

# RESPONSIBLE AND SUSTAINABLE EUROPEAN EQUITY FUND

## COMMENTARY FOR QUARTER TO END SEPTEMBER 2021

### PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	2.00%	7.54%	28.02%	25.97%	56.96%	182.17%
FTSE World Europe ex UK TR GBP	0.76%	9.09%	22.05%	30.28%	63.07%	199.39%
IA Europe ex UK	1.62%	8.84%	22.40%	29.14%	60.49%	198.77%
Sector Quartile	2	3	1	3	3	3

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

### REVIEW

The European equity market moderated over the third quarter of 2021, continuing its year-to-date upwards trend for the first two months of the quarter before drifting down in the last. July and August were characterised by companies generating good results as the European economies continued to reopen amid successful vaccine rollouts. The market took a turn in September as inflation concerns became more widespread as surging gas and electricity costs forced European governments to discuss aid packages to consumers. The European Central Bank announced it would reduce the pace of its asset purchases, but was at pains to emphasise it did not see this as beginning the tapering process towards zero purchases, putting it at the dovish end of the central bank spectrum. Nevertheless, European government bond yields rose quite sharply towards the end of the period.

European markets were also affected by events in China. The Chinese government's more aggressive regulatory stance across a number of sectors was already weighing on markets when news emerged that one of China's largest property developers Evergrande seemed likely to default on its debts, stoking fears of systemic risk spreading across global markets.

### PERFORMANCE & ACTIVITY

The Fund generated a total return of 2.0% over the quarter, outperforming its FTSE World Europe ex UK Index, which returned 0.8%. Stock selection helped the Fund outperform, despite being zero-weighted to the Energy sector, which rose sharply alongside rising wholesale energy prices.

Given the troubling developments in China, the Fund benefited from not holding some of the European index-constituents with large Chinese end-markets, such as luxury goods companies like LVMH Moët Hennessy, Kering, and Richemont.

The Fund was also aided by its overweight allocation to Financials, which posted strong returns for the quarter. We

think holdings like ABN AMRO, Bank of Ireland, and ING Groep, which all generated positive performance over the period, are likely to do well in an environment of rising rates and yield curve steepening, which seems likely if inflation remains elevated.

Beyond such economically sensitive holdings, one of the quarter's top performers was Vivendi, which successfully spun off its Universal Music Group business. Shares in Universal, 60% of which remained in Vivendi shareholders' hands, rose by more than a third on its first day of trading.

Hugo Boss continued its recent bullish run. New CEO Daniel Grieder hosted an Investor Day outlining the company's 2025 strategy and targets that was taken well by markets. While we are mindful the share price has risen sharply over the last few months, the company's renewed focus on combining sales growth with free cash flow generation seems positive, and we remain holders.

This quarter's detractors included names like Enel, Draegerwerk, and Novartis.

We reduced our holding in Yara due to concerns over rising input costs. We added to a number of value cyclicals that seemed to have been left behind in recent rallies, such as Hamburger Hafen und Logistik, Indus, and Publicis. We also added to defensive names, albeit those that we deem to be trading at more attractive valuations, such as Carrefour, Enel, and Telefonica.

### OUTLOOK

We remain focused on the potential for inflation to persist for longer than many market participants have entertained, especially the central banks which seemed too quick to dismiss widespread inflationary pressures as 'transitory'. As such, we remain comfortable with our overweighting to financials. We also believe that recent economic developments may provide an environment in which the extraordinary valuation gap between growth and value



investments could finally narrow, which would be beneficial for our value-oriented investment style. European value stocks in particular are well-placed to benefit, as the region is well-positioned to deliver better GDP growth than other developed regions, given that it is earlier in its recovery from the pandemic, which would give a further boost to cyclical stocks, and the region is also trading at valuations that are near record lows relative to US stocks.

To obtain further information please speak to your normal EdenTree representative, visit [www.edentreeim.com](http://www.edentreeim.com) or call our support team on **0800 011 3821**

This document has been prepared by EdenTree Investment Management Limited for Financial Advisors, other intermediaries and other investment professionals only. It is not suitable for private individuals. This document has been produced for information purposes only and as such the views contained herein are not to be taken as advice or recommendation to buy or sell any investment or interest thereto.

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. 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.

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.

EdenTree is authorised and regulated by the Financial Conduct Authority and is a member of the Investment Association. Firm Reference Number 527473.