NESTOR Europe
Quarterly Report 3/2023

Trier, October 2023

With a decline of 5.33% (V share class), the NESTOR Europa fund posted a disappointing nine months this year. Once again, international stock markets tended to weaken in the fall. Burdened by the further rise in interest rates at the long end and economic slackness, especially in China, international stock markets fell sharply in September. The outbreak of war in Palestine has now added a further negative factor which, due to the risks to the oil price, could prevent the expected reduction in the inflation rate. In this respect, the volatility on the markets is likely to continue at present, but this also offers the opportunity for enormously favorable entry opportunities.

Softronic AB with very good 3rd quarter

One reason for the fund's underperformance was the weak small and mid caps, especially in Scandinavia. An important litmus test will therefore be the Q3 earnings reports to see whether this very high pessimism is justified. The Swedish IT company Softronic AB opened the round. Although the company admitted that the Swedish IT economy has been hit by a recession and that competition is getting tougher, operating profit has now increased from SEK 24.2 million to SEK 28.6 million after a weak Q2. In addition, interest in artificial intelligence and cloud transformation has increased tremendously, he said. The company is working very closely with Microsoft in this area. Even as conversations in the industry increasingly revolve around AI, the risks of cyberattacks continue to increase. In addition to security risks, there are also more and more regulatory requirements on how IT solutions and data are handled. The IT sector remains favored by us, as valuations can now be classified as very favorable.

AMBRA S.A. with new all-time high

The Polish AMBRA S.A. currently stands out as a laudable exception in the sector of small and medium-sized listed companies, having gained a good 50% since the beginning of the year. The company is the leading supplier of wines and sparkling wines in East-Central Europe. The subsidiary of Trier-based Schloss Wachenheim should benefit from the large pent-up demand in this segment, which was previously dominated by beer and vodka. In addition, Poland is increasingly seen as an affluent country with correspondingly changed eating and drinking habits, which is also reflected in the quality of the wines in demand. As approx. 50% of sales are related to the trade with wines from all over the world, all demand trends should be well served. With a P/E ratio of around 12 for 2023, the stock remains attractive in our view given the good growth prospects.

Outlook

The significant drop in producer prices in Germany in September reinforces our expectation that inflation will move back towards 3% by year-end. The cycle of interest rate hikes should therefore very likely come to an end this year. These assumptions formed the basis for our investment decisions.

However, if the situation in Gaza worsens and has a significant impact on the oil price, as it did in the 1970s, high interest rates will continue to have a dampening effect on the economy. In this respect, the stock markets are likely to struggle for the time being. However, small and mid caps already offer a particularly attractive risk/reward profile. Takeovers or buyback offers, as was recently the case with our portfolio stock Amadeus FiRe, should rekindle this market segment sooner or later. In addition, the rule of thumb that markets turn many months before the bottom of the cycle is reached should also apply in this cycle.

Dirk Stöwer, Kontor Stöwer Asset Management GmbH

Contact

Dr. Kohlhase Vermögensverwaltungsgesellschaft mbH · Löwengrube 18 · D-80333 Munich
www.nestor-fonds.com · Phone +49 (0)89 / 54 59 03-0 · epost@kohlhase.de

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