EdenTree R&S European Equity Fund

Q2 2024 Commentary

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund (B Class)	0.9%	3.3%	11.7%	23.4%	49.2%	119.9%
MSCI Europe ex UK Net TR GBP*	-0.4%	6.4%	12.6%	21.2%	49.7%	129.1%
IA Europe Excluding UK	-0.8%	5.6%	11.7%	15.9%	44.9%	118.1%
Sector Quartile	1	4	3	1	2	2

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested.

MARKET REVIEW

Risk assets experienced a mixed second quarter. The headline equity advance became even more heavily concentrated on a few mega-cap stocks in the US and Europe, which skewed overall market performance. In Europe, this saw ASML and Novo Nordisk extend their strong run, but the wider market was impacted by growing economic and political concerns. From an economic perspective, initial concerns that inflation might resurface in the US pushed back expectations for interest rate cuts from the Federal Reserve (Fed), although these fears were somewhat quelled when Fed Chairman Powell indicated there were no further rate hikes on the horizon. In Europe, while inflation continued to come down, growth expectations also slowed, leading the European Central Bank to cut interest rates for the first time since the pandemic at its June meeting. However, it also cautioned that domestic price pressures remain strong reflecting elevated wage growth. Despite this interest rate cut, attention quickly switched to the political sphere in June when a better-than-expected performance by the far right in the European parliamentary elections prompted French President Macron to announce a snap election in France. This shock move had a negative impact on European markets, particularly in France, with investors pricing in a much higher degree of political risk amid concerns that Marine Le Pen's far-right National Rally party could capture a majority. Politics was also front and centre in the UK, with its general election scheduled for 4 July. Despite polls strongly indicating a change of government away from the ruling Conservative party to the Labour party, markets were sanguine about this outcome in the belief that Labour would offer a more stable business and economic environment after the Conservative-led market turmoil of recent years.

PERFORMANCE & ACTIVITY

In contrast to this changeable backdrop, the Fund performed well over the period, gaining ground on an absolute basis and strongly outperforming its benchmark. This strong performance occurred despite the portfolio facing two major headwinds. Firstly, the Fund continues to hold no exposure to the outperforming mega-caps ASML and Novo Nordisk. As growth stocks, these companies do not reflect the portfolio's value-oriented focus; in addition, despite the companies having strong short-medium-term growth outlooks, valuations are beginning to look stretched. Secondly, the Fund has a significant overweight to the French market. Rather than being a call on the French economy, this exposure comprises high-quality, global companies whose performance shouldn't be too impacted by French domestic politics. That said, the French market dramatically underperformed the rest of Europe in June in response to the shock election announcement, which weighed on the Fund's performance at the end of the period.

From a sector perspective, the Fund's overweight position in financials, and banks in particular, continued to add to performance. Despite the prospect of more forthcoming interest rate cuts worldwide, the pace of these cuts should be far less aggressive than had been incorporated into earnings forecasts at the start of the year. The materials sector was also a key contributor, but this stemmed from the outperformance of specific stocks rather than a wider sectoral move. The Fund's lack of exposure to luxury brands was also a positive over the period, as these stocks continue to suffer from weak Chinese demand.

At the stock level, Kemira was the top contributor over the quarter. The Finnish company is a global leader in sustainable chemical solutions for water-intensive industries, focusing on pulp & paper, water treatment and the energy industry. Dutch health technology company Koninklijke Philips also outperformed over the quarter as much of the US litigation relating to its sleep apnoea device was cleared up. Among the notable detractors were several French names, including Carrefour, Mersen and Orange. These are all high-quality names that were merely caught up in the heightened political risk premium around French stocks in June and, in fact, we took advantage of the steep decline to top up the portfolio's position in a number of these names at improved valuations.

Other key transactions during the period including taking profits from the Fund's position in Universal Music Group – a long-term holding that we felt had become fully valued after a period of strong performance. We also sold German science and technology company Merck, which has also performed well, but we have become concerned about the future performance of its life sciences and pharmaceutical divisions which are both experiencing weaker demand reflecting overcapacity following the pandemic. Finally, we added a new position in Akzo Nobel, a Dutch multinational company which creates paints and performance coatings for both industry and consumers, that has traded down to an attractive valuation for such a high-quality business.

OUTLOOK

Election results at the start of the quarter have helped quell market concerns about the French right gaining control of its parliament, enabling the French market to recover much of June's underperformance. However, the lack of a clear winner will take some time to resolve, particularly since the far-left gained the most seats and, like the far-right, raises the prospect of greater fiscal spending. The UK election result in early July was far more conclusive, with Labour securing the anticipated large majority but pledging to keep fiscal spending tight. Politics will likely remain in the spotlight over the coming quarter with the closely-fought US presidential election taking place in November. While markets were relatively unphased by the previous Trump administration, a second Trump term alongside the European parliament's shift to the right could weaken the green agenda going forward. That said, we believe businesses, on the whole, remain highly committed to sustainability and addressing climate change, and we expect that to continue regardless of what happens on the policy front.

In terms of the economy, we believe that weakening growth in Europe will enable European authorities to ease back on monetary policy, which should be a positive for markets and many of the high-quality companies we invest in. Given the heightened political and geopolitical risks, we maintain a good balance between defensives and cyclicals within the portfolio and retain our stock-focused approach of selecting well-run, quality companies, with strong balance sheets, at attractive prices.

PERFORMANCE DISCRETE	12 Months to 30/06/2020	12 Months to 30/06/2021	12 Months to 30/06/2022	12 Months to 30/06/2023	12 Months to 30/06/2024
Fund (B Class)	-4.9%	27.1%	-7.2%	19.0%	11.7%
MSCI Europe ex UK Net TR GBP *	0.5%	22.8%	-10.1%	19.6%	12.6%
IA Europe Excluding UK	1.0%	23.8%	-12.5%	18.6%	11.7%
Sector Quartile	4	1	1	3	3

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested.

Past performance is not necessarily a guide to future returns.

*The MSCI Europe ex UK GBP Net Total Return Index was adopted as the Fund's comparative benchmark on 1 January 2024, replacing the FTSE World Europe ex UK Index. As the Fund invests in a diverse range of European (ex UK) companies and sectors we compare the Fund's performance to the MSCI Europe ex UK GBP Net Total Return Index, however the portfolio manager is not bound or influenced by the index when making investment decisions.

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