EdenTree European Equity Fund

Q1 2025 Commentary

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund (B Class)	8.6%	0.9%	7.7%	30.5%	103.8%	120.8%
MSCI Europe ex UK Net TR GBP*	7.4%	2.9%	2.5%	26.8%	82.1%	119.7%
IA Europe Excluding UK	5.5%	1.2%	0.9%	20.9%	76.1%	104.1%
Sector Quartile	1	3	1	2	1	2

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested.
Data as at 31.03.2025

MARKET REVIEW

European equity markets rose during the first quarter of 2025. During the period, US President Trump's threat to implement significant worldwide tariffs and their potential impact on the global economy prompted investors to take a more cautious approach to US assets, particularly equities. Consequently, the period saw a significant rotation out of the US in favour of Europe.

While this rotation was fairly broad-based, Europe's defence sector received an additional boost from the growing recognition that Europe would need to spend more on defence as the US, under Trump, moved in a more isolationist direction. The change in fiscal tone across Europe was particularly evident in Germany where – following an election in February – the incoming coalition announced plans to significantly expand both infrastructure and defence spending by reforming constitutional rules on fiscal borrowing.

On the macroeconomic front, the European Central Bank cut interest rates by 25 basis points (bps) at both its January and March meetings, which took the deposit rate down to 2.50%. The central bank stated that monetary policy was now 'meaningfully less restrictive' as it revised down its growth projections for 2025 and 2026, citing broader trade uncertainty.

PERFORMANCE & ACTIVITY

The EdenTree European Equity Fund outperformed its benchmark and its IA sector peer group over the period. The fund's previous headwind – its under-exposure to the growth-orientated technology sector, which does not reflect the portfolio's value-oriented focus – became a valuable tailwind as technology stocks lost ground, initially on news of Chinese AI breakthrough DeepSeek and then due to the broader market rotation.

From a sector perspective, the Fund's overweight exposure to the financial sector, and banks in particular, contributed strongly. Having come under pressure at the end of last year on concerns that declining interest rates would negatively impact banks' earnings, these stocks rebounded strongly over the quarter – partly on signs that European growth would be stronger in 2025 and partly reflecting idiosyncratic newsflow, notably Italian bank UniCredit's takeover of German bank Commerzbank. The Fund holds the latter, as well as ABN Amro, Banco Santander, BBVA and Bank of Ireland, which all contributed to performance during the period. Some of the portfolio's more defensive names – such as Orange and Deutsche Post – also performed well as rising fears about incoming tariffs steered investors away from sectors that export heavily into the US.

Among the key detractors were the Fund's technology holdings, including Siltronic, a manufacturer of wafers used by the semiconductor industry, and Landis+Gyr, the smart infrastructure technology manufacturer. Towards the end of the period, the auto sector came under significant pressure from the threat of tariffs. While our portfolio holdings within the sector are at the more defensive end of the spectrum – for example, we favour tyre manufacturers such as Pirelli and Michelin, which are less cyclical than the main car manufacturers – their poor performance still weighed on overall returns in March.

Due to our ongoing concerns about the slowing Chinese economy, the portfolio already held underweights in some of the sectors most likely to be impacted by tariffs, such as capital goods and luxury goods, and we also favour companies that are more domestically orientated. Therefore, we have not had to undertake too much portfolio restructuring in light of the changed international trading environment. However, we did take profits from some of the portfolio's bank holdings to ensure our overweight position didn't become too outsized.

OUTLOOK

The future is opaque given the uncertainty relating to the US administration's constantly changing economic and foreign policies. However, with this high level of uncertainty, both people and businesses are likely to put major investment decisions on pause. In addition, April's announcement of worldwide tariffs – while ultimately suspended – is likely to have a negative impact on many sectors, as well as growth prospects in the US and elsewhere.

In light of this weakening economic outlook, the portfolio remains evenly balanced between the defensive and cyclical areas of the market, favouring value over growth, and retains the fund's sizeable overweight to the banking sector. That said, the material volatility we are seeing across global markets will also create market opportunities, as good companies are unfairly punished amid indiscriminate selling. We continue to look for attractive value-orientated investment ideas.

PERFORMANCE DISCRETE	12 Months to 31/03/2021	12 Months to 31/03/2022	12 Months to 31/03/2023	12 Months to 31/03/2024	12 Months to 31/03/2025
Fund (B Class)	46.7%	6.5%	10.0%	10.1%	7.7%
MSCI Europe ex UK Net TR GBP *	34.9%	6.5%	8.7%	13.8%	2.5%
IA Europe Excluding UK	39.5%	4.4%	6.6%	12.5%	0.9%
Sector Quartile	1	2	2	4	1

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

Past performance is not necessarily a guide to future returns.

*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.

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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.

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.

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