

- Strong US equities propel MSCI World higher
- European equities return a respectable 8.6%, above historical average
- Strategy slightly outperforms, posts solid risk-adjusted alpha

Market review and developments

After the surprisingly strong 2023, when global equities edged higher by nearly 24% despite omnipresent global recession fears, caution gave way to further upside in 2024. The MSCI World ended the year up close to +19%. European equities edged up +8.6% (EUR), thus underperforming global stocks. Other regions were equally unable to match the MSCI World's return, with the MSCI APAC up +10% and Emerging Market +8%. The outstanding performance of world equities is almost entirely owed to the exceptionally strong US equity market (S&P 500 +25%), which accounts for >70% of the MSCI World's allocation. The MSCI China posted a respectable +20% after rebounding from a multi-year low in January.

The fact that market volatility has declined to multi-year lows despite numerous and significant risk events during the year, illustrates the general risk-on mood, economic resilience in some areas (European labor market, Services PMI) and outright boom conditions in others (Artificial Intelligence, defence spending). Yet, the optimism was skewed towards the first half. By June, the MSCI Europe was up +9% (more than the full-year return), driven once again by surging technology stocks (ASML +42%, SAP +36%) and Health Care (Novo Nordisk +45%). This increase in equity prices came even as US Treasury yields rose, reflecting stickier inflation and lower expectations for Fed rate cuts.

Composition of returns changed frequently, depending on global macro factors. Worsening geopolitical tensions led to volatile energy and commodity prices. In April, the market faced a significant rotation from technology and consumer discretionary stocks that had performed well up to that point, into oil and commodity stocks. Oil climbed briefly above USD 90/barrel, and copper and iron ore advanced sharply. Equally sharp was the reversal as a flagging Chinese economy dampened the outlook for oil and commodity demand once again. The second half experienced several shocks, ranging from political turmoil in France that pressured French equities, to a sell-off in Japanese equities that quickly spread across the globe. The market rebounded quickly thereafter and rotated once again out of defensives, back into higher-beta industries. After Chinese economic and deflationary woes caused companies with significant exposure to the country to underperform, September brought a surprise in the form of the launch of an economic stimulus program in China. Chinese equities, as well as European equities that derive a high share of earnings from China, rallied ferociously. The UK's new government budget proposal added to market concerns as UK 10-year Gilt yields started to move higher and domestic UK equities came under pressure. Shortly after, the outcome of the US election with the Republicans securing control of the presidency, House and Senate

2024 REVIEW

Marketing material for professional investors, not for onward distribution



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sent US stocks soaring. Market participants have expressed optimism about a pro-business agenda with tax cuts and deregulation policies driving private sector growth. At the same time, German chancellor Scholz called for snap elections causing the 'traffic light' coalition to fail and raised hopes for more pro-growth policies of the upcoming new coalition. In Europe, threats of harsh tariffs on imports to the US, as announced by US president-elect Donald Trump, were increasingly priced into European equities by year-end.

Dispersion in European equity returns was quite considerable and the leading investment themes that drove strong positive returns were more diverse than the Artificial Intelligence-driven bull market in the US. European banks, in particular Italian and Spanish banks, continued to perform strongly (Banco Monte dei Paschi Siena +123%). Insurance stocks came in second best in 2024 for a variety of reasons, such as strong pricing, higher investment income, increased capital returns and M&A (Direct Line Insurance Group +40%). Telecom companies had a good year (+16%) driven by signs of pricing power, rational competition, M&A and high demand for mobile network infrastructure (Ericsson +42%, Nokia +40%). Technology stocks had a good but not outstanding year (+12.8%) on a mix of positive developments for software companies (SAP +72%), mitigated by relatively poor returns in the semiconductor industry.

European automobile OEMs performed poorly (-6.8%) on an unhealthy mix of low global demand, increasing competition from Chinese EV manufacturers, a normalization in price discounting, and declining demand for electric vehicles. Mining stocks were sluggish due to a lack of sustainable impulse from Chinese demand. Real estate stocks also declined in a reversal to 2023 performance driven by rising interest rates.

The ESG space remains challenged return wise. While there is no single driver to point to, it is rather a mix of challenges and the general investment landscape. Geopolitical tensions globally have worsened with new conflicts emerging and escalating. This has once again propelled defence stocks to new highs. Being long defence spending continues to be one of the hottest investment themes in the European market even after 200% outperformance since early 2022. European defence stocks meanwhile trade at a 20x price-to-forward earnings ratio, a level reserved for quality and growth stocks¹. Before the outbreak of the war in the Ukraine, they traded around 10x. The targeted (and required) defence spending by European NATO members of 2% of GDP might even get a boost to 5% if members follow the calls made by US President-elect Donald Trump. Increased demand could drive a 13-14% CAGR up until 2030, significantly benefitting European players in this market.²

ESG leaders and environmentally tilted European equities have also underperformed in 2024 (as measured by the MSCI Europe ESG Leaders index, the MSCI Europe Climate Paris Aligned Index and the MSCI Europe Select Green ex Fossil Fuel Index). ESG Leaders tend to be quality-companies, and the quality factor has underperformed in Europe (quite in contrast to the US market) for a variety of reasons, ranging from exposure to China, to trade tensions between the West and the East, and other industry- or company specific reasons.

¹ UBS Research, European Equity Strategy, 2025 Outlook – Testing Times, 4 Dec 2024

² Carnegie, SAAB, Positioned for sustained growth and margin improvement ahead, 7 Feb 2025

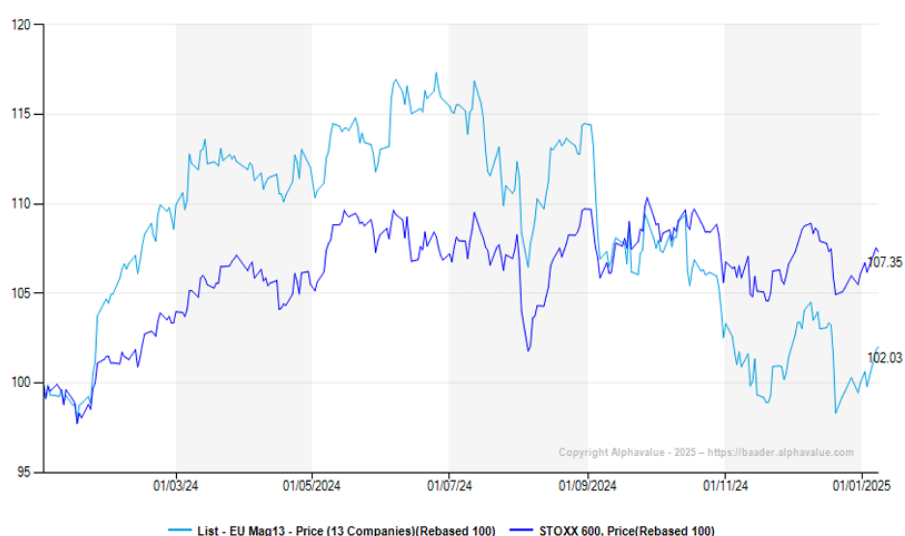
Figure 1 – European equities: market segment returns

2024 total returns		Last year % Return	3y ann. % Return
MSCI Europe	EUR	8.6%	4.7%
STOXX600 Optimised Cyclical	EUR	15.2%	5.9%
STOXX600 Optimised Defensives	EUR	5.8%	6.1%
MSCI Europe Small Cap	EUR	5.7%	-2.7%
MSCI Europe Equal Weighted Net	EUR	6.9%	1.3%
MSCI Europe Value	EUR	11.2%	6.8%
MSCI Europe Growth	EUR	6.0%	2.5%
MSCI Europe Momentum	EUR	20.5%	6.6%
MSCI Europe High Dividend	EUR	10.2%	7.0%
MSCI Europe Quality	EUR	3.4%	2.6%
MSCI Europe Low Volatility	EUR	11.7%	3.8%
MSCI Europe ESG Leaders	EUR	6.3%	3.4%
MSCI Europe Climate Paris Aligned	EUR	7.2%	3.7%
MSCI Europe Select Green ex Fossil Fuel 50 5% Decrement	EUR	-4.3%	-5.4%

Source: Robeco, MSCI, Bloomberg

In stark contrast to the S&P 500 in the US, Europe's mega-caps and most exceptional companies have halted their substantial outperformance or even began to underperform. In Europe, it is no longer possible to buy a handful of popular and large 'one-decision stocks',³ lean back and let them run for the next 12, 24 or 36 months. A list of Europe's 13 largest high-quality stocks⁴ has indeed underperformed the broad Stoxx600 index over the last year.

Figure 2 – Price return indexed to 100 "Europe Magnificent 13" (equal-weighted) versus Stoxx600



Source: Robeco, Baader Europe (AlphaValue)

³ One-decision stocks is a term used during the 1973-74 "nifty-fifty" era and described the investment mood at the time. Similar to US stocks today, investors believed they could buy a fixed set of stocks (the Nifty-Fifties) hold them and outperform the market forever.

⁴ Europe Magnificent 13 is a discretionarily curated list: ASML, AstraZeneca, Hermes International, Linde Plc, L'Oréal, LVMH, Nestlé, Novartis, Novo Nordisk, Roche Holding, SAP, Shell, TotalEnergies.

Investing in a market's largest stocks by benchmark weight has proven yet again to be a winning strategy for US equities, but not so much for European markets. The ten largest European benchmark weights at the beginning of the year delivered a paltry +3.8% (weighted return) versus +50.8% for the ten largest US benchmark weights. Only SAP and HSBC delivered impressive 1-year returns, while in the US, only Microsoft underperformed the broader US market.

Figure 3 – Price return of MSCI Europe and MSCI USA Top Weighted Stocks

EU Top 10 stocks TR (LC)	2024	US Top 10 stocks TR (USD)	2024
SAP SE	71.5%	NVIDIA Corp	171.2%
HSBC Holdings PLC	36.3%	Broadcom Inc	110.4%
Roche Holding AG	8.8%	Meta Platforms Inc	66.0%
Novartis AG	8.4%	Tesla Inc	62.5%
AstraZeneca PLC	0.9%	Amazon.com Inc	44.4%
ASML Holding NV	0.4%	JPMorgan Chase & Co	44.3%
Shell PLC	0.3%	Alphabet Inc	36.0%
Novo Nordisk A/S	-9.6%	Alphabet Inc	35.6%
LVMH Moët Hennessy Louis	-11.8%	Apple Inc	30.7%
Nestlé SA	-20.8%	Microsoft Corp	12.9%
Weighted Total Return	3.8%	Weighted Total Return	50.8%

Source: Bloomberg, MSCI

It has also become ineffective to run a mono-style strategy focused on growth or value. While the MSCI Europe Value has outperformed the Growth version for the year, sharp rotations are frequent and challenging for investors.

Stock-picking outcomes

The strategy posted a total return of 8.75% during 2024, a small 16bps gain versus the MSCI Europe and modestly building on the recovery after strong headwinds for ESG-focused strategies.

Volatility was in line with the market's and given a beta lower than 1, Jensen's Alpha was ~+50bps. The allocation effect was strong at almost +2%, while selection effect was negative 1.70%. As explained further down, allocation effect is the result of bottom-up stock picking and long-term strategic positioning.

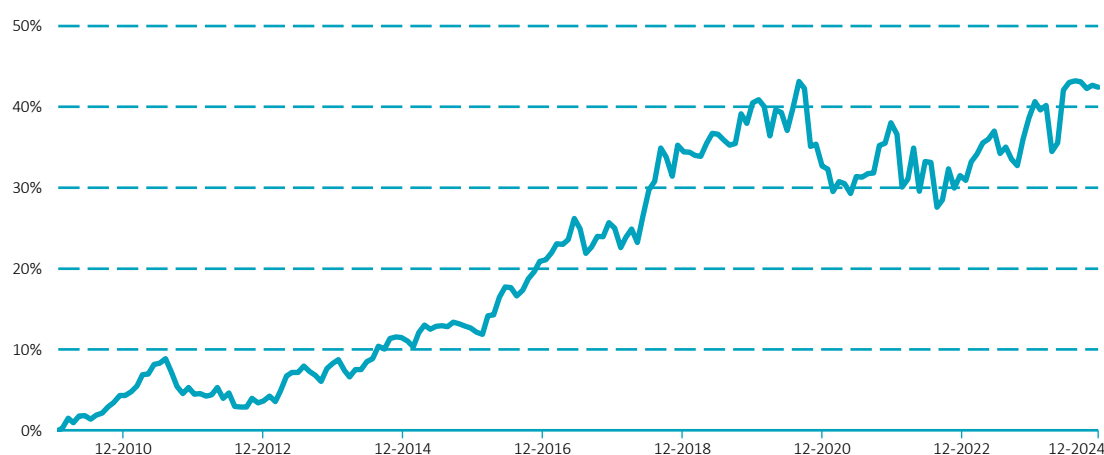
Figure 4 – Track record of Robeco Sustainable European Stars Equities

	Returns			Alpha	Beta
	Portfolio	Index	Excess		
December	-0.50%	-0.49%	-0.01%	-	-
Q4-2024	-2.58%	-2.72%	0.14%	-	-
YTD	8.75%	8.59%	0.16%	-	-
1-Year	8.75%	8.59%	0.16%	0.49%	0.93
3-Year (ann.)	4.33%	4.41%	-0.09%	0.06%	0.93
5-Year (ann.)	5.81%	6.61%	-0.80%	-0.40%	0.93
Since inception (ann.)	8.59%	7.65%	0.94%	1.28%	0.94

The currency in which the past performance is displayed may differ from the currency of your country of residence. Due to exchange rate fluctuations the performance shown may increase or decrease if converted into your local currency. Periods shorter than one year are not annualized. The value of your investments may fluctuate. Past performance is no guarantee of future results. Returns gross of fees, based on gross asset value. In reality costs (such as management fees and other costs) are charged. These have a negative effect on the returns shown.

Source: Robeco, MSCI. Portfolio: Robeco Sustainable European Stars Equities D-EUR Share Class. Index: MSCI Europe Index. All figures in EUR. Data end of December 2024.

Figure 5 – Cumulative excess return since inception (Gross of fees)



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Source: Robeco, MSCI. Portfolio: Robeco Sustainable European Stars Equities D-EUR Share Class. Index: MSCI Europe Index. All figures in EUR. Data end of December 2024.

As a reminder, the strategy seeks to generate additional returns mostly through exposure to company-specific risks and not through tilted exposure to sectors or factors (such as growth or value). As such, the investment style is 'factor agnostic' in a sense that the fund managers do not per se and ex ante seek a static exposure to a group of stocks with a particular set of features such as low earnings multiples or high expected earnings growth. Such exposure can provide strong returns for a period due to reaping of risk premia associated with a certain factor but tend to mean-revert. This phenomenon was last observable during the pandemic period from 2020 to 2021 as growth-oriented strategies strongly outperformed and then gave back all the excess returns (and even more) in the subsequent normalization phase from 2022-2024. It is thus part of the risk management approach of the strategy to maintain a balanced exposure not only across sectors and industries but also through selecting stocks with different factor exposures.

The strategy entered 2024 with overweight positions in Information Technology, Communication Services and Consumer Discretionary. As illustrated in last year's annual report, the strategy is structurally underweighting the energy sector, the utility sector and metals and mining owing to the strategy's high ESG-promoting standards. Thus, around 10% of allocations from these sectors need to be redistributed to the remaining ones. While fluctuations in sector weightings are bottom-up driven, the fund managers tend to view a strategic overweight in information technology and consumer discretionary as beneficial over the long term given higher value-add, innovation and structural growth opportunities within those industries. For example, the benchmark-defined weight of the information technology sector is only around 8%, which is underrepresenting its importance, in our view.

The ESG integration into the investment process and the objectives that the strategy is promoting will ultimately lead to a focus on some industries and a de-emphasis of others, but the exposure overall is nonetheless balanced and highly diversified. The sustainability pillar of the investment process is strategic and expected to help returns over the long term and aims at meeting the fund's defined ESG characteristics – both lower Sustainability Risk Ratings and at least a 20% better environmental footprint.

The best overall contribution in 2024 came from Consumer Staples where a combination of an underweight position in the underperforming sector (~30bps) and robust selection (+90bps) both contributed positively to the strategy's relative return. The contribution from Communication Services results from a positive allocation effect of being overweight an outperforming sector (+35bps). Consumer Discretionary added 37bps from selection and experienced only limited headwind from being overweight. Financials were the biggest detractor because of poor selection in bank stocks, while insurance and financial services contribution was rather flat.

From a factor (*country, industry, market, currency, style*) perspective, the impact of *style* was neutral, as a positive contribution from momentum was offset by a negative contribution from value and yield. Currency contributed positively because of a rising British Pound against the Euro.

Contributors

After a challenging 2023, **Lonza Group's (LONN SW)** shares rebounded >+50% (in EUR) in 2024. After reaching a low in October 2023, the market was fearful for a cut in the company's medium-term outlook. Yet, early in the year, management confirmed its revenue growth and margin ambition for 2028, and announced a new chairman and CEO. These confidence-building measures, coupled with better operating performance, the acquisition of a meaningful manufacturing facility and the anticipated introduction of the Biosecure Act in the US, which is expected to benefit Lonza Group at the expense of Chinese competitors, helped the shares to re-rate and deliver strong outperformance.

SAP SE's (SAP GR) relentless rise (>70%) has been driven by strong execution of its transformation strategy to move its enterprise resource software customers to the cloud. SAP is transforming its business away from a license-based, on-premises software seller to a cloud-based, recurring-revenue subscription model. And it is working, as cloud revenue growth in constant currency is tracking at 20%+ and the addressable market is

expanding with traction in mid-market companies rising. The market has come to realize the long-term benefits to SAP's structural growth and quality of revenues as it becomes a true software-as-a-service company. Additionally, given the success of SAP's AI assistant "Joule" (to be integrated in Microsoft's co-pilot) makes SAP one of the few genuine AI plays in the European market, lifting its valuation.

After a strong finish to 2023 (+56% in EUR), **InterContinental Hotels Group's (IHG LN)** stock advanced another 50% in 2024, making it more than a double bagger over the past 24 months. The drivers of such outstanding return are manifold. The travel industry is experiencing a prolonged boom after consumers were locked down for around two years during the global pandemic. Despite IHG's large exposure to the strong US market, its shares were trading at a discount to US peers such as Marriott. This discount has narrowed in 2024. IHG's business model is enviable with structural top-line growth at 4-5% and built-in margin expansion to drive mid-teens EPS growth. The business is capital light, producing best-in-class high returns, enabling the company to buy back shares (~USD 2bn since 2022), consistently reducing the share count by around 15% and thus adding to shareholder returns.

The position in **Deutsche Telekom (DTE GR)** has done exceptionally well (+38%) for a second year in a row on the back of rational telco markets in the US (through its stake in T-Mobile) and in Germany. After the stock's valuation having lingered at the low end of its range for the past two years, 2024 saw a re-rating driven by the market's appreciation of the company's cash-generation ability and determination to drive up shareholder returns through share buyback programs. Its large US exposure that delivers good growth is underpinned by the stake in T-Mobile US.

Nestlé SA was the largest relative contributor to portfolio performance in 2024. Being one of the largest benchmark weights and having performed poorly during the year, our lack of exposure to the stock proved advantageous.

Detractors

Right at the beginning of 2024, **JD Sports (JD/ LN)** shares declined materially as management lowered 2024 guidance after a 40% rally into 2023 year-end. Given vulnerable consumer sentiment, a promotional market environment and poor performance by Nike, a key JD supplier, the stock remained highly volatile throughout 2024. From its February low point, the shares rallied more than 50% until September, on a robust trading update that defied pessimism around Nike's ailing sales development. Subsequently, the stock gave up all these gains by year-end as management expected full-year pre-tax profit to come in at the lower end of its guidance. We think this volatility is driven by a short-term, news-flow-driven investor base. Thus, extreme share price moves and valuations are a common pattern to the shares. As we have not identified any structural negatives, we maintain a small position given its attractive return potential for patient investors.

While at the beginning of 2024 it looked like **STMicroelectronics' (STMPA FP)** semiconductor end-market demand is about to bottom while earnings expectations and valuation had adequately de-risked, the Q1 2024 earnings report missed estimates and came with lowered full-year guidance for revenues and gross margin. Industrial and automotive end-markets remained muted with high inventory levels. Normalization from high pricing during the post-pandemic shortages is taking a toll on elevated margins and production utilization rates and lengthen the recovery compared to previous semiconductor cycles. A new long-term ambition announced during November's CMD pushed out previous revenue targets and look ambitious in today's semiconductor market environment, where key end-markets remain weak and cyclical headwinds, for example in automotive, overshadow structural opportunities from adoption of EV.

2024 took down another long-lasting mega-cap after years of outperformance. **L'Oréal's (OR FP)** shares entered 2024 on a high note as it continued to grow low teens in 2023, seemingly defying headwinds from the Chinese consumer that were already evident last year. 2024 showed that the feared slowdown just came with a delay, and estimates for full-year 2024 organic growth have been slashed from high-single-digit to around 5.5%. Q3 2024 saw organic growth at +3.4% as Europe and North America slowed materially and North Asia (driven by China) is

deepening its contraction. The shares are down 23%, mainly reflecting a decline in its valuation multiple. The slowdown appears cyclical after the pandemic and post-pandemic boom years. L'Oréal remains well invested with clear leadership in research and development, and in advertising and promotion spending in absolute terms.

We initiated a position in Contract Research Organization (CRO) **Icon Plc (ICLR US)**, which was based on the company's strong position to benefit from outsourcing trends and increasing pharma R&D. The company was believed to benefit from similar growth drivers as the pharmaceutical industry, yet without being exposed to typical industry risks such as loss of exclusivity or payor price pressure. While the market has been cautious on ICLR's exposure to biotech funding pressure, the company presented shocker Q3 2024 numbers, largely missing expectations and sending the shares down 20% on the day. Management lowered full-year 2024 guidance as they saw lower revenue contribution from two of their larger Pharma customers due to cost pressures and tight development spend. This development was entirely unanticipated and raised questions around the visibility into 2025 and large pharma spending plans.

Dassault Systèmes (DSY FP), a French software company providing product lifecycle software (design and engineering, simulation, governance, collaboration) for various industries, has a tremendous track record of compounding earnings through its innovative product offering, a sticky customer based and >70% recurring revenues. The stock started to stumble in 2024 as its Life Science business – a key growth driver historically – slowed considerably on increasing competition and cyclical concerns. Over the course of the year, the weakness proved to be stickier than anticipated as the company was shedding market share to cloud-native peers. The market started to price in lower long-term growth than targeted by the company until 2028. Earnings expectations were slashed and the stock de-rated, contributing to the underperformance.

Figure 6 – Track record of Robeco Sustainable European Stars Equities as of December 2024

Period	Portfolio	Benchmark*	Excess Return
1-Year	8.75%	8.59%	0.16%
3-Year (ann.)	4.33%	4.41%	-0.09%
5-Year (ann.)	5.80%	6.61%	-0.81%
10-Year (ann.)	7.31%	6.63%	0.69%
Since Jul-91 (ann.)**	7.49%	7.40%	0.09%

Source: Robeco. Results gross of fees, based on gross asset value, in euros. Management fees and other costs are charged. These have a negative effect on the returns shown. The value of your investments may fluctuate. Results obtained in the past are no guarantee for future success. *MSCI Europe Index. **July 1991

Figure 7 – Sector Attribution

Name	Portfolio Weight*	Benchmark Weight*	Portfolio Return	Benchmark Return	Allocation Effect	Selection Effect	Total Effect
Equities	100.00%	100.00%	8.84%	8.59%	1.95%	-1.70%	0.25%
Communication Services	9.68%	3.94%	14.86%	14.81%	0.36%	0.01%	0.37%
Consumer Discretionary	14.13%	9.65%	6.73%	3.40%	-0.07%	0.37%	0.30%
Consumer Staples	8.04%	10.46%	8.00%	-2.27%	0.29%	0.92%	1.21%
Energy	0.00%	4.70%	-5.25%	-4.88%	0.69%	-0.33%	0.35%
Financials	18.15%	20.34%	17.35%	25.37%	-0.37%	-1.18%	-1.55%
Health Care	13.50%	14.98%	2.33%	4.25%	0.26%	-0.38%	-0.12%
Industrials	17.31%	17.47%	13.31%	14.87%	0.02%	-0.31%	-0.29%
Information Technology	11.83%	7.71%	4.00%	12.53%	0.23%	-1.13%	-0.90%
Materials	3.38%	5.90%	10.69%	-2.39%	0.43%	0.35%	0.78%
Real Estate	1.02%	0.85%	-15.11%	-1.10%	-0.05%	-0.24%	-0.29%
Utilities	2.97%	4.00%	7.22%	0.90%	0.16%	0.22%	0.38%

Source: Robeco, Factset

*Refers to weight as at 31-Dec-24

Figure 8 - Stock Attribution – Largest Contributors & Detractors

Name	Portfolio Weight*	Index Weight*	Portfolio Return	Total Effect
Top 5				
Nestle SA	0.00%	2.49%	0.00%	0.90%
SAP SE	3.79%	1.96%	71.06%	0.80%
Lonza Group AG	2.61%	0.39%	51.10%	0.79%
InterContinental Hotels Group PLC	1.85%	0.16%	48.95%	0.56%
Deutsche Telekom AG	3.12%	0.81%	37.60%	0.52%
Bottom 5				
JD Sports Fashion PLC	1.27%	0.04%	-40.51%	-1.24%
STMicroelectronics NV	1.28%	0.23%	-46.35%	-0.87%
L'Oreal SA	2.69%	0.97%	-23.05%	-0.63%
ICON PLC	0.57%	0.00%	-29.63%	-0.57%
Dassault Systemes SE	0.90%	0.25%	-26.48%	-0.56%

Source: Robeco, Factset

*Refers to weight average weight for the year 2024

Activity

Activity level remained in line with history and the preferred investment horizon of the strategy of 3-5 years on single positions. We added 12 new positions and exited 6 to widen the portfolio as we were expecting a broadening of market returns into different sectors, industries and styles.

Additions to the portfolio

After a strong market in 2023, when some defensives underperformed, we added Qiagen (QIA GR) to the portfolio after a period of underperformance for the stock. The diagnostic company is a market leader in tuberculosis testing and derives more than 80% of revenues from recurring consumables. We added leading music label Universal Music Group (UMG NA) to the portfolio as we view it as a unique and scarce asset in Europe. As the interest rate cycle is peaking in Europe, we added Intesa Sanpaolo (ISP SM), given its high share of non-interest rate income and cash-return potential. Similarly, a position in Barclays Plc (BARC LN) was added as its continued growth potential, structurally improved return and high exposure to US capital markets is heavily discounted. Given an attractive capital allocation commitment and cash-return outlook, we added Mercedes-Benz Group (MBG GR). We took a position in Icon Plc (ICLR US), a Dublin-based, US-listed, Contract Research Organization for the pharmaceutical industry with an attractive positioning and a beneficiary of growing Pharma research and development spending. While investors and media are worried about the expensive valuation of global technology stocks, we found good value in French IT services company Capgemini (CAP FP), trading at the low end of its historical range. The strategy invested in Prysmian (PRY IM), a leader in cable solutions leading the energy transition and digital transformation, given its multi-year growth trajectory. To reap the opportunity from high cash yields available in the financials sector, a position in NN Group (NN NA) was added. The underperformance of quality stocks provided an opportunity to invest in best-in-class luxury group Hermès (RMS FP) after a rare drawdown. After poor commodity performance driven by weakness in China, a position in Rio Tinto Plc (RIO LN) was taken to better position against volatility and potential upside risk in commodity markets. An investment in

French building materials company Saint-Gobain (SGO FP) was initiated as its transformation to a higher return and more geographically balanced company remains underappreciated.

Exits from the portfolio

Continued disappointment regarding Coloplast's (COLOB DC) margin progress and concerns over the performance of its past acquisitions led to the full exit from the position. As the 'Towards Sustainability' label which the fund adheres to pushed forward the phase-out period for companies engaging in the oil and gas value chain, the position in Tenaris (TEN IM) was sold. The investment in product lifecycle software company Dassault Syst me (DSY FP) was divested due to slowing and disappointing growth in its Life Sciences division and increasing competition which put long-term growth targets at risk. Icon Plc (ICLR US) issued a material profit warning over budgets cuts at big pharma companies that invalidated our original thesis, and we exited the position. As the sharp rise in French sovereign bond spreads and Dutch mortgage spreads at year-end has a material anticipated effect on NN's Solvency 2 ratio, expectations of increasing capital distribution and share buybacks became unrealistic. A cumulation of negative developments in international auto markets is affecting Mercedes-Benz negatively and could cause a material shift in strategy, restructuring and management and is likely leading to lower than anticipated payout to investors. Thus the fund sold the position.

Market outlook

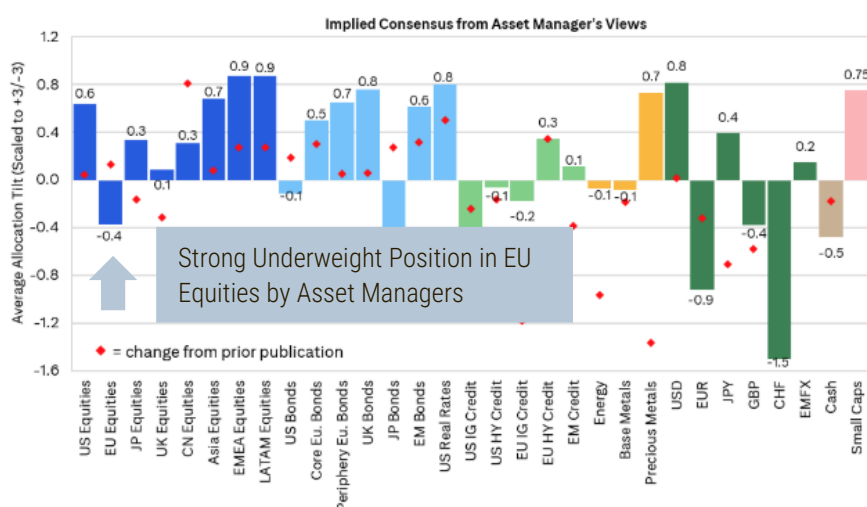
The continuous outperformance of the US market is grabbing significant attention in the investment community and the media. As usual, "the price makes the news" and as the S&P500 advanced +25% versus the MSCI Europe's +8.5%, market observers ascribe this outstanding return differential to American Exceptionalism. The anticipated pro-business agenda of US president-elect Donald Trump that is to include a reduction in corporate taxes, deregulation and protectionist trade policies drive the view on Wall Street that once again US equities should be preferred to any other region, globally.

This mono-focus view on the US as the only investable region might be premature. In the market, there is a constant give and take and investors are well advised to recall that:

- a) After strong outperformance of the US market, the beneficial economic position of the country is well priced. Asset managers are excessively bullish positioned in US equity futures at over 2x standard deviation above normal positioning.⁵
- b) Changes and surprises move the market. In contrast, sentiment and positioning towards European equities is depressed. Not only is valuation (e.g. price to earnings) compared to the US at a record low, but asset managers widely agree to underweight European equities. This makes the region sensitive to positive surprises.
- c) Diversification benefits investors. Investing's only free lunch is diversification. Thus, any portfolio should be balanced and take on different risk/return profiles. As mentioned further down below, the US market is primarily driven by a few large-cap stocks. The European market is way more balanced and has a highly diversified revenue stream not solely depending on the European economy.
- d) to keep the long-term in mind and not get overly carried away by most recent returns. As valuation is a poor short-term signal but a significant long-term return driver, expected long-term returns may be more attractive than in other regions.

⁵ J.P.Morgan, Global Equity Strategy, January 6th 2025

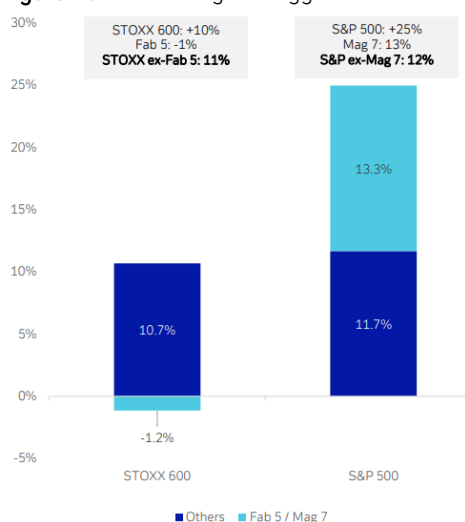
Figure 9 – Underweighting Europe is a consensus call



Source: Citi Research, Global Quantitative Macro Strategy – Asset Manager Positioning Flash, Robeco

It is also wise to be conscious that the US market is driven by a few names that are exceptional, large, well-positioned and exposed to the right investment themes. Whether optimism towards to US versus everything else can be expanded beyond those Magnificent 7 remains to be seen. American Exceptionalism comes down to 7 companies while 493 others seem to produce similar returns to European stocks. Excluding those names, the European market may offer similar return potential going forward.

Figure 10 – Excluding the biggest names in Europe and the US, the performance differential is small for 2024



Source: Deutsche Bank Cross Asset Outlook – Q2 2025, Lonely Bull 3.0, January 2025; Fab 5 in Europe include Novo Nordisk, LVMH, ASML, Nestle, L'Oréal

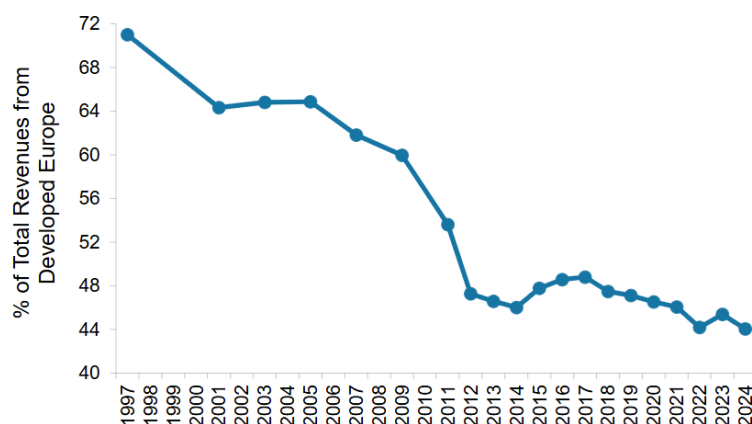
The global economy and geopolitical situation remain volatile and vulnerable. In Europe, political turmoil in France, Germany and the UK has impacted the willingness to invest in the region. However, given a generally low correlation between GDP growth and stock returns, and European companies' highly diversified revenue composition, the market's low assigned valuation maybe more sentiment and headline driven. For those worried about European growth prospects, Europe's domestic exposure has never been as low as it is today. Exposure to the US market is an estimated 20-25%.⁶ The (right) exposure to the US remains a net positive despite threats of

⁶ Morgan Stanley, Global Exposure Guide 2024, 2 July 2024

tariffs and a protectionist agenda by the incoming administration, given expectations of strong growth, a business-friendly environment and a resilient consumer.

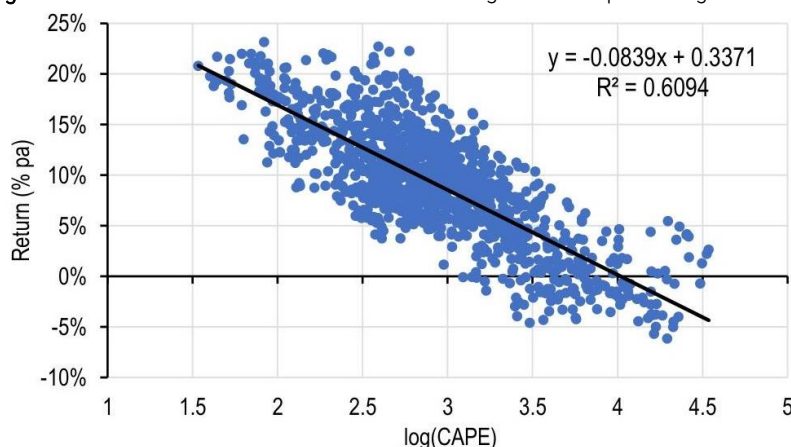
Figure 11 – European companies less driven by Europe’s economic prospects

Exhibit 1: In nearly three decades of running this data, Europe’s domestic exposure has never been as low as it is today



Source: Morgan Stanley Research, Global Exposure Guide 2024 - Europe

Figure 12 – Lower valuation level tend to drive higher subsequent long-term returns



Source: J.P.Morgan, The Long-Term Strategist, the CAPE and country long-term equity returns, Oct. 4th 2024

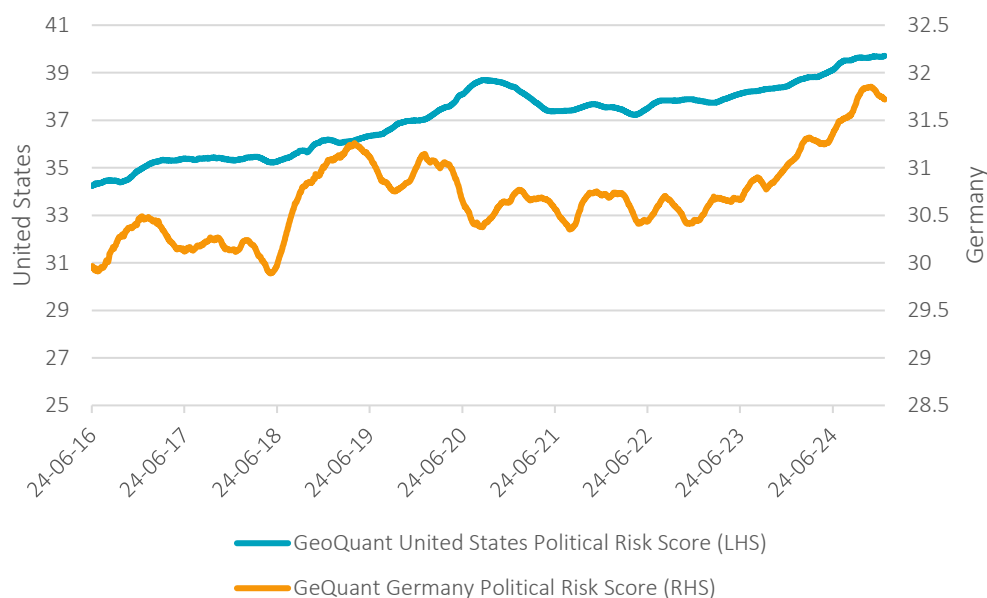
The weakness in Europe’s growth, its political agenda, oversized governments and frequent political fallout should not be taken lightly. Yet, the Vanderbilt Unity Index (VUI) (measuring fluctuations in Americans’ general sense of faith and trust in their political institutions) for example shows a trend towards increased political polarization in the United States⁷ and the country has seen a violent storm on its Capitol not that long ago and a Presidential campaign fraught with high tension and even assault on a candidate. So, Europe does not have a monopoly on political instability. While US GDP growth remains stronger than Europe’s, it’s firmly driven by a large 6.3% deficit spending, a level that has only been exceeded during the GFC and Covid period, and exceeds the deficits in pre-GFC recessions⁸. This is highly unusual and suggests a debt and government-spending-driven boom. The US has increased its debt by USD 1.54 to create USD 1 of additional GDP from 2013-2023. Germany for example has only increased debt by EUR 0.35 to generate EUR 1 of additional GDP and has a lot of fiscal headroom given its low debt-to-GDP ratio. Thus, investors should favor diversification over concentration in

⁷ Vanderbilt University, VUI Update Q4 2023, 14 February 2024

⁸ J.P.Morgan, The Long-Term Strategist: Strategic concerns on US government debt, 1 November 2024.

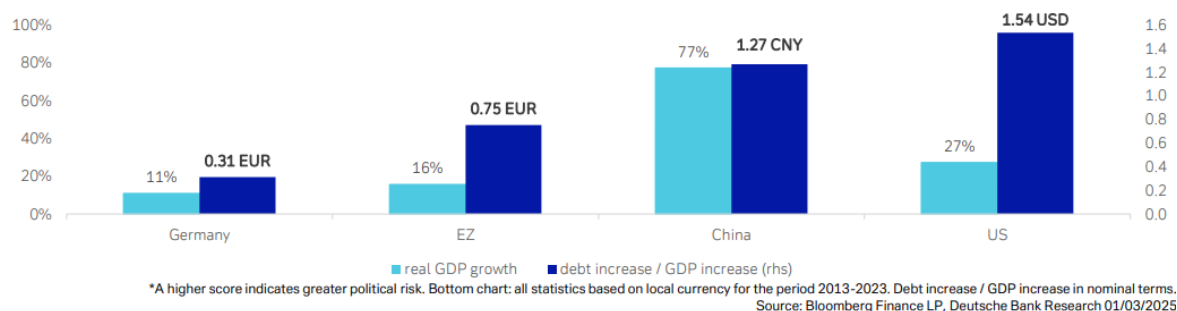
perceived safe havens and not get too caught up with the narratives around the US stock market's much stronger past returns.

Figure 13 – Political risk rising also in the United States.



Source: Bloomberg, GeoQuant

Figure 14 – Europe is spending less to achieve growth and has headroom



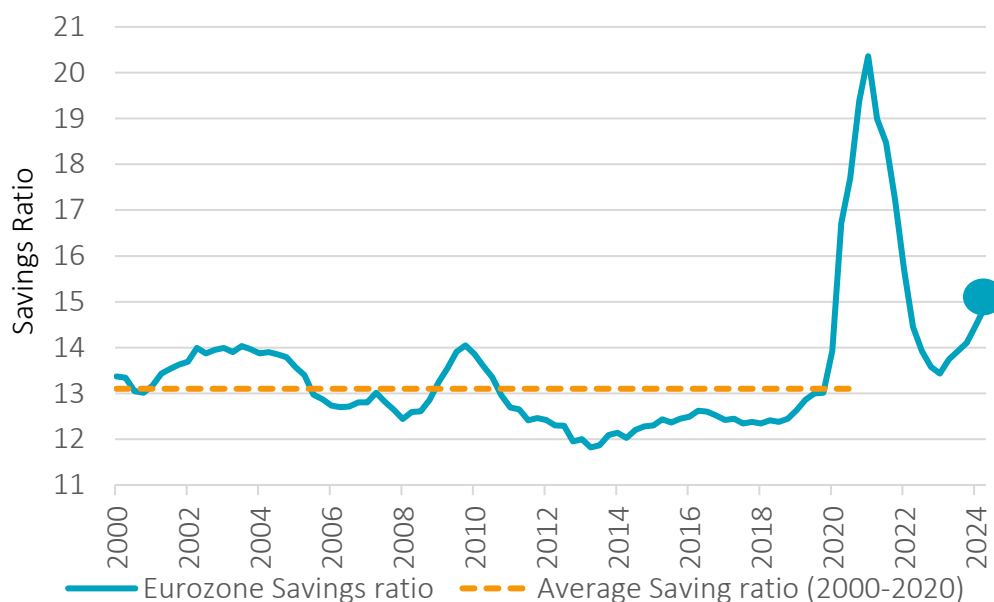
Source: Deutsche Bank, Cross Asset Outlook – Q1 2025, Lonely Bull 3.0

There are several sources for potential positive surprises in Europe that could emerge during 2025. As we point out above, on the political side, the negative surprise element of failed governments and subsequent snap elections for the biggest economies in Europe lies in the past. In the two (only) instances of a coalition break-up in recent history, Germany introduced reforms, growth accelerated and re-emerged stronger. Germany for example has a good chance for a pro-growth coalition taking over this year. The country also has the fiscal leeway to increase public investment. Given that the ECB rate trajectory is more tilted to cutting rates given growth weakness and declining inflationary pressures, lower interest rates should further support public spending.

Driven by the energy price shock in 2022, the war in the Ukraine, and rising inflation, consumer confidence has collapsed in response but has been rising slowly. The European consumer – already less spending friendly than its US counterpart – has seen its savings ratio rise to a significant 16%, above the long-term average around 13%. European consumers have built up their real net worth to pre-pandemic levels, employment remains strong and wages rising modestly. Consumer confidence has already bounced back from 2022 lows and while not exuberant

yet, is at a similar level as in the early to mid-2010s. The catalysts driving uncertainties are increasingly in the rear-view mirror and domestic consumption could pick-up from now as was observable in the US.

Figure 15 – EU consumers can spend more in 2025 – with less need to save



Source: Refinitiv

European companies have on average 9% exposure to China, a source of decelerating growth and disappointment over the past 2 years. Some sectors such as luxury, medical equipment, mining and semiconductors have up to 40% exposure to China. While the economic situation in China remains critical and several issues are structural, in the near term, there is upside potential from strong fiscal and monetary impulse, low expectations and bearish positioning.

Apart from the current geopolitical and economic landscape, taking a multi-year, through-the-cycle view remains one of the best recipes to weather near-term uncertainty. Many European companies have strong, maybe underappreciated, qualities to withstand shocks, adapt to changes and grow profitably irrespective of macro worries and short-term market direction. Thus, the strategy will stay nimble and flexible, maintaining a reasonably balanced exposure to cyclicals and defensives, high-growth names and discounted stocks to take advantage of dislocations and provide for robust risk-adjusted return over time.

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