

↓ 5.08%

Tosca UCITS Fund Long/Short Equity

July 2022

Performance Returns

The Tosca UCITS Fund returned -5.08% for the month of July (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 a challenging July, losing 5.1% as our shorts squeezed hard with the overall market rally while our longs lagged. In particular, European banks underperformed on concerns over Russia cutting off gas supplies to Europe, another Italian political "crisis", and an unexpected tax on banks in Spain. However, late in the month, the sector caught a bid as several banks reported exceptional 2Q earnings. Notable contributors to the Fund were Natwest (see below), Bawag (10% buyback announced), AIV, Bank of Baroda and Wordline.

We've been doing this job long enough not to ignore the macro. Still, even taking into account a pretty severe recession, we still see unusually high upside for several UK and European banks as they look set to deliver massive earnings upgrades while distributing some of the most significant total return yields ever seen.

To illustrate, let's look at NatWest (NWG). At the end of July, they reported earnings that beat consensus expectations by >30%. The driver of the beat was higher rates boosting revenues, with the management increasing their full-year revenue guidance from >£11bn to £12.5bn. Such is management's confidence that they were also able to increase the bank's ROTE forecast for 2023 from >10% to 14-16%, equating to consensus upgrades of 19-35%. These kinds of returns may seem slightly unbelievable, but an in-depth examination of the assumptions behind them leaves us feeling they are highly creditable.

- NWG only assumes a UK base rate of 2%, a level likely to be reached shortly and below current (lowered) market expectations.
- Management has accounted for the current inflationary environment with their previous forecast of a 3% expense reduction from an ongoing restructuring programme, now being replaced with a flat growth target.
- We have written previously about why we believe bank credit losses will be relatively low

in this downturn. Still, NWG has helpfully set out an extreme downside scenario that includes residential house prices down 20%, CRE prices down 30% and unemployment rising to 6% (from the current 3.6%). This would add c.£1bn of credit losses but needs to be seen in context of their remaining excess COVID provisions of c.£600m and the fact that this increase would not even take the ROTE from the top of their target range to the bottom.

Notwithstanding the above analysis, given the historical context and the current macro situation, most analysts and investors remain sceptical. The good news for those who are prepared to take the other side is that we are being paid extremely handsomely to wait for this to play out. NWG announced a £400m interim dividend and an additional special dividend of £1,750m, showing again how banks are free from the regulators to return significant amounts of capital. It also represents a combined 8.3% yield and follows a £1.2bn buyback from the Government in March. We would expect a further similarly sized Government buyback in March 2023, taking the overall payout this year to over 20% of its market cap. We see the group's ongoing free cash flow to investors at >15% per annum while maintaining its capital at the upper end of its conservative range. Together that's c.75% of its market cap being returned over the next 3 years. We don't see why the shares could not double.

In conclusion, the market continues to underestimate the power of rates versus credit losses. This has left the sector deserted by investors and trading as cheaply as it ever has, with upgrades and capital returns to come. We are cognisant of a gas cut-off (which we have looked to hedged – see below) but view the concerns over bank taxes (we still see earnings upgrades in Spain) and Italian politics (the new TPI is an important tool) as very much overdone. As a result, we now have >50% of the Fund in UK and European bank stocks.

On the short side, we have continued to reduce our exposure to "unprofitable tech". Our shorts in Ark and SMT are now less than 1% of NAV, although we continue to hold shorts in high conviction names such as Coinbase and Hood. We have added to our real estate shorts in Scandinavia and continental Europe, with a focus on REITs with low pricing power and high leverage. It is possible that several of these end up as zeros.

Frustratingly we require a little patience, but believe we are very much on track to deliver some very strong returns for investors.

The Manager

TOSCAFUND

Fund Facts

Structure	UCITS Fund
Domicile	Ireland
Liquidity	Daily
Fund AUM	\$204m
Strategy AUM	\$410m
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 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.

Tosca UCITS Fund Performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Y-T-D
2022	3.78%	-1.36%	-1.71%	0.12%	3.64%	-2.59%	-5.08%						-3.47%
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%

↓ 5.08%

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July 2022

COMPOSITION OF FUND (data as at 31 July 2022)

Sector Breakdown

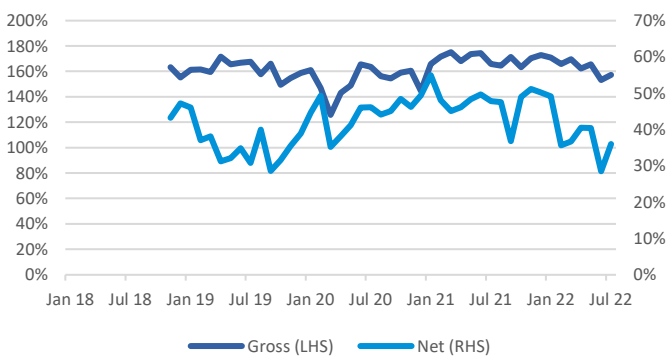
	Long	Short	Gross	Net
Banks	48.5%	-10.1%	58.6%	38.4%
Insurance	14.4%	-4.5%	18.9%	9.9%
Real Estate	14.4%	-12.8%	27.1%	1.6%
Other Financials	11.5%	-16.5%	28.0%	-5.0%
Other	7.9%	-16.8%	24.7%	-8.9%
	96.6%	-60.6%	157.2%	36.0%

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

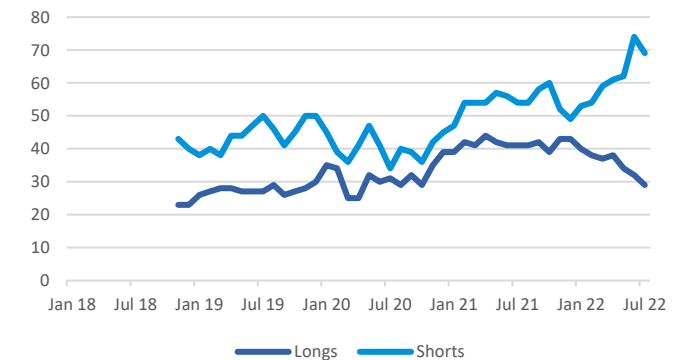
Regional Breakdown

	Long	Short	Gross	Net
UK	25.5%	-7.1%	32.6%	18.4%
Developed Europe	46.4%	-16.9%	63.2%	29.5%
North America	13.8%	-21.7%	35.6%	-7.9%
Developed Asia	0.0%	-1.5%	1.5%	-1.5%
Developing Asia	10.9%	-5.3%	16.2%	5.7%
Other Developed	0.0%	0.0%	0.0%	0.0%
Other Developing	0.0%	-8.2%	8.2%	-8.2%
	96.6%	-60.6%	157.2%	36.0%

Exposures



Longs and Shorts



Positions

	Longs	Shorts	Largest Longs		Largest Shorts	
Top 5	29.2%	-12.6%	IWG PLC	7.1%	INDIA GENERAL	-4.1%
6-10	21.6%	-7.5%	COMMERZBANK AG	5.9%	TURKEY BANKS	-2.4%
11-15	16.3%	-6.1%	OSB GROUP PLC	5.7%	US FINANCIAL SERVICES	-2.2%
Others	29.6%	-34.4%	NATWEST GROUP PLC	5.4%	FRANCE REAL ESTATE	-2.0%
	96.6%	-60.6%	BANK OF IRELAND GROUP PLC	5.1%	TURKEY BANKS	-1.9%

Contact Details

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