

# EdenTree Sustainable European Equity Fund

Performance	3 months	6 months	1 year	3 years	5 years	10 years
Fund (B Class)	-3.8%	2.2%	18.5%	40.4%	64.5%	164.7%
MSCI Europe ex UK Net TR GBP*	-2.3%	3.6%	14.8%	33.8%	55.0%	163.1%
IA Europe Excluding UK	-3.5%	1.2%	11.8%	26.8%	41.1%	131.9%
Sector Quartile	3	2	1	1	1	1

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested. Data as at 31.03.2026

## Market review

The first quarter of 2026 was shaped by a sharp deterioration in European equity market performance, driven by escalating geopolitical risk with the sudden onset of war in the Middle East. Prior to the outbreak of war at the start of March, the most defining feature of the market was the divide in performance between artificial intelligence (AI) 'winners' and 'losers'.

Early in the quarter, investors reassessed company valuations within the software and media sector, driven by concerns that software and data-driven businesses could be disrupted by rapid advancements in AI. This sell-off in software names was sharp and often indiscriminate, despite evidence that many of these companies could benefit from AI.

Market attention then turned decisively to the developing conflict in Iran, with few hiding places for investors. In March, bond markets sold off sharply as the market rapidly priced in a series of interest rate rises, where prior to the start of the war, further central bank cuts had been expected. Gold performed badly, belying its safe-haven status, with investors seemingly taking profits here to meet margin calls elsewhere. Equities, however, bore the brunt. European and Asian markets fell more sharply than the US, reflecting their greater exposure to higher energy costs. There were some winners – oil-related equities rose, alongside other beneficiaries such as aluminium and fertiliser-products outside the Gulf.

## Performance and activity

The Edentree Sustainable European Equity Fund declined over the quarter, underperforming its benchmark the MSCI Europe excluding UK Index and the IA Europe excluding UK sector.

Concerns over a prolonged disruption to energy supplies pushed energy prices sharply higher during the period. The Fund does not hold any direct exposure to energy companies due to our sustainability approach, the EdenTree Standard, and this lack of exposure weighed on the Fund's relative performance. That said, the Fund does hold several utility companies, which may benefit indirectly from higher energy prices; Veolia Environnement, Enel and Greencoat Renewables all made positive contributions over the period.

Elsewhere, the portfolio's exposure to more cyclical areas of the market detracted from performance, as the economic outlook deteriorated and higher bond yields pushed up borrowing costs. Real estate stocks came under pressure amid concerns over weaker demand for office space, while recruitment companies were impacted by a softening employment environment.

On the positive side, the Fund entered 2026 with a slightly more defensive positioning, which provided some support – particularly in March. The Fund's exposure to telecoms was a key contributor, with the sector continuing to benefit from ongoing industry consolidation.

At a stock level, Norwegian fertiliser producer Yara was the portfolio's top contributor. Seasonal demand for fertiliser was strong, with March a peak planting period across the Western hemisphere. Due to the supply constraints – driven by Middle Eastern fertiliser being stranded following the closure of the Strait of Hormuz – fertiliser prices were pushed higher. Within telecoms, Nokia also attracted investor attention due to its partnerships with several AI leaders, including Nvidia. Pharmaceutical manufacturer Sandoz also outperformed during the period.

By contrast, several cyclical holdings were among the top detractors as the economic outlook weakened. Recruitment agency Randstad, communications group Publicis and French real estate group Gecina all underperformed. Software development company Sopra Steria also detracted amid concerns that advances in AI could undermine the software-as-a-service model.

In terms of portfolio positioning, we added Dutch software solutions provider Wolters Kluwer. We view the company as a high-quality business that has been unfairly penalised by market concerns around AI disruption. We also reintroduced a position in Carl Zeiss Meditec, a leading manufacturer of equipment for ophthalmology and microsurgery equipment. While its valuation has been heavily discounted due to tariff uncertainty and rising competition in China, we believe its new generation of more advanced machinery could drive a recovery. These additions were largely funded by a reduction in the Fund's financials exposure following a long period of outperformance. We also sold the portfolio's position in Novartis during the period, again on the back of strong performance.

## Outlook

With the situation in the Middle East still uncertain, the outlook for global equity markets remains unclear. Any prolonged period of elevated energy prices would be detrimental, risking higher inflation, weaker economic growth and renewed pressure on interest rates. Europe is expected to be particularly exposed given its reliance on imported energy supplies.

Against this backdrop, we believe it is prudent to maintain the portfolio's more defensive positioning, favouring sectors that offer resilience such as utilities, telecommunications and pharmaceuticals. However, this uncertainty works in two directions, and a more definitive end to the current hostilities could provide a material boost to global markets. We will continue to look for opportunities created by indiscriminate market declines to pick up high-quality, cyclical stocks with the potential to deliver attractive upside should a recovery take hold.

<b>Performance</b> Discrete Rolling 12 months	12 months to 31/03/2022	12 months to 31/03/2023	12 months to 31/03/2024	12 months to 31/03/2025	12 months to 31/03/2026
Fund (B Class)	6.5%	10.0%	10.1%	7.7%	18.5%
MSCI Europe ex UK Net TR GBP *	6.5%	8.7%	13.8%	2.5%	14.8%
IA Europe Excluding UK	4.4%	6.6%	12.5%	0.9%	11.8%
Sector Quartile	2	2	4	1	1

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

\*The MSCI Europe ex UK GBP Net Total Return Index was adopted as the Fund's comparative benchmark on 1 January 2024, replacing the FTSE World Europe ex UK Index. As the Fund invests in a diverse range of European (ex UK) companies and sectors, we compare the Fund's performance to the MSCI Europe ex UK GBP Net Total Return Index. However the portfolio manager is not bound or influenced by the index when making investment decisions.

**Past performance is not necessarily a guide to future returns.**

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