

WS Europe ex-UK Small & MidCap Fund

Quarterly Review – Q2 2025



Q2 Returns – European “SmallCap Effect” returns:

- European SmallCap outperformed LargeCap by c.6% in Continental Europe during Q2 (EUR)
- Strong gains across the Continent, highlighting a broadening recovery

Drivers / Catalysts:

- SmallCap rebound supported by rate cuts from ECB and BoE, plus £369m inflows into European equities in May – the strongest since June 2024
- NATO’s 5% defence spending pledge adds tailwind to Defence stocks

Earnings / Valuations:

- European SmallCap valuations remain compelling with P/E discounts vs. LargeCap still near 20-year lows
- Relative earnings momentum stable

The first half of 2025 saw a welcome resurgence in European SmallCap markets, reigniting investor interest after years of muted returns. The return of the “SmallCap Effect” showcased many of the structural advantages that make smaller companies compelling: greater inefficiencies arising from limited analyst coverage, potential for operational leverage and the agility to adapt to shifting economic conditions.

Encouragingly, the Fund delivered strong absolute and relative returns during the second quarter, despite having minimal exposure to the exceptional performance of the European

Aerospace & Defence sector, which has surged +127% in Continental Europe since the start of the year.

Portfolio

During the quarter, the NAV of the sterling share class rose by 14.4%, an outperformance of 7.1% versus the IA Europe xUK index.

The **strongest contributions** during the quarter came from:

- **Zignago** – the Italian manufacturer of high-quality glass containers for the food, beverage, and cosmetics industries performed strongly in Q2 2025, supported by resilient demand in premium consumer goods and improved operating leverage. The company benefited from easing input costs and solid export momentum, particularly in personal care packaging.
- **Viscofan** – the Spanish producer of casings for meat products continued to deliver robust results, helped by improved raw material sourcing and pricing power. Growth was supported by strength in Europe and continued recovery in Asia and North America, alongside margin expansion from increased production efficiencies.
- **Thule** – the Swedish outdoor and lifestyle brand, known for its roof racks, bike carriers, prams, and luggage, bounced back in Q2 2025 after a difficult start to the year. The rebound was driven by better-than-expected demand in Europe, cost control measures, and early signs of recovery in the US market, particularly in recreational categories.

The **weakest contributions** came from:

- **AAK** – the Swedish producer of high-value-added vegetable oils and fats declined after reporting another quarter of falling volumes. Despite stable margins, the lack of top-line growth and soft demand in several end markets remained a concern for investors.
- **Amadeus FiRe** – the German staffing and training services provider underperformed as subdued economic conditions in Germany continued to impact hiring activity, particularly in the finance and IT sectors. A soft outlook for temporary staffing volumes added to the pressure.

- **ASM International** – the Dutch supplier of deposition equipment to the semiconductor industry fell amid concerns over a broader sector slowdown and uncertainty linked to escalating global trade tensions. Weakness in memory demand and a cautious industry capex outlook weighed on investor sentiment.

Outlook

We remain optimistic about the outlook for European SmallCap, particularly as quality and growth factors have stabilised after being persistent headwinds earlier in the year. The sustained recovery supports our conviction and highlights the potential for European SmallCap to play a growing role in diversified portfolios, particularly as valuations relative to both LargeCap and US markets remain attractive.

We are actively exploring new opportunities to diversify the portfolio with companies that align with our emphasis on quality, profitability, and strong market positions. We are especially focused on businesses operating in structurally growing markets, where disciplined management teams and sustainable competitive advantages can drive long-term value creation. Adding such positions enhances the portfolio's resilience and supports our objective of delivering attractive, risk-adjusted returns for shareholders.

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