RESPONSIBLE AND SUSTAINABLE EUROPEAN EQUITY FUND

COMMENTARY FOR QUARTER TO END SEPTEMBER 2022

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	-3.7%	-11.5%	-12.4%	8.3%	7.4%	130.5%
FTSE World Europe ex UK TR GBP	-2.3%	-10.7%	-12.8%	6.8%	15.9%	132.0%
IA Europe Excluding UK	-2.6%	-12.6%	-16.2%	5.9%	10.3%	119.0%
Sector Quartile	3	2	1	2	3	2

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

REVIEW

European equities continued to lose ground in the third quarter of 2022, against a backdrop of persistent economic pressures caused by the war-induced energy crisis. The Nord Stream gas pipelines was shut down and subsequently damaged, presumably through an act of sabotage. The ECB increased its policy rate by 0.5% in July and 0.75% in September – the first interest rate increases since 2011. Ahead of the second of these moves, the euro had sunk to a 20-year low of 99 cents against the dollar. With eurozone CPI at 9.1%, ECB president Christine Lagarde has been clear that more rate increases are to come. Although many of the companies we met during a recent trip to the region remained relatively upbeat, guidance is certainly reflecting the more challenging backdrop.

PERFORMANCE & ACTIVITY

The Fund declined over the course of the quarter, generating a return of -3.7%, underperforming its FTSE World Europe ex UK TR GBP benchmark, which returned -2.3%.

This underperformance was in part due to the relative weakness of value against growth shares. At the sector level, the Fund's exposure to the defensive telecommunication and consumer staples sectors detracted from relative returns, while exposure to the financials and basic materials sectors was generally positive. This was reflected in stock level performances with Spain's Telefonica giving up ground on concern about the impact of rising interest rates on its debt, with Orange also ending lower. More positively, Bank of Ireland firmed after announcing solid first half results. Meanwhile, France's Publicis pushed higher after stronger than expected results and raising its 2022 revenue forecast.

During the quarter the fund switched out of Hugo Boss into Adidas after Hugo Boss had performed very strongly over the last years whilst Adidas had sold off over concerns over the slowdown the Chinese market and a breakdown in relations with Kanye West who was behind the strongly performing Yeezy brand. This left Adidas at a valuation discount compared to Hugo Boss despite a superior long term growth outlook. The Fund also added to holdings in German midcap companies such as Indus Holdings and Hamburger Hafen & Logistics, which had sold off heavily as concerns grew over the impact of higher energy prices on the German domestic economy, leaving them on very attractive valuations. Additional purchases were made in other high yielding European equities offering attractive dividend yields but with defensive profiles such as Michelin, Randstad and Orange.

OUTLOOK

Many of the recent pressures afflicting Europe are unlikely to end soon. Even if the war in Ukraine were resolved, the trajectory for Europe's energy sector has been irreversibly changed, with the deployment of dirtier fossil fuels likely to persist for some time until the region's RePowerEU fully takes hold. Nevertheless, it has awoken the region to the role renewables should play in a secure energy mix which is ultimately less reliant on commodity pricing. The portfolio is well-placed to benefit from this transition. Inflation remains a persistent problem, as is the strong US dollar, and further ECB rate tightening is expected, even if the region's economy is only just on the right side of a recession. 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.

edentree
investment management

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