# EdenTree R&S European Equity Fund

## Q4 2024 Commentary

## PERFORMANCE

| | 3 Months | 6 Months | 1 Year | 3 Years | 5 Years | 10 Years |
|---|---|---|---|---|---|---|
| Fund (B Class) | -7.1% | -1.7% | 1.5% | 16.9% | 45.5% | 125.6% |
| MSCI Europe ex UK Net TR GBP* | -4.2% | -4.2% | 1.9% | 9.7% | 39.9% | 126.1% |
| IA Europe Excluding UK | -4.0% | -3.7% | 1.8% | 5.9% | 35.4% | 115.0% |
| Sector Quartile | 4 | 2 | 3 | 1 | 1 | 2 |

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested.
Data as at 31.12.2024

## MARKET REVIEW

Politics was the dominant force governing markets in the fourth quarter. Primarily, Donald Trump's re-election as US President was seen as a negative in Europe (unlike the highly positive market response in the US), reflecting his threat of incoming tariffs; however, domestic politics in the region also created turbulence. France's new Prime Minister was overthrown after just three months due to his attempt to push through a revised budget; the country's fourth Prime Minister in one year was appointed in late December, but a significant question market remains over whether his government will be able to operate effectively. Meanwhile, the German Chancellor lost a confidence vote in December, paving the way for an early election in February.

The macroeconomic picture was equally uncertain. European growth remains lacklustre, weighed down by weak demand from China and higher energy costs. And while the European Central Bank did cut interest rates again in December, the market was disappointed that its accompanying statement was less dovish than expected. In terms of market activity, large caps extended their outperformance, as did growth over value stocks.

## PERFORMANCE & ACTIVITY

Against this challenging backdrop, the Fund lost ground over the period, declining on an absolute basis and underperforming its benchmark and its IA sector. Over the period, the Fund continued to face a major headwind: its under-exposure to the growth-orientated mega-caps, notably ASML and Novo Nordisk, as these stocks do not reflect the portfolio's value-oriented focus.

From a sector perspective, while the overall technology sector advanced, several of the Fund's technology holdings struggled. Siltronic – a manufacturer of wafers used by the semiconductor industry – lost ground, while smart infrastructure technology manufacturer Landis+Gyr also declined. Some of our distribution holdings, including PostNL and Deutsche Post, continue to be affected by the post-Covid fall back for e-commerce. Capital goods were also a detractor, with some of the Fund's mid-sized companies being negatively impacted by the expected cyclical slowdown – weaker performers included French company Mersen and German industrial Technotrans.

Financials were mixed over the quarter. The Fund's insurance and reinsurance holdings performed well, as they are net beneficiaries of interest rates staying slightly higher than had been forecast. On the other hand, its overweight exposure to banks weighed on performance during the quarter as the lower overall trajectory for interest rates impacts the banking sector's profitability. Even so, we remain very positive about the prospects of our bank holdings, as valuations are attractive, dividend yields are high, and the quality of earnings is much improved as a more conservative lending approach means banks should be less affected by a wider economic slowdown than in the past. Bucking the industry trend, Commerzbank was one of the Fund's top performers in December on the back of an acquisition approach from Italian bank UniCredit.

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The Fund's underweight exposure to the pharmaceutical sector supported performance as the industry was unsettled by Trump's appointment of the noted vaccine sceptic Robert F Kennedy Jr as his health secretary. However, we took advantage of this weakness to add to the Fund's position in French pharmaceutical Sanofi, whose valuation is looking very attractive in our view. At a stock level, private equity group Indus Holdings and Dutch multinational Philips were among the main detractors, while telco Nokia and paper manufacturer Smurfit Westrock were among the Fund's strongest performers; however, we were forced to sell the latter after its listing was moved to the US following a merger.

Additional key transactions during the quarter included taking profits from some of the Fund's top performers including Nokia and Italian multinational Prysmian. We then added three new holdings to the portfolio: De'Longhi is an Italian small appliance manufacturer, perhaps best known for its coffee makers, which has very strong brand positioning and benefits from an attractive valuation following the broad sell-off in the consumer goods space. We also added Italian tyre manufacturer Pirelli as a more defensive play within the secondary auto market given consumers will continue to buy tyres irrespective of the general weakness among auto manufacturers. Finally, Signify – formerly known as Philips Lighting – is a leader in connected LED lighting systems, software and services, and is benefiting from the transition away from incandescent lightbulbs to more energy-efficient products.

### OUTLOOK

Looking ahead, the market is understandably, and justifiable, pricing in a high degree of political and fiscal uncertainty, which alongside a slow economic outlook, is painting a slightly negative picture for the region. However, we feel that some more positive outcomes are currently being overlooked. Principally, President-elect Trump has strongly indicated he would like to see a quick end to the Russia-Ukraine war. If this comes to pass, it could be very positive for European markets and should lower energy costs, in particular. In addition, the region is near full employment, and we could see a more positive economic outlook emerging. Therefore, amid the negative news priced into the market, we are finding plenty of attractive value-orientated investment ideas. Even so, the portfolio remains evenly balanced between the defensive and cyclical areas of the market, and we retain the Fund's sizeable overweight to the banking sector.

| PERFORMANCE DISCRETE | 12 Months to 31/12/2020 | 12 Months to 31/12/2021 | 12 Months to 31/12/2022 | 12 Months to 31/12/2023 | 12 Months to 31/12/2024 |
|---|---|---|---|---|---|
| Fund (B Class) | 5.9% | 17.5% | 0.1% | 15.0% | 1.5% |
| MSCI Europe ex UK Net TR GBP * | 8.6% | 17.4% | -7.0% | 15.7% | 1.9% |
| IA Europe Excluding UK | 10.5% | 15.6% | -8.9% | 14.3% | 1.8% |
| Sector Quartile | 3 | 2 | 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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Please note that the value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations, you may not get back the amount originally invested. Past performance is not necessarily a guide to future returns.

A full explanation of the characteristics of the investments is given in the Key Investor Information Document (KIID). Any forecast, figures, opinions statements of financial market trends or investment techniques and strategies expressed are unless otherwise stated, EdenTree Investment Management's own at the date of this document. They are considered to be reliable at the time of writing, may not necessarily be all-inclusive and are not guaranteed as to accuracy. There is no guarantee that any forecast made will come to pass.

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