Hoofbosch
BELEGGINGSFONDS

Monthly Bulletin February 2024

Large tech stocks were in the spotlight last month. Investment fund Hoofbosch closed the reporting month under review 0.1% higher at €244.72. The significant drop of the Swiss franc, by almost 3% against the euro, had a considerable dampening effect on the monthly result. The recent announcement that the president of the Swiss central bank, Thomas Jordan, will leave in September, exacerbated the decline. In our opinion, this is a temporary phenomenon. We will come back to this further in this newsletter. Vopak (+19%) and Paccar (+10%) performed well after announcing fourth-quarter results. The US dollar moved sideways.

Oil and gas are out, weapons are in.

‘More money is needed for the defense industry and pension funds are essential for this,' said outgoing Dutch defence minister Ollongren last month. As early as November 2022, a large majority in the House of Representatives called on pension funds to invest more in defence companies. This would mean that Dutch pension funds are abandoning companies such as Shell (because of climate concerns) and move into the arms industry (because of Ukraine), a movement that certainly provides food for thought.

Robeco

Your founding fund manager is from the old Robeco school. In the early 1980s, fund manager Robeco invested 10 to 15% in Royal Dutch Shell and its holding companies Dordtsche Petroleum, Maxwell Petroleum and Moeara Enim. Shell helped large parts of the world with the switch from coal to (cleaner) oil and later from oil to (cleaner) gas. There was nothing wrong with that, in the eyes of the Robeco fund managers. Nowadays Shell is helping us with the transition from oil and gas to sustainable alternatives. On the other hand, investing in the arms industry despite a permanent Russian threat (the Cold War was still in full swing), was out of the question for Robeco. 'The manufacturing of war equipment is indeed necessary, but it is primarily a task of the government and it is not right to make a profit from it,' the reasoning went. At that time, for example, ammunition and anti-aircraft artillery were produced by Dutch state-owned Eurometaal in Zaandam. The Dutch state closed this company in 2003.

Vietnam

The fight for our freedom in Vietnam in the early 1980s, was still fresh in people's minds. This country, like Ukraine today, was the stage on which the great powers of the Cold War, the US and the Soviet Union, fought their battles (1955-1975). The U.S. defense industry was running at full speed, making record profits and had only one interest: to continue the war. It was only because of pressure from mass demonstrations in the US and Europe - tens of thousands of demonstrators in the Netherlands alone - that it was decided to gradually withdraw American troops. The outcome is well known: despite the supposedly massive American superiority, everything turned out to be in vain in the end. The Americans retreated and the communists from North Vietnam, together with the Vietcong, seized control of South Vietnam in 1975. In the end there were 2.5 million casualties, including more than 50,000 Americans, and a country that was in tatters. Let's hope Ukraine doesn't become a second Vietnam. The comparison with this horrific war is rarely made, but the similarities are terrifying on many fronts. By the way, where are the pacifists this time?

Conscience

Back to the present. If our pension funds invest in war equipment in 2024, they will do so, in addition to all kinds of political considerations, with the aim of making a profit. The question then is whether 1. the participants in a pension fund agree to this (they will probably not be asked) and 2. can the employees of pension funds live with that?
'Always think for yourself,' was the motto of philosopher Hannah Arendt. For example, at the time (1980s), Robeco did not believe in anything like a 'company conscience': 'Every employee has his own conscience', the reasoning went. Good and evil is an individual decision and that means that if an organization does not act in accordance with your own principles, you have to draw your conclusions. In the extreme case this means resigning. In other words, and to paraphrase Thomas Aquinas: if your own conscience is not in accordance with "the laws" of your organization, you are obliged to follow your own conscience. Let's hope that the current generation of employees of investment institutions, and those of pension funds in particular, will continue to make their own assessment.

Hoofbosch

For Hoofbosch, investing in the arms industry is out of the question. Defence is an essential government task, there is no misunderstanding about that. But it's not a sector where we want to generate profits.

Inflation Switzerland

In January, inflation in Switzerland sharply declined. Annual inflation now stands at 1.3%, following 1.7% in December. Experts had expected a much higher percentage. Inflation in the EU is close to 3% over the same period. The Swiss franc, which will always be strong in the long term, is a major contributor to low inflation. The expensive franc makes the import of goods and services from other countries relatively cheap. Contrary to what you might think, this is not at the expense of the competitive position of Swiss companies. Due to low inflation, wages are rising at a much slower rate than in neighbouring countries, keeping costs from rising significantly. Switzerland is therefore the only country in the world where monetary, budgetary and wage-price policies correct each other's imperfections. The rock-solid economic and financial indicators (low inflation, low unemployment, low budget deficit, current account surplus, knowledge country No. 1, etc.) pave the way for a further rise of the Swiss franc.

Air Products

Air Products presented figures for the last quarter of 2023. Despite an improvement in net profit and turnover, both by about 7%, the share price fell due to the slightly negative adjustment of the expectations for the coming year. On the positive side, the dividend, which is an important factor for us, will be increased to $1.77 per share. This is the 42nd consecutive rise. Founded in 1940, Air Products supplies a wide range of gases such as nitrogen, oxygen and hydrogen to various industries worldwide, including chemicals and healthcare. It also offers technologies and equipment for gas processing and environmentally friendly solutions, with a focus on hydrogen energy and CO_2 capture. Hydrogen is seen as a promising solution to accelerate the energy transition and reduce dependence on fossil fuels. One of the main applications of hydrogen is as a fuel for cell systems that generate electricity. This technology is already being used in various sectors, including transport (hydrogen cars, buses, trains, and ships), industry, and even in energy storage. In 2022, the company signed a development agreement with Gunvor Petroleum in Rotterdam. The import terminal is expected to deliver the first green hydrogen to the Netherlands in 2026. Hydrogen also receives support from politicians. At the COP28 climate conference in Dubai, the nearly 200 participating countries agreed on a new transition 'away from fossil fuels'. Concrete goals regarding hydrogen were formulated: increasing production and setting up a hydrogen network. This is one of the reasons why we remain as enthusiastic about Air Products as ever. Although the major breakthrough of hydrogen has yet to take place, the preparations are being made. Air Products, the world's No. 1 hydrogen supplier, believes it will benefit from positive developments in this sector over time. Air Products' share price fell 8% in February.

L’Oréal

"In a challenging environment marked by geopolitical tensions, inflationary pressures and a stagnant beauty market in China, we achieved our best comparable growth in more than 20 years, excluding 2021," said L'Oréal's chief executive, Nicolas Hieronimus. Sales increased by 7.6% last year compared to 2022 and amounted to 41.2 billion euros. On a comparable basis, there was a growth of 11%. Double-digit growth was also achieved in virtually all regions, L'Oréal said, with the exception of North Asia, "which was impacted by the weak market in mainland China and the reset in Travel Retail." At the end of the year, L'Oréal had free cash flow of 6.1 billion euros, up almost 24% year-on-year. Its dividend was increased by 10% to 6.60 euros. The latter in particular is very important to your fund managers. For us, dividends are the only financial benchmark that make sense in the long term. Consistently paying dividends shows that a company can cope well with economic headwinds and crises of all kinds. Research also shows that companies that have consistently increased their dividends in recent decades, have easily beaten the stock market average in the long run. L'Oréal's share price remained virtually unchanged in February.

PepsiCo

The publication of PepsiCo's results caused mixed reactions in the market. For the fourth quarter of 2023, its EPS came in slightly higher than expected at $1.78, but the revenue of $27.85 billion was slightly lower than consensus. Apart from a number of technical factors, such as a higher dollar, CEO Ramon Laguarta also mentioned the fact that consumers are becoming more cautious. Additionally, there is a major (voluntary) recall of PepsiCo's Quaker brand cereal and bars underway in the US. The company expects this will affect volumes in the first half of 2024 too. It also stated that international conflicts will weigh on sales in some regions. The expected revenue growth for 2024 was lowered to 4%. PepsiCo plans to increase its dividend by 7% in June and will also buy back $1 billion worth of its own shares. The stock closed February 2% lower.

Nestlé

Nestlé was also affected by the cautious attitude of consumers. Due to increased costs, the Swiss food and beverage producer increased prices by an average of 9.5% in 2023, with the increase in the second half of the year clearly less than at the beginning. This was accompanied by a 1.5% drop in turnover. According to CEO Mark Schneider, the outlier in food inflation over the past two years only occurs once every 50 years. The maker of KitKat and Nespresso expects sales growth of 4% this year. It is important to note that part of the decline in sales is caused by Nestlé discontinuing a number of products that were loss-making or had limited growth potential. Partly thanks to a higher margin, profit increased by 20.9%. The dividend will be increased to CHF 3 per share. Recently, reports have been popping up about a potential downward effect on the sales of companies such as PepsiCo and Nestlé due to reduced appetite of users of anti-obesity drugs. Both companies are anticipating this. For example, Nestlé sells products that help optimize muscle mass and supplement vitamin deficiencies. Of PepsiCo's $91.5 billion in sales, $9 billion is already made in sugar-free cola and $2 billion in whole-grain snacks, often baked rather than fried. The sports drink Gatorade will soon come with a personalized version that measures exactly what the customer's fluid needs are, so that the Gatorade only replenishes the necessary nutrients. We are convinced that these two companies belong to a select group that can respond to future changes through research and development. Nestlé ended February down 9%.

Schindler

In 2023, the elevator and escalator manufacturer achieved the second-highest profit in its 150-year history. Net profit soared by 41.9% to CHF 935 million, the Swiss company reported. This is the best result since 2018, when a record profit of just over CHF 1 billion was achieved. Operating profit (EBIT) increased by 31.4% to CHF 1.19 billion, and the EBIT margin improved from 8.0% to 10.3%. "Higher operational efficiencies, recovery in supply chains, and effects of our pricing policies had a positive impact here," Schindler wrote. According to Schindler, Switzerland is the ideal home base: pleasant living, high-level technical education, the best work mentality and a strong connection between employees and the company. The minimum wage at Schindler is around CHF 4,000 per month, which also contributes to its low staff turnover. Schindler's strategy is to grow faster than the market. This can be achieved by higher margins on machine sales on the one hand, and increasing turnover from maintenance on the other. Maintenance is already the largest division and makes a constant contribution to cash flow, thanks to the long-term commitments that customers have with Schindler. Furthermore, the market is hardly accessible to newcomers. To be competitive, you need a global network of service technicians, which takes decades to build. As a result, a company like Hitachi struggles to find a foothold in the US. If you're only selling a few elevators in a big city, the costs are way too high. Maintenance staff are then travelling more than they are working, while the maintenance allowance is usually a fixed amount: 'You need density and scale in the company.' About Trump, Schindler told us: "Swiss people are more relaxed about these kinds of topics. U.S. presidents come and go. Our president (Alfred Schindler, ed.) has been here a little longer (since 1977, ed.).' In connection with the celebration of the 150th anniversary, an extraordinary dividend of CHF 1.00 per share is proposed for 2023, which brings the total dividend to CHF 5.00 per share. Schindler shares closed the month under review 5% higher.

Vopak

Vopak, the largest independent tank storage company in the world, presented annual results for 2023. The company primarily serves customers in the chemical and oil industries by offering storage facilities all over the world. The reported figures were good, revenue and net profit just missed analysts' expectations and the share price rose sharply in the days after the announcement. Highlights from the company's presentation were the expansion of LNG capacity in the Netherlands, the expansion of positions in India (where Vopak is market leader), Singapore, China and the United States. With the motto 'We help the world flow forward' (regularly used in its presentations), the company clearly shows what role it will play now and in the future. The future outlook appears promising for Vopak. The company benefits from the global demand for chemicals, oil products, petrochemicals, biofuels, liquefied gases and vegetable oils. Vopak will accelerate investments in new energies and sustainable raw materials. In mid-February, investors received another piece of good news: Vopak will receive financial support from the European Commission for its hydrogen production. The dividend will be increased by 15%, and a share buyback programme worth 300 million euros has been planned. Vopak closed the month under review 19% higher.

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Nieuwe Gracht 23
2011 NC Haarlem
(023) 202 1881

Rotterdam Office

Marie van Eijsden-Vinkstraat 299
3066 JB Rotterdam
(010) 751 2881