EdenTree R&S European Equity Fund

Q1 2024 Commentary

Performance with principles®

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund (B Class)	2.3%	7.9%	10.1%	29.0%	61.2%	117.2%
MSCI Europe ex UK Net TR GBP*	6.8%	14.9%	13.8%	31.7%	63.5%	130.3%
IA Europe Excluding UK	6.4%	15.0%	12.5%	25.1%	58.5%	115.8%
Sector Quartile	4	4	4	3	2	2

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

MARKET REVIEW

The first quarter of 2024 was a positive period for risk assets, with many global indices – including in the US and Europe – reaching record levels. Sentiment was lifted at the start of the period by economic data surprising on the upside and raising hopes that central banks would be able to engineer a soft landing. Equities gains continued to be highly concentrated, with the Magnificent 7 stocks continuing to lead gains in the US, while the European equivalent – known as the GRANOLAS – also powered higher. This meant that performance was highly bifurcated, with large-cap growth-orientated stocks leading the gainers and increasing the valuation gap between value stocks and small- and mid-cap equities. As the quarter drew to a close, headline inflation data proved to be stickier than expected, dampening expectations about the pace and scale of interest rate cuts by the Federal Reserve in particular and prompting investors to reign in their appetite for risk. The European Central Bank (ECB) and the Bank of England continued to imply interest rate cuts are forthcoming, but the overall era of higher borrowing costs may last longer than was anticipated at the start of the year.

PERFORMANCE & ACTIVITY

Despite this benign backdrop, the ongoing underperformance of value versus growth weighed on the Fund's performance over the period, which gained ground on an absolute basis, but underperformed its benchmark. The Fund's underweight exposure to many of the outperforming GRANOLA stocks – including those benefitting from the ongoing euphoria surrounding the rapid adoption of artificial intelligence – were significant detractors. However, the Fund's overweight position in financials, and banks in particular, added to performance, benefiting from the altered assumptions about the trajectory of interest rates, which are now expected to remain higher for longer. In addition, the capitalisation of banks is much improved, earnings are robust and many banks are starting to return capital to shareholders through buybacks.

At the stock level, advertising group Publicis continued to perform well thanks to the better-than-expected economic backdrop, which was reflected in its strong results. French tyre manufacturer Michelin outperformed after beating profit forecasts with its 2023 earnings, as well as announcing a EUR 1bn share buyback scheme. Spanish insurer Mapfre also gained ground over the period, boosted by strong earnings, which were buoyed by soaring profits at its Brazilian business and reinsurance arm, and it also raised its dividend which further drove performance. Among the detractors, French real estate group Gecina felt the weight of rising bond yields, while Deutsche Post and PostNL both experienced weakness as demand has fallen in the post-pandemic period.

Over the period, the main transaction was the purchase of German industrial Technotrans. Having previously provided cooling devices for the print industry, its low valuation reflected the shift away from print in favour of digital publishing. However, Technotrans is diversifying its business by also providing cooling equipment for electric vehicle chargers and water-based cooling for data centres – which are experiencing an uplift from the growth of AI.

OUTLOOK

At the start of the year, market expectations for monetary easing were arguably overdone. While inflation has fallen, core inflation remains stubbornly persistent – as is now being shown by data – while growth and employment have remained solid, which collectively limits central banks' room for policy manoeuvres. In our view, the shift in policy expectations over the quarter has been more balanced and, if anything, the economic outlook could continue to surprise with its robustness despite the lengthening period of higher inflation and interest rates providing dampeners to growth. Much of last year's weakness in Europe can be attributed to inventory destocking – which particularly impacted industrial sectors – but that has largely played out now. That said, China remains a danger to global growth as the impact of its collapsing property market remains unclear, and Europe's strong trade links to China could mean its equity market is particularly vulnerable to further weakness.

Despite 2024 being an election-heavy year, we still expect the economy to predominantly dictate market direction. As a result, we continue to refrain from making any strong macro allocation statements within the portfolio other than limiting the Fund's exposure to the Chinese market; for example, the Fund does not hold any luxury brands. This means we retain our stock-focused approach, selecting well-run, quality companies, with strong balance sheets, at attractive prices. The gap between value and growth continues to widen, but we believe our long-term value orientation puts the Fund in a good position to take advantage of a recovery for value stocks.

PERFORMANCE DISCRETE	12 Months to 31/12/2019	12 Months to 31/12/2020	12 Months to 31/12/2021	12 Months to 31/12/2022	12 Months to 31/12/2023
Fund (B Class)	-14.8%	46.7%	6.5%	10.0%	10.1%
MSCI Europe ex UK Net TR GBP *	-8.0%	34.9%	6.5%	8.7%	13.8%
IA Europe Excluding UK	-9.2%	39.5%	4.4%	6.6%	12.5%
Sector Quartile	4	1	2	2	4

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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