

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	2.7%	2.0%	26.9%	42.3%	40.1%	121.4%
FTSE World Europe ex UK TR GBP	-1.6%	-1.0%	20.5%	28.3%	36.9%	117.8%
IA Europe Excluding UK	-2.2%	-2.2%	19.0%	22.3%	29.0%	105.5%
Sector Quartile	1	1	1	1	1	2

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

MARKET REVIEW

The third quarter of the year was a challenging one for both equities and bonds, and European equities were no exception. Several key themes determined the market direction. Firstly, attention remained firmly fixed on the activities of central banks. The European Central Bank (ECB) raised its deposit rate for a tenth consecutive time in September to reach an all-time high of 4%. Despite indications that the tightening cycle for developed market central banks may have peaked, the market became concerned that interest rates worldwide would stay higher for longer. Secondly, economic data increasingly pointed to slowing economic growth; 2023 growth forecasts were revised down by the European Commission and PMI indicators were in contractionary territory throughout the period. Finally, even though eurozone inflation slowed to a two-year low in September, a sharp rise in oil prices during the quarter generated concerns that inflation could remain a persistent problem going forward.

PERFORMANCE & ACTIVITY

Despite the challenging backdrop, the Fund gained ground over the quarter, strongly outperformed its benchmark and is in the top quartile over multiple time periods. The Fund's overweight exposure to financials added to performance during the period; banks' earnings highlighted the uplift they are experiencing from higher rates and we believe there is more to come as interest rates look set to remain higher for longer. The Fund's underweight in consumer discretionary was also a contributor to performance – we have observed that consumers are reshuffling their spending habits away from the domestic themes that dominated during lockdowns and towards holidays and experiences. The technology sector gave back some of the year's earlier strong performance, benefiting the Fund's underweight exposure to the sector. However, gains for the energy sector – on the back of higher oil prices – was the Fund's main detractor as it has no direct exposure to oil and gas in line with our responsible and sustainable investment convictions.

At the stock level, Hamburger Hafen und Logistik led this quarter's winners. The German logistics and transportation company is subject to an acquisition approach and we took advantage of the premium bid price to sell out of the stock, shifting these profits to bolster the Fund's more defensive holdings. Delivery and e-commerce corporation PostNL performed well during the quarter. This is a cyclical recovery story as the share price had previously been impacted by higher fuel prices and lower demand as consumers. The Fund's bank holdings, which include Banco Bilbao Vizcaya Argentaria, Bank of Ireland and Banco Santander, also performed well over the quarter. German industrial Indus Holding was one of the Fund's main detractors over the period, reflecting the dip in overall industrial demand in Germany which has been impacted by China's economic slowdown. Other cyclical names in the chemicals and materials sectors were also weak during the period.

OUTLOOK

The macro picture for Europe is becoming increasingly opaque. While the economic situation in Germany is clearly stagnating, reflecting the impact of higher energy costs and slowing manufacturing, the broader European region is still exhibiting pockets of economic strength – consumer spending remains healthy and the employment market is robust. This lack of clarity puts the ECB in a particularly challenging position, if the overall economy slows then monetary policy is likely to be eased more quickly but if the economy stays relatively healthy or inflation starts to rise again then the central bank may be forced to take even more aggressive action.

In light of this economic uncertainty, we are holding back from making any strong macro allocation statements within the portfolio. We still feel that European equities are undervalued versus the US and we also see a strong valuation gap between value and growth. Therefore, at this point in time, we feel the Fund will benefit from picking well-run, quality companies, with strong balance sheets at attractive prices. While our long-term investment approach is value-orientated, we have retained a relatively balanced portfolio position, although we did reduce some risk during the quarter by modestly lowering our slightly overweight cyclicals position and topping up the portfolio's more defensive names in healthcare, pharmaceuticals and telecoms.

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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