

Market Musings 11/23



Off the Beaten Track

Our team manages equity income and value strategies at Van Lanschot Kempfen Investment Management and as such we follow clear and strict selection criteria when picking stocks for our portfolios. However, we believe there is plenty of room to go off the beaten track if you know what to look out for, in short “creativity and discipline can go hand in hand.”

2023 has been a difficult year for value investors. Big US Tech has been ruling the markets, especially where there is a link with generative AI. At the time of writing, the MSCI World is up 14%*, while the global index of value stocks is up 2% (as at 11/1123 Euro)*.

Still, it has been possible to outperform the benchmark and active stock selection, where there is room to invest off the beaten track, can contribute to this. Our strategy is based on three pillars: solid cash flow generation, prudent capital allocation and an attractive valuation. Idea generation is an important part of the strategy. That's where it starts.

When people think of value stocks, they tend to think of boring, old-economy companies with few investment options, so that a large part of excess capital goes to shareholders, but there are also out-of-the-ordinary value stocks. It is precisely these shares that contribute strongly to the return of the entire portfolio. To generate new investment ideas, we perform extensive desk research as well as some old fashioned leg work, poring through annual reports, attending conferences, following a number of investment blogs, to name a few. The combination of different sources ensures that we have a range of possible opportunities on the radar.



By **Reineke Davidsz**
Portfolio Manager

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There are many ways to come up with new ideas. Above all, it is important to keep an open mind. In doing so, we also look beyond developed markets and outside the standard value sectors, such as Financials, Health Care and Consumer Staples. There is room to include mid-cap stocks in the portfolio, if they have sufficient liquidity. We believe liquidity is more important than market capitalisation.

U.S. value stocks make up two-thirds of the MSCI World Value index. But beyond the borders of the United States, there are plenty of investment opportunities. For example, in the Asian technology sector, Korean banking sector and African telecom sector. These regions don't always get the investor attention that they deserve.

Changes in policy with regard to shareholder returns or structurally higher growth opportunities can lead to interesting investment opportunities. As highlighted previously, generative AI has moved the markets

considerably this year, both positively and negatively. For example, in the music industry, there had been a fear that generative AI will also take over the music world, dwarfing the industry until there can be no human artists left. This has driven interesting names to attractive valuations within this space, opening new opportunities to invest.

We seek out investment opportunities in regions and sectors that will not often be found in a value portfolio. This unfamiliarity is partly an explanation for the lower valuations these companies often attract. However, the team expects this undervaluation to be corrected over time. It should be said, however, that price is not the only reason why stocks have a place in the portfolio. We feel strongly that the overall picture of cash flow generation, capital allocation and valuation must also be right.

* Total return as of 3/11/2023 (Bloomberg)

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