Q2 2026 Commentary

EdenTree Sustainable European Equity Fund

Performance	3 months	6 months	1 year	3 years	5 years	10 years
Fund (B Class)	13.6%	9.3%	22.9%	60.5%	77.3%	197.8%
MSCI Europe ex UK Net TR GBP*	12.3%	9.7%	22.0%	49.4%	60.7%	183.5%
IA Europe Excluding UK	12.7%	8.7%	17.4%	42.9%	48.4%	155.6%
Sector Quartile	2	3	2	1	1	1

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested. Data as at 30.06.2026

Market review

Two themes shaped markets during the second quarter, both of which proved supportive for European equities.

The first was a de-escalation of tensions in the Middle East. As peace negotiations between the US and Iran progressed, oil prices gradually retreated from their first-quarter highs, easing concerns about energy-driven inflation. Against this backdrop, expectations of further interest rate rises from several major central banks faded during the quarter. The Bank of England left rates unchanged, signalling it remained alert to inflation risks but was yet to see signs of broader price pressures becoming entrenched. In the US, new Federal Reserve Chair Kevin Warsh adopted a more hawkish tone than anticipated but also held interest rates during the quarter. However, the European Central Bank (ECB) raised interest rates by 25 basis points (bps) in June, reflecting concerns that higher energy costs could still feed into inflation.

The second theme was continued enthusiasm around artificial intelligence (AI). However, while confidence in the long-term potential of AI remains strong, the scale of investment flowing into AI infrastructure continues to prompt debate around valuations. Periods of heightened volatility are reflecting growing investor concerns over whether current levels of spending can ultimately generate attractive returns on invested capital.

Performance and activity

The EdenTree Sustainable European Equity Fund performed strongly over the quarter, outperforming its benchmark the MSCI Europe excluding UK Index and the IA Europe excluding UK sector.

The portfolio was relatively defensively positioned going into the second quarter, reflecting concerns that a prolonged war in the Middle East could further damage economic prospects in Europe. Despite the market rally over the period, this defensive positioning did not significantly affect the Fund’s performance.

The Fund’s lack of direct exposure to energy companies proved supportive, as energy stocks gave back some of their first-quarter performance in line with falling oil prices. Our exposure to the healthcare sector also contributed strongly, due largely to the Fund’s holding in German multinational science and technology company Merck. Meanwhile, the Fund’s underweight exposure to technology – largely due to concerns over the sector’s excessive valuations – was a headwind, as AI-linked companies charged ahead during the period. However, the portfolio does hold several stocks that are exposed to the AI theme, with high-tech wafer solutions provider Siltronic, global industrial group Mersen and telecommunications company Nokia among the Fund’s top performers for the quarter.

From an individual stock perspective, a further key contributor was Dutch bank ABN Amro, which not only benefitted from the wider strong performance of banks but also from ongoing speculation concerning its future, as the Dutch government has been gradually reducing its stake in the bank.

Among the detractors, Norwegian fertiliser producer Yara gave back some of its first-quarter outperformance amid hopes that supply constraints for Middle Eastern fertiliser would ease. Information and software solutions provider Wolters Kluwer fell victim to investors believing it would likely not be an AI beneficiary, as software companies are perceived to be at risk from AI alternatives. Kemira, a global leader in sustainable chemical solutions, was negatively impacted by higher energy costs squeezing its margins. We believe such companies should experience a recovery, assuming energy prices remain low. Finally, home appliances manufacturer Electrolux suffered from a combination of Chinese competition, tariffs and constrained consumer spending.

In terms of portfolio positioning, we continued to increase the Fund's healthcare exposure with the addition of German molecular diagnostics company Qiagen. Qiagen's valuation has been heavily discounted due to competition concerns concerning its tuberculosis testing treatment, which we believe are unfounded due to the inferiority of the competitor solution. We also added the French advertising company Havas. Despite its attractive growth prospects, Havas traded on an appealing free cash flow yield, as the market continued to price in excessive risk from AI disruption.

Outlook

The European macro picture remains subdued heading into the second half of the year. If the Middle East ceasefire holds, the outlook could improve. Lower oil prices should help to ease inflationary pressures, support consumers ahead of winter and create scope for ECB monetary policy easing. However, the situation remains fragile.

At a company level, second-quarter earnings are likely to show the disruption caused by events in the Middle East. However, corporate outlooks should provide a useful gauge of economic conditions and whether businesses are beginning to benefit from lower input costs. Increased government spending should continue to support defence stocks, while more cyclical sectors, particularly real estate, could benefit if bond yields move lower.

With European equities having delivered strong returns in the first half of the year, we believe it remains prudent to maintain the portfolio's defensive positioning. At the same time, we continue to identify attractive opportunities across the market, particularly in healthcare, but also in cyclical business that could benefit from a recovery and selected AI-related stocks that have been indiscriminately sold off.

Performance Discrete Rolling 12 months	12 months to 30/06/2022	12 months to 30/06/2023	12 months to 30/06/2024	12 months to 30/06/2025	12 months to 30/06/2026
Fund (B Class)	-7.2%	19.0%	11.7%	16.9%	22.9%
MSCI Europe ex UK Net TR GBP *	-10.1%	19.6%	12.6%	8.8%	22.0%
IA Europe Excluding UK	-12.5%	18.6%	11.7%	9.0%	17.4%
Sector Quartile	1	3	3	1	2

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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