Vitruvius European Equity
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VITRUVIUS SICAV

Quarterly Report

Q3 2022

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Fund	Q3 2022	YTD 2022
Vitruvius European Equity (B-EUR)	**-1.5%**	**-14.9%**
Vitruvius European Equity (B-USD)	-0.8%	-13.5%
Vitruvius European Equity (BI -EUR)	-1.4%	-14.6%
Vitruvius European Equity (BI -USD)	-0.6%	-13.2%
MSCI Europe Net Total Return (EUR)	*-4.1%*	*-17.4%*
Vitruvius Japanese Equity (B-JPY) *	**-1.7%**	**-12.6%**
Vitruvius Japanese Equity (B-EUR)	-1.6%	-13.2%
Vitruvius Japanese Equity (B-USD)	-1.0%	-12.0%
Vitruvius Japanese Equity (BI-JPY)	-1.6%	-12.2%
Vitruvius Japanese Equity (BI-EUR)	-1.5%	-12.9%
Vitruvius Japanese Equity (BI-USD)	-0.8%	-11.6%
Topix TR Index (JPY)	*-0.8%*	*-5.5%*
Vitruvius US Equity (B-USD)	**-6.4%**	**-29.9%**
Vitruvius US Equity (B-EUR)	-7.3%	-31.5%
Vitruvius US Equity (BI-USD)	-6.3%	-29.6%
Vitruvius US Equity (BI-EUR)	-7.2%	-31.2%
S&P 500 Net Total Return Index (USD)	*-5.0%*	*-24.1%*
Vitruvius Growth Opportunities (B-USD)	**-8.9%**	**-39.6%**
Vitruvius Growth Opportunities (B-EUR)	-9.7%	-40.9%
Vitruvius Growth Opportunities (BI-USD)	-8.8%	-39.3%
Vitruvius Growth Opportunities (BI-EUR)	-9.6%	-40.7%
S&P North American Technology Index TR (USD)	*-6.4%*	*-36.4%*
Vitruvius Greater China Equity (B-USD)	**-20.0%**	**-28.3%**
Vitruvius Greater China Equity (B-EUR)	-20.7%	-29.9%
Vitruvius Greater China Equity (BI-USD)	-19.9%	-28.0%
Vitruvius Greater China Equity (BI-EUR)	-20.6%	-29.6%
MSCI China Net TR (USD)	*-22.5%*	*-31.2%*
Vitruvius Asian Equity (B-USD) *	**-10.0%**	**-28.4%**
Vitruvius Asian Equity (B-EUR)	-10.8%	-29.8%
Vitruvius Asian Equity (BI-USD)	-9.9%	-28.1%
Vitruvius Asian Equity (BI-EUR)	-10.7%	-29.5%
MSCI Asia Pacific TR (USD)	*-11.2%*	*-26.1%*
Vitruvius Swiss Equity (B-CHF) *	**-3.4%**	**-23.5%**
Vitruvius Swiss Equity (BI-CHF)	-3.3%	-23.2%
Vitruvius Swiss Equity (BI-EUR)	-3.3%	-23.6%
SPI Index	*-4.8%*	*-19.9%*
Vitruvius UCITS Selection (B-EUR)	**-6.2%**	**-26.6%**
Vitruvius UCITS Selection (B-USD)	-5.5%	-25.3%
Vitruvius UCITS Selection (BI-EUR)	-6.1%	-26.3%
Vitruvius UCITS Selection (BI-USD)	-5.4%	-24.9%
Reference Index [1]	*-3.3%*	*-15.5%*

[1] "Reference Index" is: 60% HFRU Equity Hedge Index and 40% MSCI AC World Index TR LCL, calculated daily.

Past performance is not a reliable indicator of future performance

Data as of 30/09/2022

* Performance start date: 30/12/21.

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- **Market Review Q3 2022:**
  Despite the summer rally, Q3 saw fears of recession continue to grow due to continued rising interest rates and persistently hawkish messaging from central banks. Equity markets fell pretty much across the board with most sectors of the MSCI World index negative again for the quarter. Although most indices have remained in negative territory, the losses registered in most sectors and geographies have been more modest than Q2 (in many cases negative low single digits rather than the double digits of the previous quarter). China was the notable exception to this trend: after a marginally positive Q2, the MSCI China index was -22.5% for Q3 with the continued zero COVID policy restrictions in mainland China.

- **Vitruvius European Equity Portfolio: -1.5% in Q3 2022, MSCI Europe Net Total Return index (EUR) -4.1%***. There was considerable volatility in Q3. The strong summer rally was primarily driven by hopeful market sentiment that ultimately proved unfounded (inflation hadn't peaked and the Fed didn't change course). The gains were largely reversed in September with Core CPI data remaining high and central banks persisting in their hawkish stance. The biggest detractors for Q3 were Healthcare, against widespread negative performance in the sector, and Industrials. Despite the overall negative attribution from Industrials, some of the strongest performances came from uranium stocks. The majority of sector contributions remained relatively flat against a generally negative backdrop (Consumer Disc, Information Technology, Communication Services & Utilities). Modest positive contributions came from Energy (BP and Drilling Co of 1972) and a short future on the Euro Stoxx Index that added c.40bps to the portfolio.

  Market exposure started and ended the quarter at 97%, with a decrease to 90% in August with the introduction of the short future position (-6% notional, closed in September). Equity exposure increased from 97-99% including some changes in materials and financials (3 new bank positions).

  By the end of Q3 there remained no doubt of the Fed continuing on a hawkish course in respect to inflation. Despite some signs of economic slow-down, rate rises are expected to continue and, as a result, a recession is looking increasingly unavoidable, though unlikely to take the form of a 'financial crisis'. European gas supply, particularly in Germany, is expected to last through the winter, with more supply issues on the horizon for 2023/24. In this environment the portfolio remains a mix of companies with defensive qualities like pricing power/strong brands, but also some high quality cyclicals where valuations are already discounting serious recession risk.

- **Vitruvius Japanese Equity Portfolio: -1.7% in Q3 2022, Topix TR Index -0.8%*.** Consumer Discretionary stocks proved costly as positions including Toyota Motor declined. High-tech stocks also performed poorly (Fujifilm Holdings). Elsewhere, Financials (Orix) and a Real Estate position also detracted. On the positive side, Consumer Staples added to returns, mainly thanks to Ajinomoto and Seven & I. Industrials was also generally positive (Daikin Industries and others), but Itochu limited gains.

  During the quarter, portfolio exposure was largely stable at c.97%. No positions were initiated/exited but some were trimmed (including Fujifilm Holdings) while a virtual healthcare position was increased.

  There are reasons to remain cautious in Q4 due to increasing downward revisions in production, possible economic recessions in Europe and the USA, and the pace of recovery in China. It is also vital to keep an eye out for possible tailwinds though. On October 11th, the Japanese government eased immigration restrictions and implemented tourism promotion measures. Furthermore, another boon will be if the number of Chinese tourists, which account for more

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than a quarter of visitors to Japan, return to pre-pandemic levels, which is partly contingent on the CCP easing COVID restrictions. Deregulation in Q4 and a strong year-end shopping season may also be a tailwind for the air/land transportation and retail sectors to outperform.

- **Vitruvius US Equity Portfolio: -6.4% in Q3 2022, S&P 500 index -5.0%*.** Information Technology and Communication Services stocks accounted for approximately 40% of the quarterly decline, with losses in software (Microsoft), internet and payments. Elsewhere, losses were registered in Industrials, Financials and Consumer (both staples and discretionary), as large positions in Amazon and Estee Lauder proved costly. Energy was the only positive sector over the quarter thanks to oil and gas positions.

  Overall market exposure ended September at 93% including +2% of call options exposure. The equity exposure averaged 93% in Q3, increasing from 91% to 96% in August and then declining to 91% by the end of September. Communication services was increased (from 6% to 12%) as was Consumer Discretionary (from 7% to 10%; Amazon). Conversely, information technology was cut (from 24% to 19%), along with energy (from 4% to 0%) and materials (from 3% to 0%).

  The earnings estimates for the next two years are well above the long term trendline and appear to have material downward revisions ahead. The Federal Reserve continues to tighten monetary policy, thus resulting in worsening financial conditions and declining equity prices. Given the challenging environment, the portfolio continues to be focused on high-quality, lower beta names, with limited fundamental cyclicality and rising return on invested capital.

- **Vitruvius Growth Opportunities Portfolio: -8.9% in Q3 2022, S&P North American Tech index -6.4%* & Nasdaq -4.1%*.** Losses were registered in Semiconductors, with top detractors including Nvidia and Broadcom in the US. Within Software, Microsoft was costly, while cybersecurity names (including Palo Alto Networks) proved quite resilient. Among the top positions, Alphabet was also costly, while Apple and Amazon were beneficial. Payment names, classified in IT Services, were negative (Visa, Mastercard).

  Market exposure averaged 89% in Q3, increasing from 87% to 98%, mainly due to expiring put-spread options. The largest exposure remains Semiconductors (from 26% to 24%), followed by Software (from 19% to 21%), IT Services (predominantly payments – from 13% to 14%), and then Interactive Media (from 11% to 10%).

  The portfolio remains focused on secular technology trends, such as the increased use of semiconductors exposed to the global adoption of data intensive technologies, such as the internet of things (IoT), artificial intelligence (AI) and the evolution of the auto industry. Within software, the focus remains on cloud computing providers, companies focused on automating business workflows and cybersecurity, which should prove more resilient in a slowing IT spending environment.

- **Vitruvius Greater China Equity Portfolio: -20.0% in Q3 2022, MSCI China Daily TR Net USD Index -22.5*, S&P/BNY Mellon China Select ADR Index -19.5%*.** The portfolio performance was impacted by tightening global financial conditions and continued zero COVID policy restrictions in mainland China. The property market is experiencing turbulence as increasing numbers of home buyers have joined the mortgage repayment boycott; while domestic consumption and business activity remain weak due to the strict COVID rules. The portfolio has a significant allocation to Communication Services which proved detrimental in Q3 and included some of the biggest single name detractors. In Consumer Discretionary, the 2nd largest sector allocation, performance was largely negative across the board.

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The portfolio exposure reduced from 99% at Q2 end to 93% at Q3 end, with one major position exited and a few marginally trimmed.

Despite a gloomy economic outlook, China is due to have its leadership transition at the 20th National Congress on 16th October this year. Investors are awaiting more clarity of the future policy direction and potential easing on COVID rules, but positive developments are likely to follow the Party's Congress meeting which should help Chinese equity markets gradually recover from current levels.

- **Vitruvius Asian Equity Portfolio: -10.0% in Q3 2022, MSCI AC Asia Pacific Daily TR USD index -11.2%*.** Technology (semiconductor, electronic components) stocks experienced significant headwinds due to the slowdown in PC and smartphone markets. As such, a number of the semiconductor names in Japan, Korea and China & Taiwan proved costly. Despite a relatively contained exposure to HK/China, the region continued to suffer from political uncertainty both internally and externally. Elsewhere, Korea's Hyundai Heavy Industries retreated due to weak quarterly results. On the positive side, a hydrogen fuel cell system provider and an Indian industrial chemical company helped.

  Exposure remained stable at around 96%. Japan remains the largest allocation (33%), followed by HK/China (22%) and Taiwan (16%). At the sector level, semiconductors (16%), machinery (8%) and electronic components (7%) remained as top sectors.

  There is high conviction in the current portfolio composition. Valuations are looking attractive after recent setbacks. 16% of the portfolio is in Taiwan, mainly electronic components and semiconductor related names. Taiwan is bearing some geo-political risk, but the companies in the portfolio are mostly trading at below 10x P/E (except for E-Ink) and more than 6% dividend yields. The risks in Taiwanese positions are, therefore, likely largely discounted and the stocks should be held through any short-term volatility given their attractive valuations and exciting long-term growth stories.

- **Vitruvius Swiss Equity Portfolio: -3.4% in Q3 2022, SPI TR index -4.8%*, SLI -6.5%*.** Though the Swiss market made gains during the July market rally (SPI +4.4%, SLI +5.3%), these stabilised to more modest levels in August. The losses for the quarter came in September, first with expectations of Central Bank interest hikes and then when the Swiss National Bank raised rates into positive territory (75bp hike to 0.5%). The biggest detractors in Q3 were the Healthcare and Technology sectors. In Healthcare, Alcon and Novartis declined. Financials and Consumer Staples were also weak, due to stocks like Zurich Insurance Group and UBS in Financials (despite the gain in Banque Cantonale Vaudoise) and Nestle in Consumer Staples. Derivatives made a positive contribution, thanks to a tactical short index future position, as did Utilities, due to increases in electric and renewable power positions.

  Equity exposure underwent some fluctuations but remained within 95-99%. Market exposure decreased from 89% to 77% in July as the existing short future on the Swiss Market Index was increased to -22% notional. The quarter saw some reshuffling in Financials. At the margin, the Technology and Industrials allocations decreased, while positions in defensive sectors (Healthcare, Consumer Staples and Utilities) increased overall.

  With clear signs of hawkishness by the US Fed, the near-term outlook is increasingly difficult from a top-down perspective, hence the decision to double the short futures protection. The portfolio has also seen a slight shift towards more defensive areas but overall maintains its exposure to higher-conviction stocks that should perform well in the medium term.

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- **Vitruvius UCITS Selection Portfolio: -6.1% in Q3 2022, customised reference index -3.3%* [60% HFRU Equity Hedge Index and 40% MSCI AC World Index TR LCL] & MSCI AC World Index TR LCL index -4.9%*.** Vitruvius Greater China (-20.6%) suffered in Q3 from widespread weakness in the Chinese market. Elsewhere, Edgewood L Select (-9.8%) and Cantillon (-7.6%) were weak while most other Long Only funds declined more modestly, in line with the MSCI World index. Among the Long Short managers, all three benefitted from positive contributions from the short books, while more expensive long positions proved costly for AKO Global (-4.5%). Finally, JK Japan was -1.6%, helped by positive contributions from energy and healthcare stocks and a relatively strong Japanese market, which held up better than many other country indices.

  During the quarter, Egerton Capital Equity Fund and Cantillon Global Equity were trimmed. Invested with 10 funds at quarter-end. The Long Only allocation declined from 64% to 61%, Long Short increased from 34% to 36%. The Global funds allocation was down from 67% to 65%, US rose from 22% to 24%, Asia/EM fell marginally to 7% and Japan remained at c.1%. Look-through net exposure declined from 85% to 79%; North America from 61% to 58%, Europe steady at 13%, Japan steady at 1%, and Asia ex-Japan down from 10% to 8% with index hedges at –c.2%.

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Belgrave Capital Management Ltd.
1 Old Queen Street,
London
SW1H 9JA

Telephone
+44 (0) 20 7340 4700

Email: info.belgrave@ceresioinvestors.com
Website: www.ceresioinvestors.com / www.belgrave.com

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