EdenTree R&S European Equity Fund

Q3 2024 Commentary

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund (B Class)	5.8%	6.8%	15.2%	28.0%	58.3%	141.9%
MSCI Europe ex UK Net TR GBP*	0.1%	-0.4%	14.5%	20.3%	47.4%	134.8%
IA Europe Excluding UK	0.4%	-0.4%	14.6%	14.5%	44.7%	126.5%
Sector Quartile	1	1	2	1	1	2

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

MARKET REVIEW

Risk assets posted a marginally positive performance over the quarter, but the period was marked by episodes of elevated volatility. A positive start to the period was quickly reversed by poor earnings among the "Magnificent 7" and a weak US jobs report which heightened fears about a looming recession. The decline was exacerbated when a rate hike by the Bank of Japan sparked a reversal of the yen carry trade. While the risk-off sentiment didn't persist for long, the recovery was interrupted when fresh economic data reignited recession worries. These concerns about the US economy intensified market speculation around the size of the expected rate cut from the Federal Reserve (Fed) at its September meeting. However, the Fed's 50bps rate cut served to reassure the market that the central bank was ready to take the necessary steps to protect a smooth economic landing. The market also welcomed a second interest rate cut from the European Central Bank in September, the first having taken place in June. However, the central bank slightly lowered its growth outlook and raised its forecast for core inflation this year and next, and the market is now pricing in a further 25bps cut this year. The Bank of England also eased monetary policy over the period, cutting rates by 25bps, and with inflation moving ever closer to the central bank's 2% target the door remains open for further cuts before the year-end. The market received a final boost at the end of the period when China announced a fresh round of fiscal stimulus, supporting China-exposed equities.

PERFORMANCE & ACTIVITY

Despite this volatile backdrop, the Fund performed well over the period, gaining ground on an absolute basis and strongly outperforming its benchmark and its IA sector. Over the period, the Fund benefited from two major tailwinds. Firstly, it remains unexposed to the growth-orientated mega-caps, notably ASML and Novo Nordisk, as these do not reflect the portfolio's value-oriented focus. Over the quarter, markets exhibited a sizeable rotation away from large-cap growth in favour of value, which proved profitable for the portfolio's value bias. Similarly, the Fund does not hold any exposure to the oil & gas sector due to its responsible and sustainable principles. The price of oil went down significantly over the quarter, which negatively impacted the sector.

From a sector perspective, while the overall technology sector retreated, several of the Fund's technology holdings advanced. Stocks in the technology hardware sector – such as Nokia and Landis+Gyr – bucked the sector trend. Another positive sector call was the portfolio's lack of exposure to the luxury goods sector – these names are highly connected to the Chinese economy and its ongoing lacklustre growth meant that many of these companies underperformed until the end of the period. The portfolio's overweight position in financials – and banks in particular – continued to contribute positively during the quarter, despite the backdrop of lower interest rates. Commerzbank was one of the Fund's top performers, as the German bank faced an unexpected takeover approach by its Italian counterpart UniCredit, a combination welcomed by the market as it is expected to result in significant cost savings. Another overweight position is the portfolio's exposure to the real estate sector.

Many of these stocks are trading at a very big discounts to their net asset value and a more benign interest rate environment is seen as a strong positive for the sector – the quarter saw holdings in Covivio and Gecina rebound strongly.

At the stock level, French retailer Carrefour performed well as the group's price investment initiative started to bear fruit, as the retailer gained share in the French market – a positive for the company's earnings potential. Dutch health technology company Koninklijke Philips continued to benefit as US litigation relating to its sleep apnoea device shifted further into the rearview mirror. Among the notable detractors were the Fund's semiconductor holdings, Siltronic and Mersen, which were caught up in the broader retrenchment for semiconductor stocks, although these stocks proved more resilient than many of their peers. Swedish automotive safety equipment supplier Autoliv also lost ground, a decline that was reflective of the wider auto sector's struggles. Finally, general industrial stocks Indus and Imerys underperformed on the back of the weaker outlook for the global economy.

Key transactions during the quarter included topping up the Fund's defensive position by adding to stocks such as Carrefour and Telefonica. We also added to some of our cyclical holdings – including Technotrans, Mersen and Rexel – after these stocks were unjustly caught up in the market sell-off.

OUTLOOK

Looking ahead, the European economy is weakening, but a closer examination shows that this weakness is not homogenous. Germany, which has historically been the region's strongest economy, is suffering right now. This weakness partly stems from shrinking Chinese demand – an important export market – but it is also facing falling demand for its industrial products, capital goods and automotives – a sector that is facing increased competition from China regarding electric vehicles. France continues to face heightened political risk after its snap election in July failed to deliver a clear winner and parties are, therefore, struggling to agree on a new budget. As a result, the periphery countries in Europe appear the strongest right now.

Given this economic backdrop, alongside heightening geopolitical risk, the portfolio remains evenly balanced between the defensive and cyclical areas of the market, and we retain our stock-focused approach of selecting well-run, quality companies, with strong balance sheets, at attractive prices. We continue to maintain that European stock valuations seem very attractive over the medium- to long-term, and further monetary easing should provide more support to the European economy, particularly the high-quality companies we invest in.

PERFORMANCE DISCRETE	12 Months to 30/09/2020	12 Months to 30/09/2021	12 Months to 30/09/2022	12 Months to 30/09/2023	12 Months to 30/09/2024
Fund (B Class)	-3.5%	28.0%	-12.4%	26.9%	15.2%
MSCI Europe ex UK Net TR GBP *	0.4%	22.0%	-12.8%	20.5%	14.5%
IA Europe Excluding UK	3.2%	22.4%	-16.0%	19.0%	14.6%
Sector Quartile	3	1	1	1	2

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.

For further information please speak to your normal EdenTree representative, visit **www.edentreeim.com** or call our support team on **0800 011 3821**

EdenTree Investment Management Limited (EdenTree) Reg. No. 2519319. Registered in England at Benefact House, 2000, Pioneer Avenue, Gloucester Business Park, Brockworth, Gloucester, GL3 4AW, United Kingdom.