+++Fidecum press release at the start of the year 2023+++

Contrarian Value Euroland Fund rated number 1 "Eurozone Equities" fund

With a performance of plus 2.8 percent in 2022 the Contrarian Value Euroland fund (ISIN: LU0370217092 WKN: A0Q4S6) was the best fund in the category "Equities Eurozone" and was therefore awarded with the Fund Award 2023 by German financial magazines „Euro", „Euro am Sonntag" and „BörseOnline". In a three-year comparison the fund is in second place.
Compared to its benchmark (EuroStoxx Return Index, ISIN: EU0009658194) the fund outperformed by 14.8 percent last year. Hence, the fund has won again the FundAward for the second year in a row.
We asked Hans Peter Schupp, CEO of FIDECUM AG and portfolio manager of the fund to explain how the fund achieved this remarkable outperformance.

"The interest rate turnaround will continue to boost value stocks this year"

Mr. Schupp, you have achieved an extraordinary feat with the Contrarian Value Euroland fund. It was not only the number 1 fund in "Equities Eurozone" but you were also one of the few pure equity funds to generate a positive return for investors. What was the reason for that?

Hans Peter Schupp: To put it very simply, interest rates are back! On the one hand, the turnaround in interest rates or the pickup in inflation had an effect. 15 years of underperformance of value investments due to continuously falling interest rates and finally a zero or negative interest rate policy have had a negative impact. In the past, central banks had only set the money market interest rate depending on economic expectations. This changed with the central banks' purchase programs. The capital market interest rate was also kept artificially low. Low interest rates favor growth stocks because future profits are hardly discounted anymore. Secondly, we invested early on in energy and financial stocks, which benefited from the market environment last year in particular. Even before that, we had focused our portfolio on companies with robust balance sheets. Particularly in the case of family-run companies, buying opportunities had already presented themselves during the pandemic. In this way, we increased the average balance sheet quality in the portfolio, while at the same time investing in moderately valued companies.

Keyword inflation. How do you see further developments?

Hans Peter Schupp: In our opinion, the inflationary spiral has only just begun. For example, minimum wages in Germany have risen by 25 percent. In order to maintain the gap to the minimum wage, trade unions will have to fight for massive wage increases. In addition, globalization has been one of the main factors behind the low price increases. Companies have relocated business activities to countries with cheaper wages or even outsourced them to other companies in low-wage countries. Now these corporations have realized that this could convert into a boomerang.

What consequences do you see in this development?

Due to outsourcing, many companies have had problems with the timely delivery of preliminary products, which has led to significant disruptions in production processes. I do not believe that these companies will continue to intensify their outsourcing; on the contrary, they will reverse it and tend to rely on precursors that are produced geographically closer and are thus within their sphere of influence. Both of these factors will lead to an increase in costs in favor of supply security. We therefore do not expect inflation to be a temporary phenomenon.

In your fund, you focus on companies with low valuations. What exactly do you look out for?

Hans Peter Schupp: Actually, there are only two reasons to invest in a company. Either the break-up value or the value of future discounted earnings is higher than the current market value. In our approach, we assume that we theoretically own the company, and as an owner you have two options. The first option is to close the company, sell the asset side of the balance sheet and service the debt. If the surplus is higher than the investment, it is "fast earned" money. However, this only makes sense for holding companies whose business units have no synergies, such as the Siemens spin-offs. The second reason to buy a company is to assume that the present value of future profits is higher than the current market value. However, we do not follow the standard valuation models. We reject the models that forecast profits for the next three years and then assume an increase into perpetuity. These models could explain everything. But only a small change in the profit increase or in the discount factor lead to massive changes in the company's value and therefore carry a certain risk of manipulation. In contrast, we look at what a company has generated in the past and consider whether the historical operating margins can still be achieved today. From this, we calculate the profits that a company can generate in the medium term. By the way, this is nothing other than what Benjamin Graham suggested back in 1949.

Do you have examples of such investments in your fund?

Hans Peter Schupp: Yes, as many as you like. Salzgitter currently has a price/earnings ratio of 1.7, which means that 60 percent of the investment sum is covered by current profits alone. The French company Quadient, which is active in the field of mail processing systems, also has a P/E ratio of less than 6. It gets even more exciting when you look at the enterprise value. Italian steel mill equipment supplier Danieli has net cash greater than its market capitalization. And that's with a P/E ratio of 8.

How would you summarize your fund?

Hans Peter Schupp: Our fund is invested in so-called deep value companies. Stock selection is always based on bottom-up criteria. We are currently overweight in financials and energy stocks as well as basic materials and cyclical consumer stocks. There is also a high weighting in industrial companies. Overall, 22 of the 32 stocks in the fund have a price-to-book ratio of less than 1. We feel very comfortable with this.

Mr. Schupp, thank you very much for the interview.