

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	16.3%	11.9%	0.1%	24.6%	24.0%	150.2%
FTSE World Europe ex UK TR GBP	12.1%	9.5%	-7.0%	18.6%	29.4%	140.4%
IA Europe Excluding UK	12.7%	9.9%	-8.8%	16.6%	23.3%	130.9%
Sector Quartile	1	1	1	1	3	2

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

MARKET REVIEW

European equities staged a strong recovery in the final quarter of 2022, pacing gains in global markets more broadly. The prospect of peak inflation and a moderation in the Federal Reserve's tightening cycle were the main catalysts for the lift in the market's mood. The ECB raised interest rates by 0.75% and then 0.5%, bringing the refinancing rate to 2.5%, a fourteen year high. Eurozone inflation reached a high of 10.6% in October and came down to 9.2%, which is obviously still well above its target rate. The ECB remains duly hawkish, and there is an increased prospect of central bank policy bifurcation between the US, on the one hand, and Europe and the UK, on the other. This led to a fall in the US dollar against the Euro during the quarter, which also support equity market sentiment.

PERFORMANCE & ACTIVITY

The Fund ended the year with a solid fourth quarter return of 16.3% and outperformed its FTSE World Europe ex UK TR GBP benchmark, which returned 12.0%. Pleasingly, this performance placed the Fund in the top decile over the quarter against the IA Europe Excluding UK peer group, with the Fund sitting in the top quartile over one and three years.

The pronounced outperformance of value shares compared to growth provided a strong tailwind for the Fund, continuing a pattern that has been supported by the sharp rise in interest rates. At the sector level, Fund performance benefited from positive stock selection and overweight exposures to the Financials and Industrials sectors, while the Fund's underweight and stock selection in Consumer Staples added to relative returns. In contrast the Fund's overweight in Telecommunications held back relative performance, although this was somewhat tempered by positive stock selection. Nil exposure to the Energy sector, which is not held on Responsible and Sustainable grounds, was also negative for relative performance.

At the stock level, banking stocks Bank of Ireland, ABN AMRO (Netherlands), BBVA (Spain) and ING (Netherlands) made notable contributions, with the sector generally benefiting from higher interest rates and, hence, improved net interest margins, as well as relatively resilient consumer demand at a time of higher living costs. Other positive contributors included French electrical power and materials business Mersen and Dutch-headquartered HR services and recruitment business Randstad, which delivered strong Q3 results backed by labour market tightness globally. Less successful were holdings in Philips, Nokia, Orange, Greencoat Renewables, Billerud and Post NL.

In terms of transactions, we took advantage of share price weakness to establish a position in Siltronic, a business that manufactures hyper-pure silicon wafers and is a leading global manufacturer of wafers for the semiconductor industry. The business was attractively valued and is well placed to benefit from growing structural demand for semiconductors. We added to a number of cyclical holdings we felt had become oversold amid growing concerns about the economic outlook. These included Hamburger Hafen (Germany) and Deutsche Post. We balanced these purchases with additions to some of the

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Fund's defensive names, including holdings in the healthcare sector. Schneider Electric was the only notable sale during the quarter. We took profits and sold out of this stock believing it to be fully valued, using the procedures to add to the names mentioned above.

OUTLOOK

Notwithstanding the economic headwinds that Europe currently faces, economic data has tended to confound the most pessimistic views on the economy. Germany has avoided a recession in Q4, for example, and labour conditions remain tight in many parts of the region and, indeed, the world. Many of the conversations we've had with underlying companies have tended to suggest a measure of resilience despite the notable rise in energy and commodity prices, as well as interest rates, this year. While we are mindful of the risks that remain in the backdrop (with the war in Ukraine among the most notable of these), we believe the economic downturn could be relatively shallow and the period of generally tight interest rate policy could prove to be protracted. Given this backdrop, we continue to believe value areas of the market, whether cyclical or defensive, offer the most attractive opportunities over the longer term.

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

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