

SO, HOW IS YOUR COMPETITIVE MOAT?

Software stocks hard hit by AI concerns

During February the market continued its daily search for the generational impact of artificial intelligence by focusing on software stocks. Historically high flying and highly valued, the fear was that artificial intelligence would soon replace complex software solutions with quickly produced bespoke versions. The catalyst for this particular fear was an updated release of Claude Code, an AI model from Anthropic. In the middle of the month, a much awaited ruling from the US Supreme Court declared the majority of President Trump's tariffs to be unlawful. The President declared his dismay with the ruling using his own inimitable phrasing, and promptly replaced the unlawful tariffs with a flat tariff on all countries using a different process, that may also be unlawful.

Later in the month, fears grew that private credit, a significant lender to startup software companies, would realize losses on their lending portfolios. This fear, compounded by private credit company Blue Owl permanently halting redemptions in one of its retail focused private credit funds, led to a broad sell-off in banks and private capital firms towards the end of the month. Overshadowing markets during the month was a steady build up of US military force in the Middle East, although the precise intent was only revealed on the last day of the month as the US and Israel launched strikes against Iran.

The MSCI World returned 1.50% in the month, as strength in Japanese and European equities offset weakness in the US. The MSCI US market declined by 0.16%, as the drag from financial and software stocks impacted returns, compounded by uncertainty over the precise tariffs different imports are subject to. European equities performed well amidst growing optimism for economic growth across the continent, with the MSCI Europe index rising by 3.71%. Japan, however, was the standout market in the month, as stocks soared following the landslide election win of Prime Minister Sanae Takaichi and the expectations that she would deliver a major economic stimulus.

Value continues the strong start to the year

The portfolio returned 5.53% in the month, ahead of the 4.05% return of the MSCI Europe. The drivers of the outperformance was the style of the fund, particularly the value style, as well as some strong stock selection. The industry allocation of the fund was a moderately positive contributor to performance, while the modest small-cap tilt of the fund was a slight negative. The MSCI Europe Value index returned 5.00% in the month, showing the benefit of the value style in this index vs. the broader market. Relative to the MSCI Europe Value index, a positive impact from the portfolio's higher exposure to the value factor was offset by a higher cyclicality. Industry allocation contributed positively against the Value index mostly because of an underweight in Financials, while stock selection also contributed positively.

Real Estate, Communications Services and Consumer Staples were the strongest performers in the month as investors seemed to look for a safe haven in some historically less cyclical sectors. Energy and Materials also outperformed the broad markets for the second month in a row, as rising commodity prices, particularly for oil and metals, buoyed stocks in both sectors. Financials and Information Technology were among the weakest sectors reflecting investor nervousness related to AI applications and the impact it can have on certain industries.

As noted above, stock selection for the fund was strong during the month. European steel company ArcelorMittal benefitted from an improved trade environment in Europe, as the European Union agreed to limit imports of steel from markets such as China. European telecommunications equipment company Nokia also performed well during the month as the market became more aware of the networking products of the company's AI related potential of these products. British pharma company GSK performed well due to strong full year 2025 earnings that beat expectations.

Strategy

European Value invests in European equities, cf. the fund's prospectus. Stocks are selected using the value strategy, meaning that through careful fundamental analysis, the team strives to identify companies that trade at healthy discounts relative to intrinsic value. A risk-aware approach to the portfolio construction ensures a well-diversified portfolio and broad exposure across sectors and countries.

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