

# BlackRock Greater Europe Investment Trust

## Philosophy and process driving outperformance

BlackRock Greater Europe Investment Trust's (BRGE) shareholders benefit from the input from two of BlackRock's investment teams. The trust has two co-managers: Stefan Gries, since June 2017, covering developed European markets (c 90% of the portfolio); and Sam Vecht, since the fund's launch in September 2004, covering emerging European markets (c 10% of the portfolio). BRGE has a clearly defined investment philosophy and process, which has resulted in a very commendable performance track record. Its NAV total returns rank first out of eight funds in the AIC Europe sector over the last one, three, five and 10 years, and have also outperaced the performance of the broad European stock market over these periods.

### BRGE's NAV versus the broad European market (five years to 30 November 2021 – current management team since June 2017)



Source: Refinitiv, Edison Investment Research

## The analyst's view

Gries's investment approach is to be 'an investor in businesses, not a trader in shares'. Stocks are selected on a bottom-up basis following thorough fundamental analysis, and the portfolio is made up of companies across the market cap spectrum that have the potential to generate significant value over the long term. On a sector basis, the fund has consistent overweight exposures to technology, consumer discretionary, industrials and healthcare companies, which are a mixture of less well known, such as Netcompany, which is a high-growth IT services firm, and larger businesses, such as Novo Nordisk, which is developing an obesity-lowering drug franchise to complement its leading position in the treatment of diabetes. As well as BRGE, Gries also runs long/short absolute-return strategies, so he has high conviction in both the trust's holdings and those companies that he wishes to avoid. The ability to invest in companies based in emerging European countries also brings a differentiating feature to the trust; these firms tend to trade on lower valuations and over time have been additive to BRGE's performance.

## Regularly trading at a premium

BRGE's strong absolute and relative performance has not gone unnoticed as its shares now regularly trade at a premium and there is ongoing share issuance. The trust's current 1.6% premium compares with the 2.1% to 3.5% range of average discounts over the last three, five and 10 years.

## Investment trusts European equities

14 December 2021

**Price** 696.0p  
**Market cap** £698m  
**AUM** £676m

NAV\* 685.1p  
 Premium to NAV 1.6%

\*Including income. As at 10 December 2021.

Yield 0.9%

Ordinary shares in issue 100.3m

Code/ISIN BRGE/GB00B01RDH75

Primary exchange LSE

AIC sector Europe

52-week high/low 730.0p 502.0p

NAV\* high/low 713.4p 504.7p

\*Including income

Net gearing\* 5.7%

\*As at 31 October 2021

### Fund objective

BlackRock Greater Europe Investment Trust's objective is to achieve capital growth, primarily through investment in a focused portfolio of large-, mid- and small-cap European companies, together with some investments in the developing markets of Europe. It aims to achieve a net asset value total return in excess of a broad index of European ex-UK equities (in sterling terms).

### Bull points

- NAV total returns ranked first in the AIC Europe sector over one, three, five and 10 years.
- Well diversified revenue streams from different geographies and sectors.
- Very well-resourced team, backed up by strong risk-management oversight.

### Bear points

- Relatively concentrated portfolio.
- Modest dividend yield.
- Economic recovery in Europe may disappoint if lockdowns are extended.

### Analysts

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## **The fund managers: Stefan Gries and Sam Vecht**

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### **The manager's view: Importance of sticking to the process**

Gries says that over the last 12 to 24 months there have been times when investors' philosophies have been tested, adding that 'you need to be sure which assets you wish to own'. He comments that Europe is home to some 'exceptional', but also to some 'average' businesses. The manager seeks companies with a unique aspect, such as a brand or service; an exceptional management team; high sustainable returns and strong free cash flow generation; and an ability to redeploy capital in areas of high and sustainable returns. Gries says that value creation comes from companies that can consistently generate returns above their cost of capital.

The manager comments that BRGE's investment process was tested during the pandemic, and he needs to be able to justify the trust's positions when meeting with its board, which occurs five times a year. Gries says that he focuses on a company's end markets, its income streams and how value can be created. Over time, he and his team, build their knowledge and confidence in BRGE's positions in order to increase their levels of conviction. The manager takes pride in the fact that despite stock market volatility over the last couple of years, there has been little change in the structure of the trust's portfolio.

Back in March 2020, during the coronavirus-led stock market sell-off, Gries questioned whether BRGE's portfolio needed to change. He considered that he still wanted to own companies with long-duration income streams, such as those benefiting from a rising Asian middle class, or firms seeing strong demand from the decarbonisation of transportation and the growth in electric vehicles. The manager believed that lockdowns would not derail these powerful transitions. Hence, he used the market sell-off as an opportunity to add to some of his highest-conviction holdings.

Gries's investment philosophy has been tested again in 2021; he says that there have been some very unusual periods over the last 12 months or so, with four rotations into value stocks. Despite stock market volatility, BRGE's annual turnover remains at c 20%, implying a five-year holding period. The manager has generated very strong absolute and relative total returns over the last year from holding what he describes as 'exceptional' businesses. He also points to the value that can be generated from holding inexpensive companies based in emerging European countries. Gries is hoping for calmer stock markets in 2022 given the unusual movements over the last year; but whatever the outcome he stresses the importance of clarity in terms of BRGE's philosophy and investment process.

The manager anticipates that supply chain disruptions should be evened out over the next year. However, in the meantime he believes that BRGE owns companies with pricing power, so they should be able to deal with these short-term pressures. Gries seeks very strong management teams that are focused on controlling costs to protect profits, and notes that when there are supply shortfalls, it is beneficial to have scale in procurement as weaker operators are under more pressure to secure adequate supplies. The manager is optimistic about the prospects for BRGE's portfolio companies in a more normalised economic environment, which he expects in 2022.

### **Performance: Well ahead of the European market**

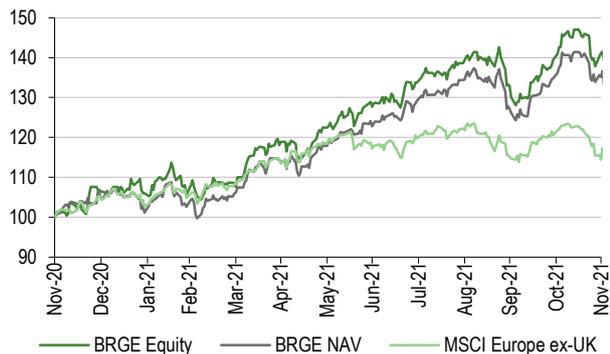
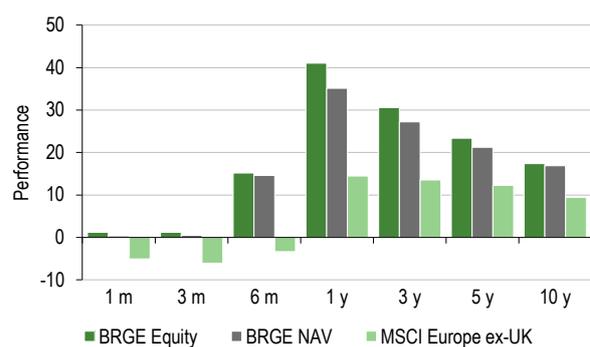
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BRGE's discrete performance is shown in Exhibit 1. The trust has outpaced the MSCI Europe ex-UK Index over the last four years in both net asset value (NAV) and share price terms; its absolute total returns over the last 12 months have been particularly strong.

**Exhibit 1: Five-year discrete performance data**

12 months ending	Share price (%)	NAV (%)	MSCI Europe ex-UK (%)	CBOE UK All Companies (%)	MSCI World (%)
30/11/17	31.1	24.7	34.8	13.7	14.8
30/11/18	(1.9)	2.0	(9.8)	(1.8)	6.8
30/11/19	23.6	22.5	15.7	11.3	13.6
30/11/20	27.7	24.3	10.6	(11.2)	11.5
30/11/21	41.1	35.1	14.4	17.1	23.4

Source: Refinitiv. Note: All % on a total return basis in pounds sterling.

**Exhibit 2: Investment trust performance to 30 November 2021**
**Price, NAV and index total return performance, one-year rebased**

**Price, NAV and index total return performance (%)**


Source: Refinitiv, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised.

Looking at BRGE's relative returns in Exhibit 3, the trust has outperformed the MSCI Europe ex-UK Index over all periods shown in both NAV and share price terms. To bring a wider perspective, except for the last one and three months, BRGE has also outperformed the broad UK market and the MSCI World Index over all periods shown.

**Exhibit 3: Share price and NAV total return performance, relative to indices (%)**

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to MSCI Europe ex-UK	6.6	7.7	19.3	23.3	52.1	60.7	102.4
NAV relative to MSCI Europe ex-UK	5.7	6.9	18.7	18.1	40.6	47.2	94.2
Price relative to CBOE UK All Companies	3.5	2.7	13.5	20.5	92.3	121.2	145.4
NAV relative to CBOE UK All Companies	2.5	2.0	13.0	15.4	77.8	102.6	135.4
Price relative to MSCI World	(0.2)	(1.9)	2.0	14.3	42.3	49.2	24.7
NAV relative to MSCI World	(1.0)	(2.6)	1.5	9.5	31.6	36.6	19.6

Source: Refinitiv, Edison Investment Research. Note: Data to end-November 2021. Geometric calculation.

Gries explains that unsurprisingly, given his bottom-up approach, the majority of BRGE's excess returns are due to successful stock selection rather than sector asset allocation. He notes that some of the trust's largest positive contributors over the last year are 'multi-year winners'. The manager highlights semiconductor company ASML Holding, which has had material earnings estimate upgrades over the last 12–18 months. The company has been pleasantly surprised by the strength of demand for its products, which feed into many healthy demand verticals such as electric vehicles and data centres. Semiconductor content is increasing; for example, electric vehicles have five to six times the number of semiconductors compared to vehicles with an internal combustion engine. Data centres are benefiting from the demand for more computing power, while new features in modern smartphones mean an increased requirement for semiconductors. The manager explains that investors try to call the peak of the semiconductor cycle, which leads to periods of share price volatility. He highlights that ASML has a very high market share, pricing power and strong business visibility; the company is essentially sold out for 2022 with visibility into 2023. Gries believes that the firm's pricing power ensures that 'there is a lot more to go for' in this name.

Other strong performers in BRGE's portfolio over the last year are Straumann Holding and DSV Panalpina (DSV). Straumann is a leading dental implant manufacturer that has entered the orthodontic market with a clear aligners range. The manager says that this was the result of a smart

acquisition, which has increased Straumann's addressable market by a factor of four. He highlights that the company is increasing its market share, has strong organic growth and margin expansion and its management team is executing well.

Gries believes that logistics company DSV has one of the strongest management teams in Europe, and one of the best IT platforms and operational systems in the industry. The successful take-over of Panalpina in 2019 enabled DSV to generate strong growth in 2020 despite the economic downturn. In March 2021, the company announced the acquisition of Kuwait-based Agility's logistics business, becoming the third-largest global freight forwarder globally. Agility is c 25% the size of DSV in terms of volumes and the manager expects this deal to be highly earnings accretive due to synergies and the recovery in global trade.

Over the last year, BRGE's underweight exposure to the financial sector has detracted from the trust's returns as these stocks have performed strongly in the post-lockdown recovery, and there has been a resurgence in old-economy industries such as banks, energy and chemicals. However, Gries believes that this is a temporary move; on a bottom-up basis he does not favour these areas, suggesting that there are no structural improvements that would make him want to own these businesses on a multi-year basis.

On a stock-specific level, Logitech has underperformed in 2021; the manager says that the company has fallen victim of its strong performance in 2020, in terms of tough comparisons. He believes that the firm is in a transition period and that its share price will improve given its very high market share in gaming market peripherals and strong export sales.

## Peer group comparison

There are eight funds in the AIC Europe sector. BRGE's market cap is now the third largest in the group and it has an enviable performance record with its NAV ranking first over the last one, three, five and 10 years; its performance is meaningfully ahead of the second-ranked fund over all periods shown. Gries is encouraged by BRGE's long-term record, noting that the ability to invest in emerging European markets has been beneficial for the fund's relative performance. As at 13 December 2021, BRGE had the highest valuation in the peer group, being the only fund trading at a premium. It has one of the highest ongoing charges, which is modestly above the sector average, an above-average level of gearing and a dividend yield that is below the mean.

**Exhibit 4: AIC Europe peer group as at 13 December 2021\***

% unless stated	Market cap (£m)	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield
BlackRock Greater Europe	698.2	32.4	112.5	161.2	379.8	2.3	1.0	No	106	0.9
Baillie Gifford European Growth	543.3	15.5	89.1	101.0	238.9	(3.5)	0.6	No	107	0.2
European Opportunities Trust	864.4	19.8	31.7	75.0	289.4	(12.1)	1.0	No	107	0.2
Fidelity European Trust	1,352.2	22.3	61.9	98.6	276.0	(7.5)	0.9	No	111	2.0
Henderson European Focus Trust	346.5	16.6	59.5	72.6	277.7	(9.5)	0.8	No	101	2.0
Henderson EuroTrust	316.7	10.1	60.4	84.8	276.3	(10.1)	0.8	No	100	1.7
JPMorgan European Growth Pool	277.2	24.2	51.9	67.0	224.1	(9.2)	1.0	No	103	1.2
JPMorgan European Income Pool	132.5	19.4	24.7	42.2	191.0	(10.5)	1.0	No	106	4.3
<b>Average</b>	<b>566.4</b>	<b>20.0</b>	<b>61.5</b>	<b>87.8</b>	<b>269.2</b>	<b>(7.5)</b>	<b>0.9</b>		<b>105</b>	<b>1.6</b>
<b>BRGE rank in sector (8 funds)</b>	<b>3</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>7</b>		<b>5</b>	<b>6</b>

Source: Morningstar, Edison Investment Research. Note: \*Performance to 10 December 2021 based on ex-par NAV. TR: total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

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