DIVAS EUROZONE VALUE

Monthly Report September 2025

Marketing material for professional clients

NAV: EUR 230.34
ISIN I shares: LU1975716835
Valor I shares: 47229643

CITYWIRE PLATINUM
Best performing risk-adjusted eurozone equity strategy over 5 and 10 years

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Market environment

In September, eurozone equity markets gradually advanced towards the end of the month. The key to investor buoyancy was hopes for aggressive US rate cuts in anticipation of a replacement for Governor Powell, soft labour data and the government shut down (not for the first time), all of which strongly pushed growth/momentum stocks higher, outperforming value by 450 basis points over the month.

German private-sector activity reported in late September rose at the fastest pace for an extended period as the services sector more than made up for a slide on the part of manufacturers, jumping to 52.4 from 50.5.

In late September, the Department of Commerce and Office of the US Trade Representative published a document online detailing the reduction of duties on a range of goods. The US lowered tariffs on auto imports from the European Union to 15% retroactive to August 1 and cementing the terms of the framework trade agreement the two sides struck this summer.

In mid-September, Federal Reserve Chair Jerome Powell cut rates by 25 basis points. Officials voted 11-1 to lower the target range for the federal funds rate to 4%-4.25%. Powell stated that "It's challenging to know what to do. There are no risk-free paths now."

In mid-September, the ECB left rates unchanged as expected, but Christine Lagarde flagged that the disinflationary process was now over for the eurozone, implying that rate cuts have come to an end.

Year-on-year, eurozone headline inflation in September rose 0.2% to +2.2%. The core rate remained unchanged at +2.3%. Both numbers were in line with expectations.

Over the month, 5-year forward inflation expectations declined 2 basis points to +2.09%, while the 10-year Bund yield declined 1 basis points to 2.71%.

In September, the Swiss franc strengthened 0.11% to 0.9345.

At the same time, Brent crude oil and Nickel declined by 1%, while Iron Ore traded flat.

The September eurozone Composite PMI rose to 51.2 from 51. The September China Composite PMI rose to 50.6 from 50.5. The September US ISM Manufacturing PMI rose to 49.1 from 48.7.

Performance

In September, the MSCI EMU Index rose 2.84%. The fund's euro I-shares appreciated 1.48%, underperforming the MSCI EMU Index (net dividends reinvested) by 137 basis points. Year-to-date, the fund spiked 26.03%, while the market jumped 17.77%, outperforming the benchmark by 827 basis points.

Performance contributors

- **Kering** outperformed the market by 20%, as the new CEO Luca De Meo (ex. Renault) portrayed exactly how he intends to improve the efficiency of the firm and the headline that Valentino, in which Kering holds a 30% stake with the option of buying the remaining 70% by 2028, was in talks with lenders following its debt covenants breach. This may speed up the acquisition of the remaining stake and allow De Meo to embark on a major restructuring. The first analyst recommendation upgrade in years lent additional support.

- **Prosus** outperformed the market by 10% as the company continued to benefit from a strong set of results and consistent positive news flow re Tencent's Generative AI prospects in which Prosus holds a 23% stake.

- **ABN AMRO Bank** outperformed the market by 8%, benefitting from analyst recommendation and earnings upgrades.

- **ArcelorMittal** outperformed the market by 4% on positive analyst earnings revisions.

Performance detractors

- **Pernod Ricard** underperformed the market by 16%, driven by an analyst recommendation downgrade.

- Cyclicals, such as **LANXESS, Arkema** and **Randstad** underperformed the market by 15%, 14% and 13% respectively in the absence of any company specific news flow.

- **Volkswagen pref.** underperformed the market by 10% as its holding in Porsche suffered from a profit warning, as the buyer strike on high-end consumer goods globally continued.

Positioning

In September, the fund switched its holdings in ENI and ASML, having outperformed the market since purchase by 11% and 28% respectively into Sanofi and Merck KGAA. Furthermore, it reduced its positions in Prosus, Société Générale, Kering and ABN AMRO Bank, having outperformed the market since purchase by 40%, 105%, 25% and 120% respectively, in order to increase its holdings in Heineken, Pernod Ricard and TotalEnergies.

Outlook

A flexible perspective remains essential with Italy, once perceived by the market for decades as the bankrupt member of the EC now rapidly repairing its debt levels. I have often alluded to this fact in the past, since Italy, together with Germany being the only two countries in the Eurozone, which have positive primary balances. I.e., excluding debt service they enjoy a budget surplus. With high nominal rates driven by wide credit spreads over the Bund yield for decades, they never really had a chance to deleverage. During covid it became obvious for the first time, that record low nominal yields driven by gradual spread tightening (currently at a 15-year low) and big tax revenues from strong stimulation induced GDP growth, Italy has turned from the ugly duck into the white swan of the eurozone. Italian officials are now assuming EUR13 billion in extra fiscal space due to lower borrowing costs, with EUR5 billion saved this year and a projected EUR8 billion in 2026. According to the latest draft of the country's finance plan, Italy's budget deficit will match the European Union's 3%-of-output ceiling already this year. Within the next two years Italy's debt/GDP ratio will be lower than the one for the US.

Our strategy has a negative relative correlation to the growth/momentum factor to which all our clients are extensively exposed to, across all asset categories. Exposure to our strategy offers substantial diversification benefits, reducing overall portfolio risk.

Gaining exposure to our strategy today provides you with access to a portfolio growing its earnings in the low teens for the next three years, valued on 10.5x earnings (including announced share buy-backs at major discounts to tangible book) and paying you a rich and growing dividend yield of 3.8%. Our average upside to fair value currently resides at +82%.

Currency Risk – Non-Base Currency Share Class: Non-based currency share classes may or may not be hedged to the base currency of the Fund. Changes in exchange rates will have an impact on the value of shares in the Fund which are not denominated in the base currency. Where hedging strategies are employed, they may not be fully effective.

Equity: Investments in equities may be subject to significant fluctuations in value.

Capital at risk: All financial investments involve an element of risk. Therefore, the value of the investment and the income thereof will vary, and the initial investment amount cannot be guaranteed.

Important legal Information