
3.97%

Tosca UCITS Fund

Long/Short Equity

January 2023

Performance Returns

The Tosca UCITS Fund returned +3.97% for the month of January (GBP Founder share class).

Investment Objective & Strategy

Tosca UCITS is a global fundamentally driven long/short equity fund specializing in financials, business services and property sectors. Launched in November 2018, the Fund invests primarily in equities across the entire value chain of financials globally. This large, liquid and diverse universe is rich in alpha, with varied drivers of profitability.

Manager Commentary

The Fund had an excellent start to the year, with a net gain of 4.0%. Standout contributors were Banco Sabadell, BPER, NatWest and IWG. While we are relatively early in the bank reporting season, there is strong evidence that our thesis is playing out; Sabadell's recent 4Q results clearly show this:

- Earnings are beating expectations** – Sabadell beat consensus EPS by c.55%.
- Earnings and hence return expectations are being increased** – Sabadell is now forecasting NII to grow high teens in 2023 (consensus c.10%) and more in 2024. Moreover, management upgraded their ROTE target for 2023 from >7% to >9% and said it would be more in 2024 (both include the special bank tax that, in theory, falls away in 2025).
- Large amounts of capital is being returned** – Sabadell, which is NOT perceived to have significant excess capital, surprised the market by moving from a payout ratio of 40% to 50%, announcing its first share buyback and stating that its payout ratio could move to 60%. It will yield c.10% this year.
- Credit is not a major issue** – Sabadell is forecasting <65bp of loan losses in 2023; lower than in 2022 as the benefit of the balance sheet clean-up of previous years comes through.

The stock is up 14% since reporting on 26 February but is only back to its pre-COVID price, way below where it was when investors last thought rates might rise in 2018, and it still trades at just 0.55x TBV. We see no reason why it could not trade at c.0.8-1.0x TBV by the end of 2023 as investors become comfortable that this is a double-digit return on equity business.

However, without trying to get ahead of ourselves, we are not sure that we should see TBV as a ceiling. The management's forecast only assumes 12m Euribor is 3.0% versus 3.3% today (and who is to say that is not too low given recent inflation prints).

Tosca UCITS Fund Performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Y-T-D
2023	3.97%												3.97%
2022	3.78%	-1.36%	-1.71%	0.12%	3.64%	-2.59%	-5.08%	0.05%	-0.57%	1.94%	5.95%	4.10%	7.96%
2021	-2.59%	9.31%	2.24%	3.67%	2.81%	-3.79%	0.42%	3.29%	3.13%	-0.28%	-4.93%	2.81%	16.39%
2020	1.52%	-0.44%	-25.17%	3.83%	2.25%	1.99%	-1.88%	17.37%	1.37%	-7.36%	10.70%	2.72%	0.71%
2019	-4.28%	0.91%	1.28%	7.90%	-1.81%	1.15%	-1.66%	-3.53%	-5.79%	2.89%	7.46%	5.57%	9.37%
2018											-3.69%	-2.77%	-6.36%

Furthermore, they don't include the removal of the Deposit Guarantee Fund and Single Resolution Fund fees, or the abolition of the Spanish special bank tax, all of which are possible/probable and would allow Sabadell's ROTE to head towards 15% in 2025. At that point, a target of 1.5x TBV would not be out of place.

Hopefully it goes without saying that not every bank we own will raise their return or capital return targets this quarter; some managements are by nature more conservative than others. However, if it does not happen this quarter, we are confident that it will in the next couple of quarters as, absent a black swan event, we see their path as pretty mechanical.

The fact that European banks still trade near both absolute and relative valuation lows suggests that investors have not entirely understood this profound change in profitability and ability to return capital. This presents us with an exciting opportunity over the coming months.

Turning to other parts of the portfolio, we were pleased to see confirmation of our expectation of very strong January reinsurance renewals being reported by several players in recent weeks. The stocks we own in this sector have performed well. Still, consensus forecasts look substantially too low and, with valuations in single digits compared to low double digits historically, we believe there is much further to go.

On the other hand, the short side of the portfolio had a tough January with a number of names rising more than 50%. In hindsight, stocks were probably oversold in the economic gloom of late last year, but many of these moves look like short squeezes rather than anything truly fundamental. Looking at the Goldman Sachs US macro monitor – five out of the six baskets that fell >50% last year make up the top 5 performers YTD. As a result, we have stuck to our analytical guns, with a focus on the upcoming reporting season.

The Fund's net exposure has risen somewhat to the mid-40s while our gross exposure is very comfortable at c.150%. The Fund is highly liquid. Moreover, we are pleased to report not only a very noticeable increase in interest in the opportunity, but also some good flows.

The Manager

TOSCAFUND

Fund Facts

Structure	UCITS Fund
Domicile	Ireland
Liquidity	Daily
Fund AUM	\$215m
Strategy AUM	\$440m
Inception	1st November 2018

Share Class	Institutional/Institutional Pooled
Currency	EUR/GBP/CHF/USD
Mgt. Fee	1.50%
Perf. Fee	20%
Min Init. Sub.	100,000
ISIN Codes	EUR: IE00BFY6PR01/IE00BFY6NR60 GBP: IE00BFY6NN23/IE00BFY6NS77 CHF: IE00BFY6NP47/IE00BFY6NT84 USD: IE00BFY6NQ53/IE00BFY6NV07

Share Class	Retail Pooled
Currency	EUR/GBP/CHF/USD
Mgt. Fee	2%
Perf. Fee	20%
Min Init. Sub.	10,000
ISIN Codes	EUR: IE00BF4JSD63 GBP: IE00BFY6PM55 CHF: IE00BFY6PL49 USD: IE00BFY6PN62

Fund Team

Johnny de la Hey is the Portfolio Manager for Tosca UCITS. Johnny has been a Portfolio Manager since 2008 and has ~30 years experience as a financials analyst. Johnny co-founded Toscafund in 2000, and has contributed to the portfolio management of several of Toscafund's products, being responsible for many of the firm's financial sector-related investments. From 1997 to 2000, Johnny was a financials specialist at Tiger Management. Before joining Tiger, he worked at Credit Lyonnais (1996-97) and Societe Generale Securities (1992-96). He graduated with a first-class honours degree in Geography from University College, University of London, England in 1992.

Johnny is supported by a team of five analysts, whose combined expertise of over 100 years covers the entire value chain of financials:

Jonathan Sheehan – Insurance Analyst (35 years experience, 19 years at Toscafund);
Joe Chai – Property Analyst (22, 20);
Katie Black – Financial Services Analyst (16, 14);
Rob Sheward – Banks Analyst (12, 12);
Chris Burrows – Analyst (5, 3).

The performance figures until December 2019 represents the USD Founder Share Class while the performance figures from 1 January 2020 represents the GBP Founder Share Class. These performance figures refer to the past and past performance is not a reliable guide to future performance. The returns and other data in this report are as at 28th October 2022, since Monday 31st October was a public holiday in Ireland.

↑ 3.97%

Tosca UCITS Fund Long/Short Equity

January 2023

COMPOSITION OF FUND (Data as at 31st January 2023)

Sector Breakdown

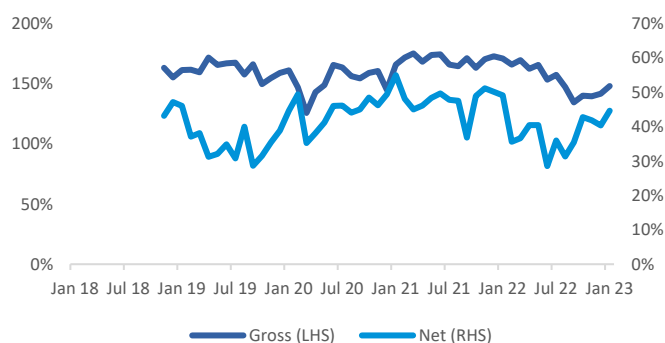
	Long	Short	Gross	Net
Banks	53.7%	-2.4%	56.1%	51.3%
Insurance	21.8%	-3.1%	24.9%	18.8%
Real Estate	10.4%	-19.8%	30.2%	-9.3%
Other Financials	3.0%	-7.1%	10.1%	-4.1%
Other	7.3%	-19.3%	26.7%	-12.0%
	96.3%	-51.7%	148.0%	44.6%

[^]Other Financials-ICB supersector Financial Services include (Asset Managers, Consumer Finance, Investment Services, Mortgage Finance, Specialty Finance) ^{^^}Other-Under ICB classifications this captures exposures include Business Services, Financial Technology, Leasing, Gaming, Options & Indices.

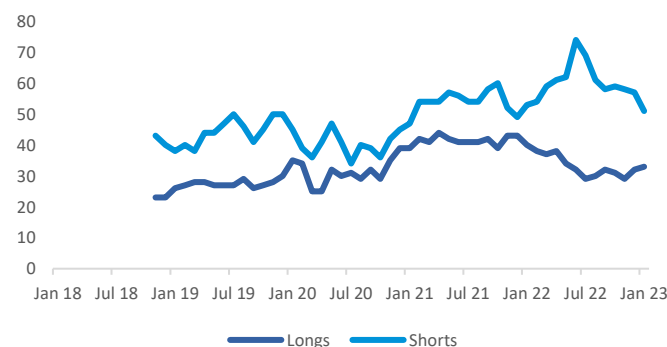
Regional Breakdown

	Long	Short	Gross	Net
UK	25.3%	-6.0%	31.3%	19.3%
Developed Europe	47.2%	-22.1%	69.3%	25.1%
North America	6.8%	-14.9%	21.7%	-8.1%
Developed Asia	3.4%	-3.2%	6.6%	0.2%
Developing Asia	12.7%	-3.5%	16.2%	9.1%
Other Developed	0.0%	0.0%	0.0%	0.0%
Other Developing	1.0%	-2.0%	2.9%	-1.0%
	96.3%	-51.7%	148.0%	44.6%

Exposures



Longs and Shorts



Positions

	Longs	Shorts	Largest Longs		Largest Shorts	
Top 5	30.0%	-13.0%	IWG PLC	7.6%	INDIA GENERAL	-3.5%
6-10	21.2%	-8.7%	BPER BANCA	6.3%	US GENERAL	-2.8%
11-15	15.2%	-6.3%	BANCO DE SABADELL SA	5.7%	EUROPE GENERAL	-2.4%
Others	29.9%	-23.6%	NATWEST GROUP PLC	5.5%	GERMANY GENERAL	-2.2%
	96.3%	-51.7%	UNICAJA BANCO SA	4.9%	FRANCE REAL ESTATE	-2.1%

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