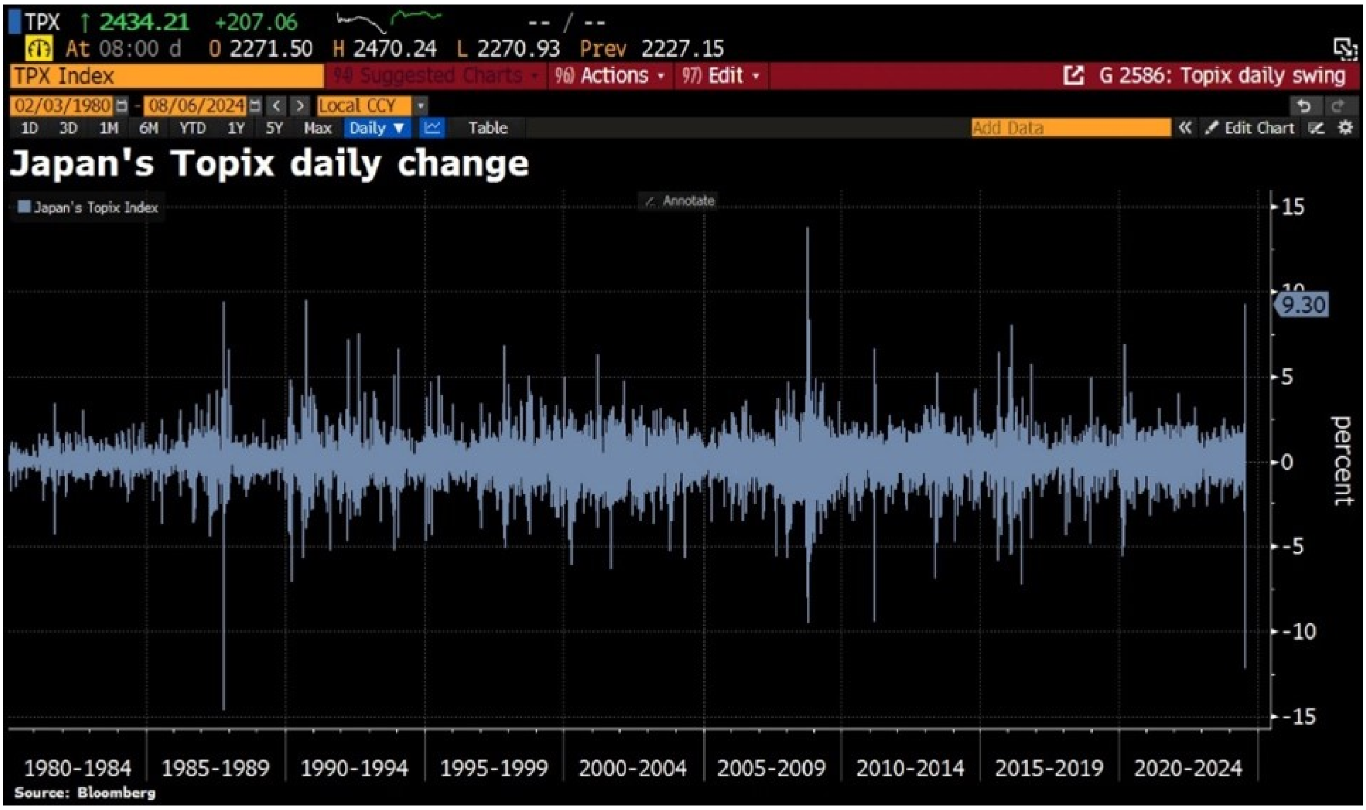
The fund fell by 1.9% compared to the benchmark index which fell by 1.5%. The corresponding figures for the whole year are 16.4 and 11.6% respectively. The fundâ??s best contributors were Scandic Hotels, the London Stock Exchange and SLP. LVMH also contributed meaningfully as we increased our position from depressed levels and the stock closed 12% higher at month-end. The worst contributors were Commerzbank, Syensqo and 4imprint.

The weakening of the Swedish krona last month reversed to a strengthening of two percent and thus affected the fundâ??s return negatively. The strengthening of the krona is positive, and it should continue as the focus shifts to fundamental data and a continued increased risk appetite. We are looking forward to being able to cross over to Copenhagen without having to call the bank.

It was, to put it mildly, an unusual month where the opening offered historic declines that were then followed by almost equally historic climbs. At the end of the month, the market was broadly unchanged.

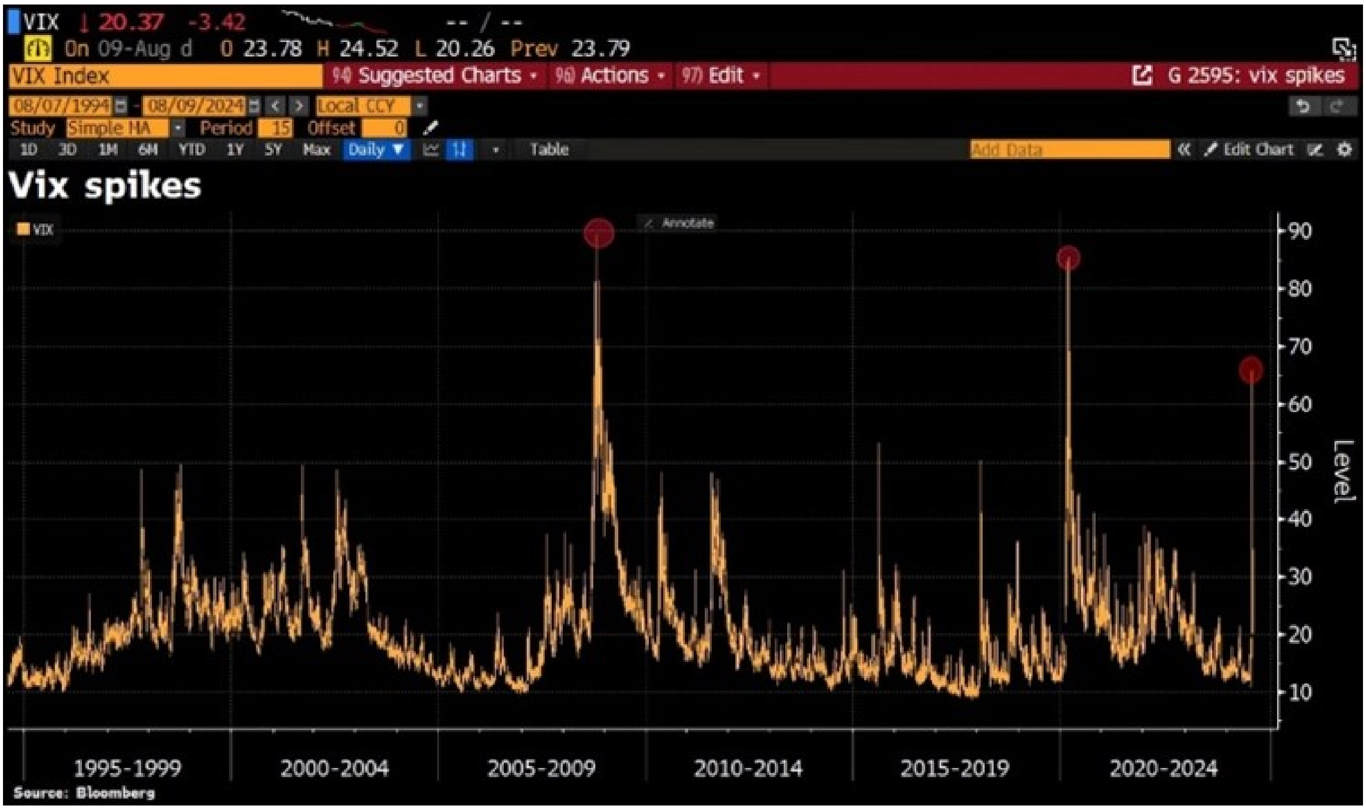
Not one of the proudest periods in the history of the financial industry. One personally had to endure criticism at home when returning from work in the evenings, as it was questioned what oneself and everyone else in the financial industry were up to during the days.

On Monday, August 5, the Nikkei index plunged 12.4%, the biggest drop since the October crash of 1987. That led to large and broad declines of 7-10% worldwide before slowing down. We have yet to hear a reasonable explanation for how this could happen. We took it easy, traded carefully and continued with our company analysis.



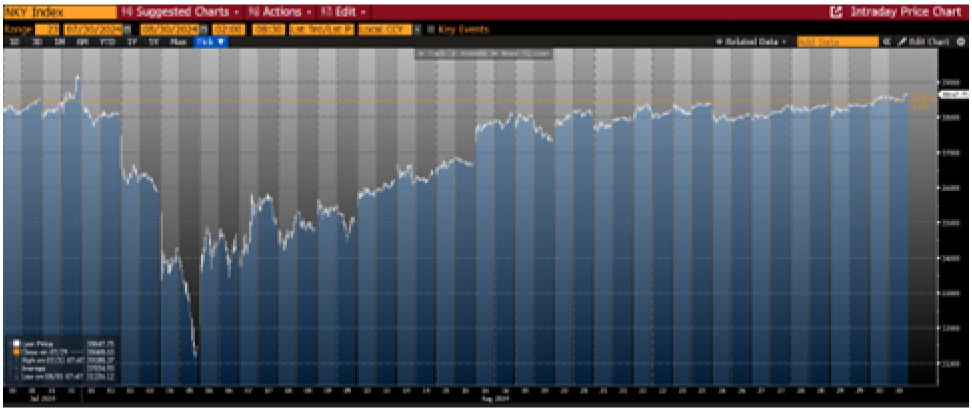
Source: Bloomberg

The volatility index, VIX, showed the highest level since the financial crisis of 2008 and the Covid crash of 2020. How is that possible? Because the Bank of Japan raises interest rates by 25 basis points? Our guess is that passive capital and various CTAs were strong contributors to these movements. You buy all the way to the top, turn around and then sell. In mid-August, according to statistics from Goldman Sachs, they came back in force and bought again. The question that arises, who invests in these funds?



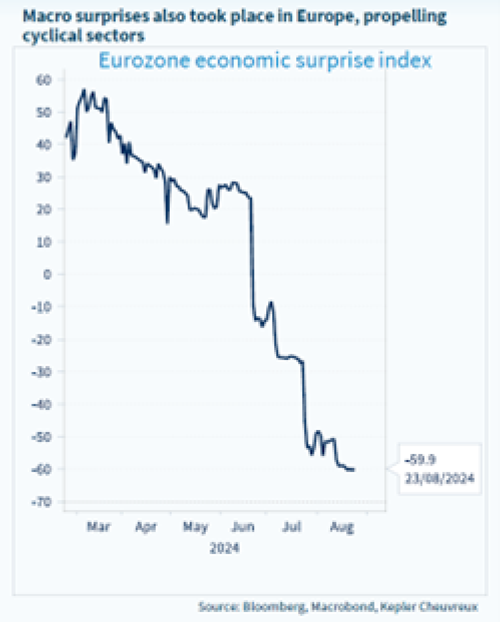
Source: Bloomberg

After the crash on August 5th, the Nikkei index rose by 24% and thus the entire decline was recovered.



Source: Bloomberg

The European economies continue to show unchanged low activity with modest growth figures at best. Expectations of an acceleration have not been met in recent months. If one is to pick out something positive about it, it is that inflation is now down to around target levels and that interest rate cuts will, with a very high probability, continue in the autumn.



Source: Bloomberg, Macrobond, Kepler Cheuvreux

At the end of the month, Germany announced inflation data at low levels. The same was also reported for the Eurozone and the USA. Very good.

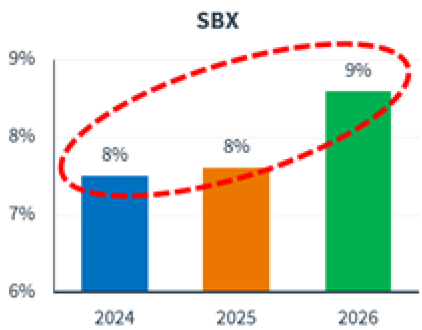
Source: Bloomberg

The US has also surprised negatively in recent months, from high levels, with a somewhat slowing economy. Note the correlation with a two-year interest rate that has plummeted since last spring.

Source: Bloomberg, Macrobond, Kepler Chevreux

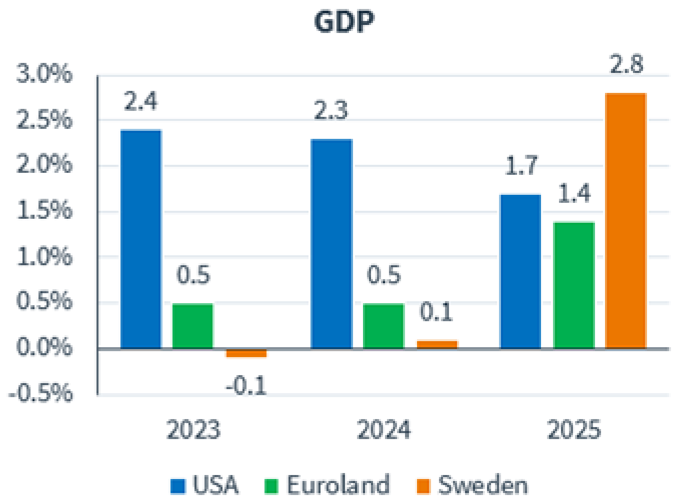
The Fed was clear in its communication from Jackson Hole on August 23rd: â??The time has come for policy to adjust. The direction of travel is clearâ?•. In principle, it feels like a forgone conclusion that the Fed will announce its first interest rate cut in September. That message was appreciated by the stock market, and on that day the Nasdaq rose by 1.5% while the Russell2000 rose by a whopping 3.2%. As we have mentioned many times before, small-caps is the asset class within equities that are most sensitive to interest rate changes and we are expecting several interest rate cuts.

Interest rate cuts in combination with the below expected profit growth is a powerful cocktail to drive stock market development in the next two years. SBX is a broad Swedish index and the corresponding profit growth for Europe is 6, 8 and 9%, which gives 25% in three years.



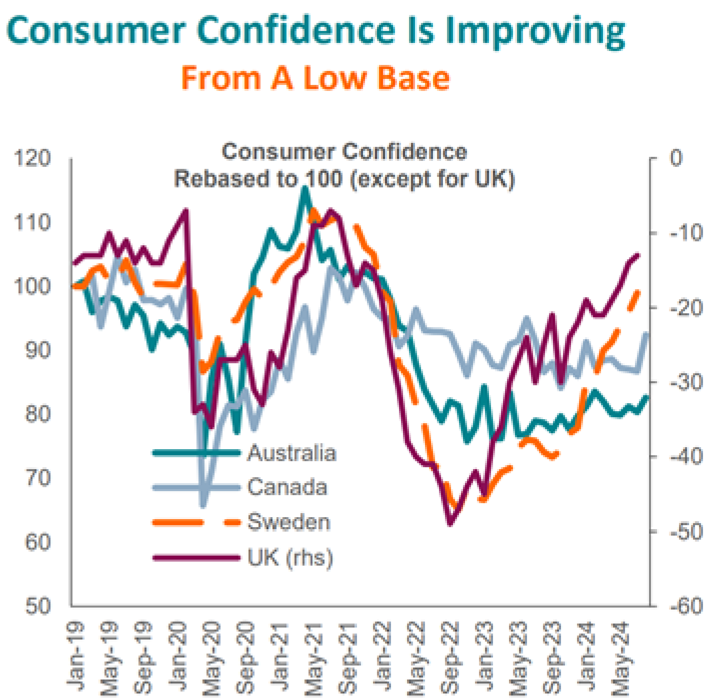
Source: Kepler Chevreux

Next yearâ??s expected GDP growth looks good, and Sweden is likely to be among the winners.



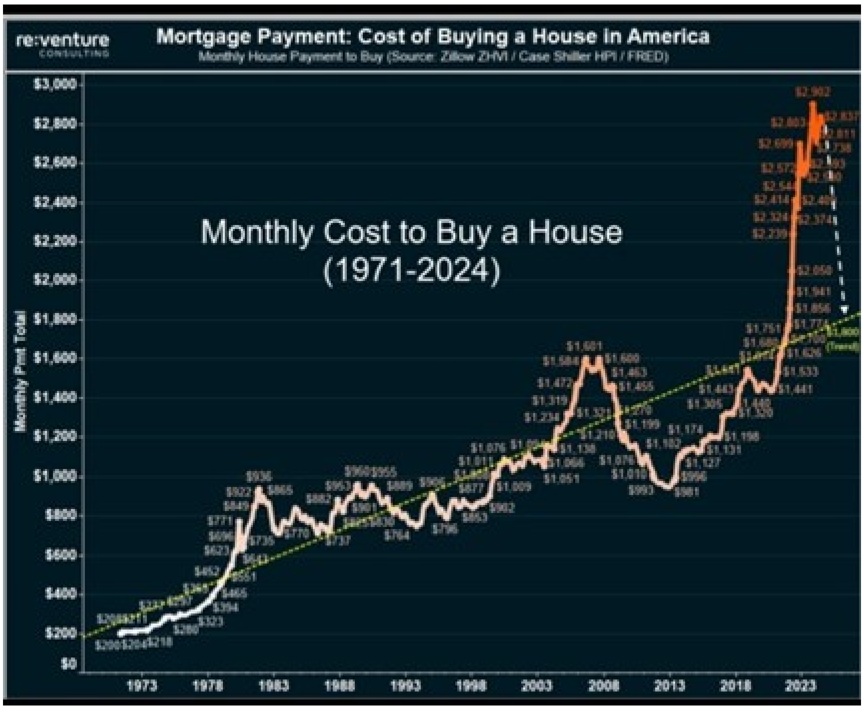
Source: Kepler Chevreux

GDP growth is driven, among other things, by increased consumer activity. From deep lows, consumers are now waking up. The change will be most noticeable in Sweden, where there are large loans at variable rates. Satisfied consumers are an important component of a strong stock market.



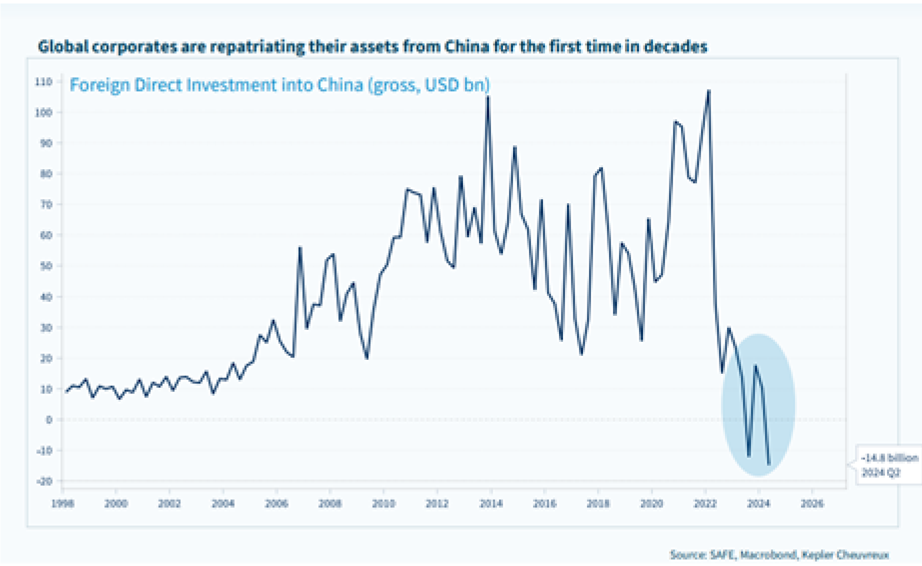
Source: BNP Paribas

Even hard-pressed American homebuyers are expected to face a brighter future.



Source: Zillow ZHVI/Case Shiller HP / FRED, Win Smart

In China, however, most things are still pitch black. There are many reasons why foreign capital is fleeing the country. Europe is affected more than the USA and Germany is the country in Europe that is most affected.



Source: SAFE, Macrobond, Kepler Chevreux

Finally, the worldâ??s most important company, Nvidia, released its quarterly results at the end of the month. They once again showed absolutely unparalleled numbers which were followed closely by anyone with any interest in stocks. It feels a bit bubbly when people gather at sports bars and follow the reporting. https://x.com/SoundDobad/status/1828915502158360765

In a survey of roughly 3,000 employees at Nvidia, 37% stated that they now have more than $20 million in assets. Nvidia has created enormous value for many.

Source: X

Source: SHENEMAN

Portfolio Companies

Carel Industries

As previously mentioned, Carel has been one of the fundâ??s weaker stocks this year. Possibly (and hopefully) this monthâ??s Q2 report marks a bottom. Even though the operating profit was around five percent worse than expected, the share rose on the day of the report. We guess that the report reaction reflects already low expectations. In addition, the companyâ??s management sounds more hopeful about the future as they begin to see signs that the market is improving in the important refrigeration segment.

The main problem this year has been that Carel was hit by the sharp reduction in the heat pump market. Although this market only makes up around 10â??15% of sales, the impact has been significant as the area lost more than half (!) of its sales in the first half of 2024. Carel, which is a subcontractor to heat pump manufacturers, is not only affected by low demand from the end customer but also because the heat pump producers have large stock supplies. Over time, this should normalize and during the second half of the year, Carel will see simpler comparison quarters.

In the long term, our thesis is that Carel should be a company that can grow with high single-digit numbers, which combined with expanding margins and additional acquisitions gives double-digit growth in earnings per share. The stock rose by 5% in August and has fallen by 28% in 2024.

Accelleron

As we wrote in the previous monthly newsletter, Accelleron came up with a reverse profit warning in July. The principal figures for the first half of the year were thus known and we did not think there would be much drama in conjunction with the release of the report. Having said that, we note some incremental positives from the August 27th report release: The companyâ??s acquisition from last year of Italian fuel injector company, OMT, appears to be progressing very well. We also note that non-recurring costs related to the companyâ??s spin-off fell as guided. Finally, Accelleronâ??s China exposure appears to be lower than we previously thought, which we think is positive.

Accelleron shares rose 2% in August and have thus risen 69% for 2024.

4imprint

The monthâ??s largest negative contributor was British 4imprint, even though the companyâ??s half-year report was 9% better than expectations in terms of operating profit. Management also mentioned that they believed it would meet analystsâ?? estimates for the full year. At the same time, it was flagged that the American market for gift advertising had softened. Previously, it was believed that growth would be higher in the second half of the year, but the new stance is that it is expected to grow roughly as in the first half of the year.

With worse macroeconomic data, 4imprintâ??s sales tend to be negatively affected, and during August we saw just that. Historically, 4imprint has taken market shares when the market has softened. The reason for that is that the company tend to maintain a high marketing intensity as well as all staff. This means that once the market returns to growth, 4imprint is stronger than its competitors, which in turn leads to market share gains. On our estimates and with a large net cash position, the stock is trading at EV/EBIT 11x and 10x for 2025e-2026e, which we think is attractive given the growth and yield.

The 4imprint share fell by 14% in August and has thus risen by 15% for 2024.

Scandic

Scandic was the fundâ??s best performing stock during August with an increase of 5.5%. During the summer, basically all major convertible owners were redeemed early. At the same time, short selling has decreased from roughly 20% at the end of May, to todayâ??s 5%. In addition to this, the Norwegian real estate company, Eiendomsspar, has been flagged as the largest owner. We assume that

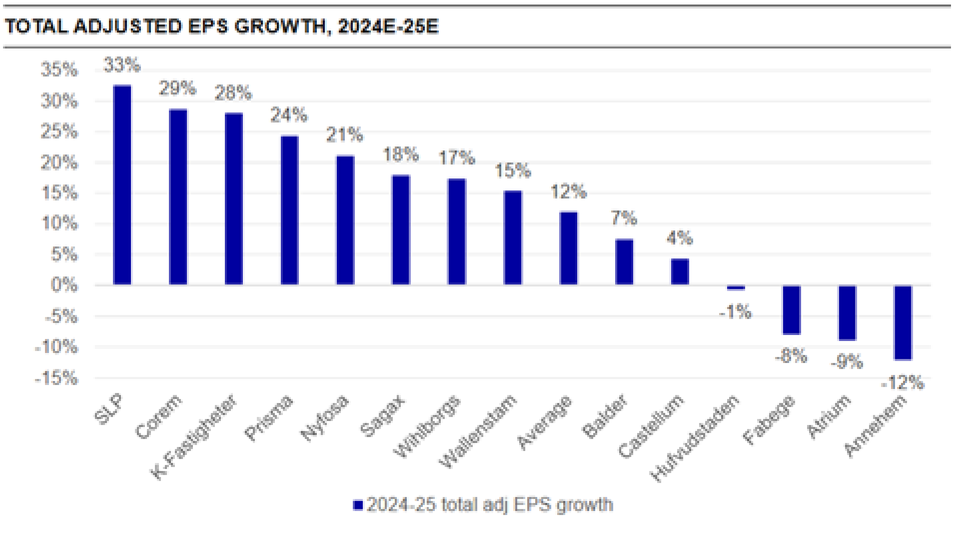
Eiendomsspar has a good grasp of the market as they are also the Chairman and largest owner of Pandox. At the end of 2023, Scandic accounted for 36% of Pandoxâ??s hotel properties. Scandic trades at a low 7x and barely 6x EV/EBIT for 2025e and 2026e respectively.

Syensqo

We chose, in August, to sell our shares in Syensqo. The company is a spin-off from the Belgian chemical company Solvay. The stock trades at P/E ~10 at 2026e, which is a 30-35% discount to similar companies. Part of the case has been that the company should continue its refinement towards specialty chemicals, which should close the valuation gap. It also makes significant investments for future growth. In connection with their quarterly report, which showed a slightly lower profit than expected, some of these plans were put on hold due to a worse market outlook. Despite an attractive valuation, we judged the headwind to be too great for the stock to be a future winner. The share fell by 9% in August, but we continue to monitor the development.

SLP/Corem/Balder

Our property shares SLP, Corem and Balder were together the best contributors of the fund during August. We attach a picture from Nordea, where SLP and Corem are at the top in terms of next yearâ??s average profit growth. If the Riksbankâ??s (Swedish Central Bank) interest rate path takes effect, our guess is that the figures below will be even better. We still retain a high proportion, around 10%, of real estate in the portfolio.



Source: Company data and Nordea estimates

Summary

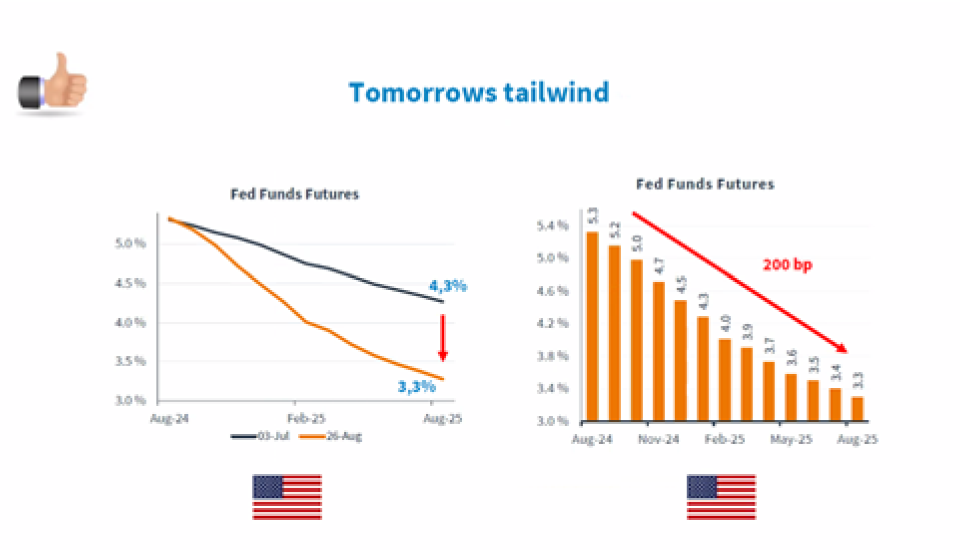
American small-caps, despite good conditions, recently ended their worst half-year ever compared to the S&P500. It is highly remarkable and is likely due to a unique time for large technology companies combined with the fact that the proportion of passive capital has increased significantly in recent years. Reasonably, risk/reward should be excellent from here.

Source: Bloomberg

The development of European companies in recent years is reminiscent of the American ones. Since the downturn began in early 2022, European small-caps (white line) have fallen 11% compared to the broad European index (red line) which rose 8%.

Source: Bloomberg

In just one month, expectations of where the Fedâ??s key interest rate will be in a year have dropped from 4.3% to 3.3%. This means that the interest rate over the next 12 months is expected to drop by as much as 200 basis points. Thatâ??s a huge change and is high-octane fuel for many asset classes, including equities, where small-caps have historically benefited the most.



Source: Kepler Chevreux

In addition, European small companies are expected to report profit growth of 17, 13 and 18% for 2024-2026e respectively. That gives a valuation of around 11x and 10x for 2025e and 2026e. Thatâ??s 56% profit growth in three years and more than double compared to the broad market. What more could you ask for? The future looks unusually bright.

MSCI Europe Smallcap Euro Real Time Index

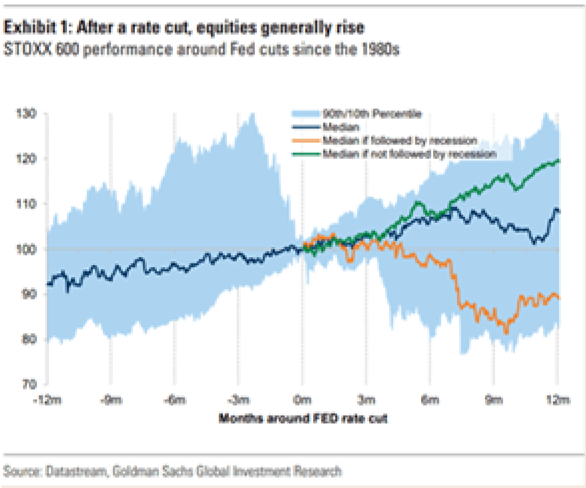
Periodicity A Flavor F12 View Growth Currency EUR

Measure	Actual	F12 Est	Growth	Y+1 Est	Growth	Y+2 Est	Growth
1) Earnings Per Share	28.20	32.88	16.61%	37.07	12.72%	43.63	17.71%
2) EPS before XO, Positive	28.91	32.49	12.39%	37.47	15.35%	40.77	8.79%
3) Cash Flow Per Share	141.38	102.11	-27.78%	68.52	-32.89%	-244998.95	0.00%
4) Dividends Per Share	13.97	17.08	22.30%	17.97	5.18%	22.29	24.07%
5) Book Value Per Share	263.28	291.52	10.73%	304.97	4.61%	331.66	8.75%
6) Sales Per Share	443.38	468.49	5.66%	486.89	3.93%	517.81	6.35%
7) EBITDA Per Share	59.30	74.15	25.03%	81.23	9.54%	87.77	8.05%
8) Long Term Growth	0.00	0.00	0.00%	0.00	0.00%	0.00	0.00%
9) Net Debt Per Share	137.29	118.05	-14.01%	109.16	-7.53%	97.52	-10.67%
10) Enterprise Value Per Share	563.69	544.10	-3.47%	535.21	-1.63%	523.57	-2.18%

Valuation Measure	Actual	F12 Est	Y+1 Est	Y+2 Est
11) Price/EPS	15.11	12.96	11.49	9.76
12) Price/EPS before XO, Positive	14.74	13.11	11.37	10.45
13) Price/Cash Flow	3.01	4.17	6.22	0.00
14) Dividend Yield	3.25	4.01	4.22	5.23
15) Price/Book	1.62	1.46	1.40	1.28
16) Price/Sales	0.96	0.91	0.88	0.82
17) Price/EBITDA	7.18	5.75	5.25	4.85
18) EV/EBITDA	9.29	7.34	6.59	5.97
19) Net Debt/EBITDA	2.32	1.59	1.34	1.11

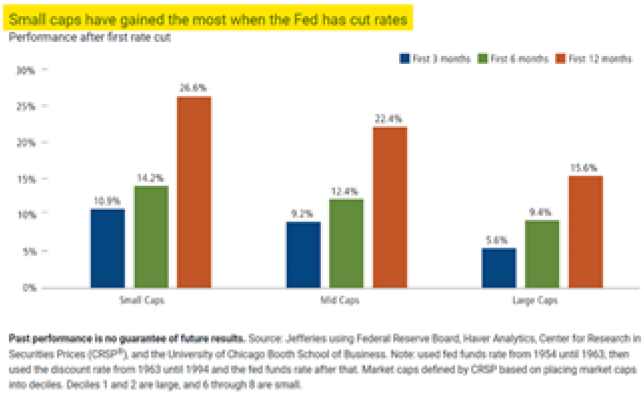
Source: Bloomberg

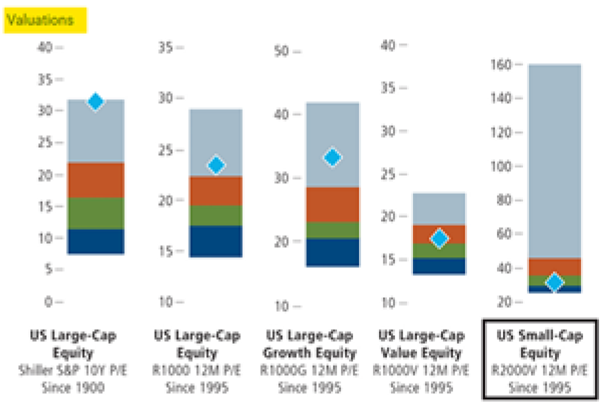
Below the performance of the broad European index after the Fed cut interest rates (data since 1980). The green line shows that the median development 12 months later yields 20% assuming the economy does not enter a recession. If there is a recession at the same time, the corresponding development is -12%. Our long-term view is that there will not be a recession.



Source: Datastream, Goldman Sachs Investment Research

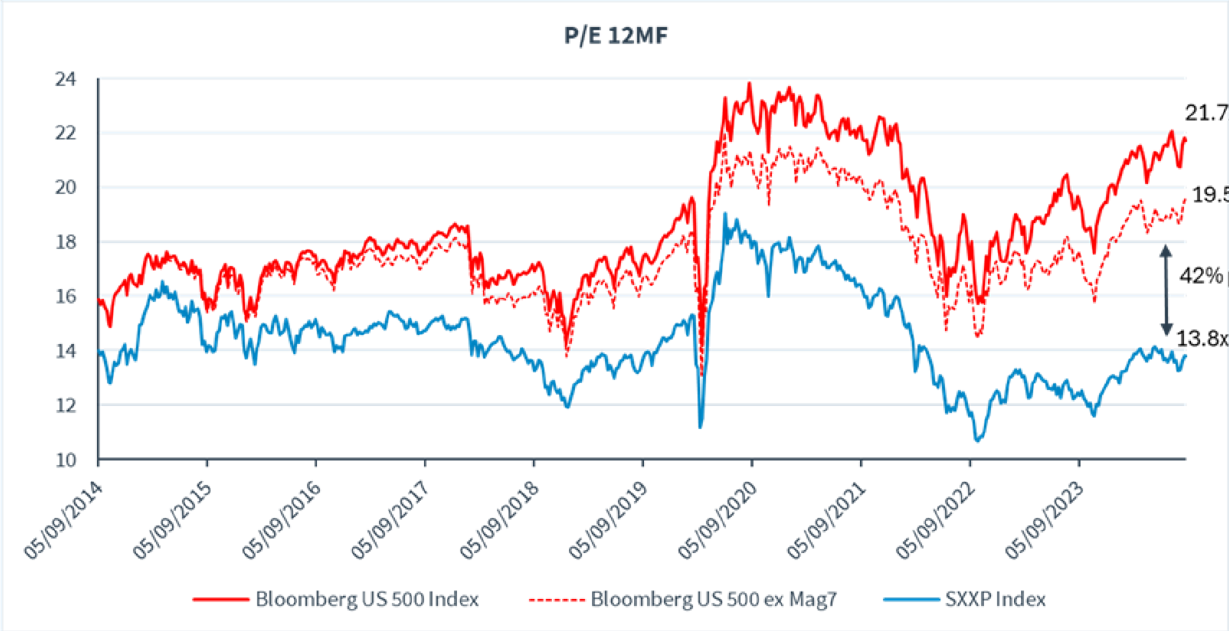
For smaller companies, the development is even better. See the image below. Also note the valuation in the lower image. After all, you must play the ball where it lies and now it feels a bit like it lies, for small companies, on the penalty mark. Now the ball just needs to go into the goal as well.





Source: Jefferies

Current valuation of Europe compared to the USA. Even adjusted for the Magnificent 7, the premium is currently 42% which is record levels.



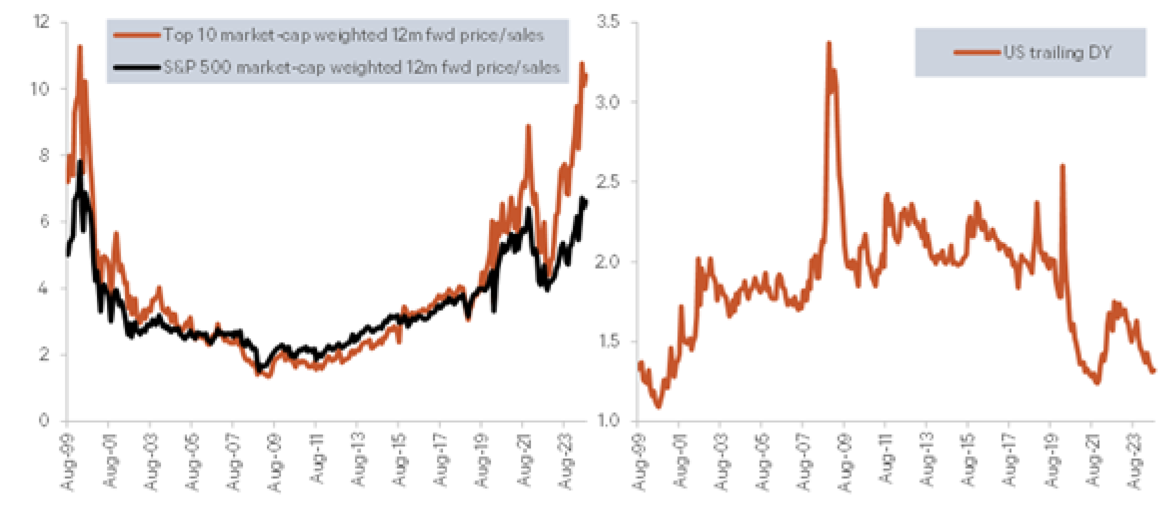
Source: Kepler Chevreux

Below illustrates how European SMIDs (small and medium-sized companies) have developed relative to large companies since 1995. After a strong July, SMIDs were again relatively weaker in August.

Source: Kepler Chevreux

Below is the valuation of the US stock market measured as P/S and dividend yield. It is now back at previous high levels from 1999. However, the quality of the companies in the index is much, much better today than then.

Chart 1: US valuations – 12-month forward price sales (lhs) and trailing dividend yield (rhs)

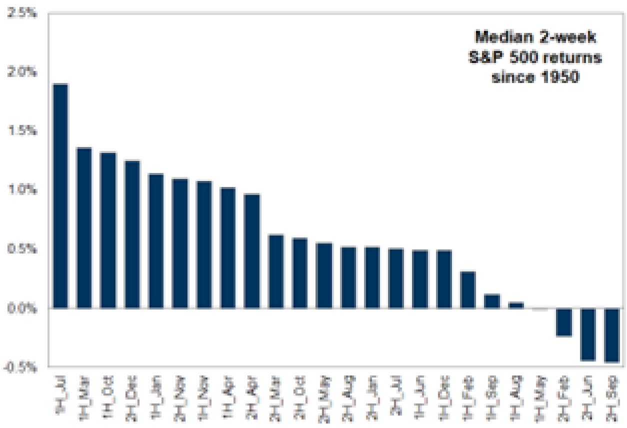


Source: Berenberg research, Elkon

All in all, our view is that we have the best financial conditions in many years. The big worry is still the geopolitical situation. But if we allow ourselves to exclude that and just focus on the economic fundamentals here and now, our best estimate is that we have two more good years ahead of us. There will also be large discrepancies between companies and sectors. A good environment for stock pickers, like us.

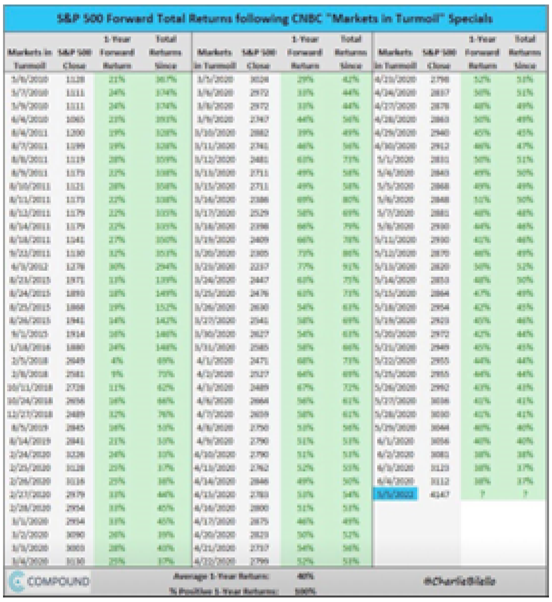
We are now rolling into September, which almost always offers volatility. Maybe we got it already in August? We feel that we have a balanced portfolio that works both in ups and downs scenarios. Our excess returns have come from individual stock picks and our concentrated portfolio. We believe that will continue to be the case.

Below shows two weeks of returns of the US stock market since 1950. We also have a turbulent US election ahead of us, but then the winter season approaches, which is usually a strong period and which, this time, is likely to be accompanied by interest rate cuts from most of the worldâ??s central banks.



Source: Goldman Sachs

We end with an entertaining image that shows the one year forward return following the CNBCs â??Markets in Turmoilâ?• reporting where dramatic music always makes it sound like doomsday has arrived.



S&P 500 Forward Total Returns following CNBC "Markets in Turmoil" Specials

Markets in Turmoil	S&P 500 Close	1-Year Forward Return	Total Returns Since	Markets in Turmoil	S&P 500 Close	1-Year Forward Return	Total Returns Since	Markets in Turmoil	S&P 500 Close	1-Year Forward Return	Total Returns Since
5/6/2010	1128	21%	367%	3/5/2020	3024	29%	42%	4/23/2020	2798	52%	53%
5/7/2010	1111	24%	374%	3/6/2020	2972	33%	44%	4/24/2020	2837	50%	51%
5/9/2010	1111	24%	374%	3/8/2020	2972	33%	44%	4/27/2020	2878	48%	49%
6/4/2010	1065	23%	393%	3/9/2020	2747	44%	56%	4/28/2020	2863	50%	49%
8/4/2011	1200	19%	328%	3/10/2020	2882	39%	49%	4/29/2020	2940	45%	45%
8/7/2011	1199	19%	328%	3/11/2020	2741	46%	56%	4/30/2020	2912	46%	47%
8/8/2011	1119	28%	359%	3/12/2020	2481	63%	73%	5/1/2020	2831	50%	51%
8/9/2011	1175	22%	338%	3/13/2020	2711	49%	58%	5/4/2020	2843	49%	50%
8/10/2011	1121	28%	358%	3/15/2020	2711	49%	58%	5/5/2020	2868	49%	49%
8/11/2011	1173	22%	338%	3/16/2020	2386	69%	80%	5/6/2020	2848	51%	50%
8/12/2011	1179	22%	335%	3/17/2020	2529	58%	69%	5/7/2020	2881	48%	48%
8/14/2011	1179	22%	335%	3/18/2020	2398	66%	79%	5/8/2020	2930	44%	46%
8/18/2011	1141	27%	350%	3/19/2020	2409	66%	78%	5/11/2020	2930	41%	46%
9/22/2011	1130	32%	353%	3/20/2020	2305	73%	86%	5/12/2020	2870	48%	49%
6/3/2012	1278	30%	294%	3/23/2020	2237	77%	91%	5/13/2020	2820	50%	52%
8/21/2015	1971	13%	139%	3/24/2020	2447	63%	75%	5/14/2020	2853	48%	50%
8/24/2015	1893	18%	149%	3/25/2020	2476	63%	73%	5/15/2020	2864	47%	49%
8/25/2015	1868	19%	152%	3/26/2020	2630	54%	63%	5/18/2020	2954	42%	45%
8/26/2015	1941	14%	142%	3/27/2020	2541	58%	69%	5/19/2020	2923	45%	46%
9/1/2015	1914	16%	146%	3/30/2020	2627	54%	63%	5/20/2020	2972	42%	44%
1/18/2016	1880	24%	148%	3/31/2020	2585	58%	66%	5/21/2020	2949	45%	45%
2/5/2018	2649	4%	69%	4/1/2020	2471	68%	73%	5/22/2020	2955	44%	44%
2/8/2018	2581	9%	73%	4/2/2020	2527	64%	69%	5/25/2020	2955	44%	44%
10/11/2018	2728	11%	62%	4/3/2020	2489	67%	72%	5/26/2020	2992	43%	43%
10/24/2018	2656	16%	66%	4/6/2020	2664	56%	61%	5/27/2020	3036	41%	41%
12/27/2018	2489	32%	76%	4/7/2020	2659	58%	61%	5/28/2020	3030	41%	41%
8/5/2019	2845	16%	53%	4/8/2020	2750	53%	56%	5/29/2020	3044	40%	40%
8/14/2019	2841	21%	53%	4/9/2020	2790	51%	53%	6/1/2020	3056	40%	40%
2/24/2020	3226	24%	33%	4/10/2020	2790	51%	53%	6/2/2020	3081	38%	38%
2/25/2020	3128	25%	37%	4/13/2020	2762	52%	55%	6/3/2020	3123	38%	37%
2/26/2020	3116	25%	38%	4/14/2020	2846	49%	50%	6/4/2020	3112	38%	37%
2/27/2020	2979	33%	44%	4/15/2020	2783	53%	54%	5/5/2022	4147	?	?
2/28/2020	2954	33%	45%	4/16/2020	2800	51%	53%				
3/1/2020	2954	33%	45%	4/17/2020	2875	46%	49%				
3/2/2020	3090	26%	39%	4/20/2020	2823	50%	52%				
3/3/2020	3003	28%	40%	4/21/2020	2737	54%	56%				
3/4/2020	3130	25%	37%	4/22/2020	2799	52%	53%				

Average 1-Year Return: 40%
% Positive 1-Year Returns: 100%

Source: CharlieBiello

Thank you for your interest and continue to enjoy the wonderful summer!

Mikael & Team

MalmÃ¶, September 4th 2024
Date Created
2024/09/04