Wellington Strategic European Equity Fund

WELLINGTON MANAGEMENT®

MARKET REVIEW

European equities rose in November. The European Commission downgraded its 2025 growth forecast for the eurozone to 1.3%, from the previous forecast of 1.4% in May, due to the structural challenges in the industrial sector, potential trade wars with the US, slowing Chinese demand, and lingering geopolitical risk. The region's business activity unexpectedly contracted in November as the HCOB Flash Eurozone Composite Purchasing Managers' Index dropped to 48.1. Activity was largely weighed down by Germany and France, where output decreased at a faster pace compared to October. Eurozone employment declined for the fourth straight month, driven by manufacturers, although the labor market remained healthy amid record-low unemployment of 6.3% in October. Against a backdrop of lackluster economic growth, the central banks of Sweden and the UK cut interest rates, while the central bank of Norway left rates unchanged. Annual eurozone headline inflation rose to 2.3% in November but is unlikely to dissuade the European Central Bank from lowering rates again in December, as core inflation remained steady at 2.7%. Political turmoil engulfed the region's two largest economies. Germany will hold a snap election in February after the ruling coalition government collapsed, while France's government teetered on the edge of collapse over a budget deficit impasse. Third-quarter earnings for companies in the STOXX 600 Index are forecast to increase 8.2% from a year earlier, according to LSEG.

The MSCI Europe Index Net returned 1.1% for the period. Within the index, seven out of 11 sectors rose for the period. Information technology and communication services were the top performing sectors, while materials and consumer discretionary were the bottom performing sectors for the period.

FUND PERFORMANCE AND ATTRIBUTION

- The fund outperformed the index over the period.
- Security selection was the primary driver of relative outperformance. Strong selection in industrials, consumer staples and materials was partially offset by selection in communication services and consumer discretionary. Sector allocation, a result of our bottom-up stock selection process, also contributed to returns. Allocation effect was driven by our overweight to industrials and underweight to health care, but partially offset by our underweight to information technology and overweight to consumer staples and materials.
- At the issuer level, our top two relative contributors were overweights to Rheinmetall and British American Tobacco, while our top two relative detractors were out of benchmark allocations to Vistry Group and United Internet.
- Shares of Rheinmetall rose over the period after reporting a new record for sales and earnings. The company reported FY 2024 sales of €6.3bn compared to €4.6bn in the same period a year ago, which was a 35.7% increase. The company attributed strong sales to a dynamic market in the defense sector as demand for Ukraine aid and demand from armed forces in the EU and NATO continue to be abundant. Shares of Vistry Group fell in the period after the company lowered adjusted pretax profit guidance for the year after an independent review identified noncompliant commercial forecasting processes. The British homebuilder expects to build fewer homes for the year than previously estimated, along with costs in its South division being higher than expected.

FUND POSITIONING AND OUTLOOK

European markets ended up over the past month, recovering from an earlier drawdown in European stocks following the election of Trump as US president and a rally in the US dollar. Market sentiment was mixed on the back of the region's latest inflation reading that trended higher from 2% to 2.3% in November, and increasing political uncertainty in France and Germany, the region's two largest economies. We have noticed regions and sectors within Europe most geared towards rate cuts have started to show some initial signs of economic activity inflecting.

Against this backdrop, 7 out of 11 sectors in the benchmark posted positive returns (in EUR terms). Information technology and communication services were the best relative performers, while materials and consumer discretionary underperformed the broader index. Growth outperformed Value by 339bps this month. We think that many stocks that drove growth equities to outperform in recent years continue to trade at unattractive valuation levels, particularly when looking at their weaker fundamentals. We continue to monitor inflation and longer-term yield levels, recession risk, the situation in Ukraine and the Middle East and the evolving European regulatory framework, as well as broader global instability. We assess companies for their long-term fundamental attractiveness based on our investment criteria and incorporating the implications a recession may have on this. Stocks must fulfil our criteria of a superior structural free-cash-flow and earnings growth outlook and a strong competitive positioning combined with attractive valuation levels. We think that especially as it regards the competitive outlook many so-called growth stocks are currently wrongly priced.

Over the month, we added to existing positions in consumer staples and trimmed exposures in consumer discretionary, and repositioned existing portfolio exposures within industrials. We will continue to use volatility to opportunistically adjust our positioning. We think the portfolio is well positioned, despite potential for near term volatility.

At the end of the period, our largest overweights were industrials and consumer staples. We were most underweight to health care and information technology. From a market perspective, our largest overweights were United Kingdom and Germany. We were most underweight to Switzerland and Netherlands.

PAST PERFORMANCE DOES NOT PREDICT FUTURE RETURNS. AN INVESTMENT CAN LOSE VALUE.

Fund performance is based on EUR S Acc share class and are net of fees and expenses. Other share class performance may differ.| Index used in the calculation of attribution data: MSCI Europe.| Fund performance is net of actual (but not necessarily maximum) withholding and capital gains tax but are not otherwise adjusted for the effects of taxation and assume reinvestment of dividends and capital gains.| If an investor's own currency is different from the currency in which the fund is denominated, the investment return may increase or decrease as a result of currency fluctuations.| The views expressed are in the context of the investment objective of the Fund only and should not be considered a recommendation or advice.

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CAPITAL: Investment markets are subject to economic, regulatory, market sentiment and political risks. All investors should consider the risks that may impact their capital, before investing. The value of your investment may become worth more or less than at the time of the original investment. The Fund may experience a high volatility from time to time. **CONCENTRATION:** Concentration of investments within securities, sectors or industries, or geographical regions may impact performance. **CURRENCY:** The value of the Fund may be affected by changes in currency exchange rates. Unhedged currency risk may subject the Fund to significant volatility. **EMERGING MARKETS:** Emerging markets may be subject to custodial and political risks, and volatility. Investment in foreign currency entails exchange risks. **EQUITIES:** Investments may be volatile and may fluctuate according to market conditions, the performance of individual companies and that of the broader equity market. **HEDGING:** Any hedging strategy using derivatives may not achieve a perfect hedge. **MANAGER:** Investment performance depends on the investment management team and their investment strategies. If the strategies do not perform as expected, if opportunities to implement them do not arise, or if the team does not implement its investment strategies successfully; then a fund may underperform or experience losses. **SMALL AND MID-CAP COMPANY:** Small and mid-cap companies' valuations may be more volatile than those of large cap companies. They may also be less liquid. **SUSTAINABILITY:** A Sustainability Risk can be defined as an environmental, social or governance event or condition that, if it occurs, could cause an actual or potential material negative impact on the value of an investment.

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