RESPONSIBLE AND SUSTAINABLE EUROPEAN EQUITY FUND

COMMENTARY FOR QUARTER TO END JUNE 2022

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	-8.08%	-10.57%	-7.17%	12.20%	13.44%	163.18%
FTSE World Europe ex UK TR GBP	-8.60%	-15.05%	-10.08%	11.05%	22.88%	153.01%
IA Europe ex UK	-10.21%	-17.03%	-12.51%	9.33%	16.71%	146.25%
Sector Quartile	2	1	1	2	3	2

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

REVIEW

European equities fell for a second consecutive quarter, as Russia's ongoing invasion of Ukraine weighed heavily on the region's markets. Disruption to imports of Russian gas drove prices up, with Germany in particular getting close to having to implement gas rationing. Unsurprisingly, consumer confidence has fallen. Corporate earnings have come under pressure from both rising costs and a squeeze on consumer incomes as wage increases have failed to keep up with increasing food and energy prices. The European Central Bank has conceded it is likely to have to raise rates in July and September.

PERFORMANCE & ACTIVITY

The Fund declined over the course of the quarter, generating a return of -8.1%, nevertheless outperforming its FTSE World Europe ex UK TR GBP benchmark, which returned -8.6%.

The resilient performance of the fund was supported by exposure to some of the more defensive areas of the market, such as pharmaceuticals and telecommunications, as well as to renewable energy through the likes of our holding in Greencoat Renewables. The fund's relative performance also benefited from not holding some of the worst hit tech constituents of the European equity indices, such as ASML, Adyen, and Infineon, each of which declined by more than 20% over the quarter. The quarter's top detractors in the portfolio included Rexel, Imerys, an Covivio. Among the quarter's top performers were European telecoms companies Telefonica and Orange. Both companies have likely passed peak requirements for capital expenditure, which is beneficial for cash earnings potential. Both are also benefiting from increased likelihood of consolidation in the sector.

About six months ago, we increased exposure to defensive stocks after these were left behind in a cyclically led rally. We have now taken profits in some of these, and have been recycling these investments into some of the opportunities arising from the broad fall in equity markets. In particular, we have been increasing exposure to financial companies, which are set to benefit from higher interest rates and bond yields. This includes BBVA, which, as well as trading on what we feel are very attractive multiples, has strong sustainability and socially responsible policies in its operations through its contributions to transition finance and through its charitable donations.

OUTLOOK

Higher inflation, higher interest rates, and slowing growth undoubtedly represents a challenging outlook for investors, but we feel the fund is well placed in this environment, offering a diverse range of high yielding, value-orientated investments across European equity markets. The disruption in energy supplies from Russia, combined with the accelerating push by the EU towards a low carbon economy through its RePowerEU programme also presents good opportunities for many of the fund's holdings, such as Rexel, Prysmian, Schneider Electric and Mersen.

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