

**Your capital is at risk. Past performance is not a guide to future returns. The following update is based on a representative portfolio. As such, stock examples may not be held in every client portfolio, and performance may differ.**

**Thomas Hodges:** It's fair to say that the initial enthusiasm for European Equities and Europe's new dawn has waned. Most of the European market's return was made in the first quarter and since then, including in the third quarter, returns have been quite muted. One theme which has continued since that first quarter boom is Value's outperformance and the narrow leadership of banks and defence companies.

This was a headwind once again in the third quarter, with the Strategy underperforming its benchmark. Higher growth expectations have translated to higher interest rate expectations over time in Europe, benefiting banks, while ongoing geopolitical stress and growing order books have helped the shares of defence companies. As we have highlighted in previous editions of these updates, we do not have exposure to either on the basis that we are not confident they meet our hurdle for quality businesses which can grow sustainably over the long-term.

In terms of the portfolio holdings which have detracted over the quarter, the most headline grabbing was Novo Nordisk, the pioneering company behind diabetes treatments and weight loss drugs. Novo issued a profit warning in July and announced a new CEO. The profit warning came due to Ozempic losing market share to Eli Lilly in the US and due to the effect, that compounded versions of Wegovy, effectively replicas, have had on volumes with these replicas still being sold in the US despite the FDA's grace period for compounded versions of Wegovy having ended.

It's been a torrid time for Novo over the past 12 months, with this profit warning having followed weak trial data earlier in the year from its next generation weight loss product, CagriSema. But it's important to have a sense of perspective. Novo remains one of the two leading companies in a massive market which, frankly, is just getting started. There's lots more to come. We believe that Novo has unrivalled knowledge of metabolic conditions and, crucially, it has significant manufacturing capacity, something which will likely prove a bottleneck for Novo's and Eli Lilly's competitors in the future. The valuation, in our view, looks very attractive and we continue to own the shares.

Turning to the positive performers, Prosus was among the standouts. The investment company, best known for its large stake in Chinese conglomerate, Tencent has been making lots of progress away from that Tencent stake in recent times. Its ecommerce portfolio has improved operating profitability and free cash flow generation significantly, and it continues to invest that cash flow, acquiring La Centrale, a French classified business in September.

There was also positive performance from Camurus, a biotech which is turning existing medicines which are often administered daily or weekly, into long-acting versions. It had the news that its treatment for acromegaly has been approved in the UK and in the EU. This is another marker of its

progress towards becoming a platform company, applying its fluid crystal technology to a whole host of different treatments.

Away from performance, there are two new holdings in the portfolio to mention which have been driven by a couple of research trips to Poland over the past year. We took a new holding in Kruk, a conservative but growing debt management business. It has a track record of generating high rates of returns on the debt portfolios that it acquires, and it has developed a culture of long-termism which should lessen the potential for it to face some of the challenges its competitors have faced in recent years.

We also took a new holding in Grupa Kety, an aluminium and packaging business. It has a track record of growing revenues in the mid-teens while generating high rates of return on capital. We think it can continue to do so, particularly as it transitions into more of a systems and components business.

Now, looking ahead, while the narrative about Europe has improved, we are yet to see the type of broad cyclical recovery which might tempt investors back over to the 'growth' side of the argument in Europe. Our belief is that patience will be rewarded.

Naturally, we expect questions of 'what will it take for growth to outperform in Europe once again?' The answer is simple: all of the structural trends emerging in Europe are supportive of growth's outperformance. Infrastructure spending and implementing some of the lessons from the Draghi Report, could boost domestic demand and productivity. This should improve incumbent European businesses and create opportunities for the next generation of European businesses. While the short-term picture for European growth investing might look much like it has for the past three years, the long-term is as bright as it's ever been.

#### **European Equities (including Europe ex UK Equities and Pan European Equities strategies)**

##### **Annual past performance to 30 September each year (gross %)**

	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
Europe ex UK Equities Composite	25.2	-51.5	17.7	30.8	0.7
MSCI Europe ex UK Index	27.0	-27.2	31.2	26.8	15.3
Pan European Equities Composite	23.1	-51.3	18.8	28.3	-0.8
MSCI Europe Index	28.0	-24.3	29.7	26.0	15.8

**Annualised returns to 30 September (gross %)**

	<b>1</b>		
	<b>year</b>	<b>5 years</b>	<b>10 years</b>
Europe ex UK Equities Composite	0.7	-1.2	7.5
MSCI Europe ex UK Index*	15.3	12.1	9.4
Pan European Equities Composite	-0.8	-1.9	4.8
MSCI Europe Index	15.8	12.9	8.8

**Annual past performance to 30 September each year (net %)**

	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
Europe ex UK Equities Composite	24.5	-51.7	17.0	30.1	0.1
MSCI Europe ex UK Index	27.0	-27.2	31.2	26.8	15.3
Pan European Equities Composite	22.4	-51.6	18.1	27.6	-1.3
MSCI Europe Index	28.0	-24.3	29.7	26.0	15.8

**Annualised returns to 30 September (net %)**

	<b>1</b>		
	<b>year</b>	<b>5 years</b>	<b>10 years</b>
Europe ex UK Equities Composite	0.1	-1.7	6.9
MSCI Europe ex UK Index*	15.3	12.1	9.4
Pan European Equities Composite	-1.3	-2.5	4.2
MSCI Europe Index	15.8	12.9	8.8

\*FTSE World Europe ex UK prior to 31 December 2016.

Source: Revolution, MSCI, FTSE. US dollars. Returns have been calculated by reducing the gross return by the highest annual management fee for the composite. 1 year figures are not annualised.

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