EDISON

BlackRock Greater Europe Investment Trust

Planning ahead for increasing portfolio risk

Investment trusts
European equities

18 August 2022

Price	**479p**
Market cap	**£489m**
Total assets	**£501m**
NAV*	505.3p
Discount to NAV	5.2%
*Including income. At 16 August 2022.	
Yield	1.3%
Ordinary shares in issue	102.1m
Code/ISIN	BRGE/GB00B01RDH75
Primary exchange	LSE
AIC sector	Europe
52-week high/low	730.0p / 415.5p
NAV* high/low	713.4p / 441.3p
*Including income	
Net gearing*	0.0%
*At 31 July 2022.	

BlackRock Greater Europe Investment Trust (BRGE) offers a broad exposure to European equities. It benefits from two co-managers: Stefan Gries (since June 2017, covering developed European markets, which make up c 95% of the fund) and Sam Vecht (since the fund's launch in September 2004, emerging European markets, c 5%). The trust's performance has suffered this year due to the market rotation away from high-quality growth stocks and the write down of BRGE's Russian assets. Despite this, the trust has the highest NAV total return in the AIC Europe sector over the last three, five and 10 years. The managers are sticking to their disciplined bottom-up stock selection strategy and are looking ahead for the chance to increase the fund's risk profile in anticipation of a sustained stock market recovery.

NAV versus the broad European market (last five years to end-July 2022)

Source: Refinitiv, Edison Investment Research

The analyst's view

Gries is continuing with his philosophy of 'being an investor in businesses rather than a trader in shares'. While the European economy looks relatively weak due to rising inflation and interest rates, and the war in Ukraine, according to the manager, on a company fundamental level things do not look that bad. Despite a tricky H122, BRGE has a commendable performance record, having outperformed its reference index and its peers in the AIC Europe sector over the medium and long term. The portfolio provides investors with a diversified portfolio of high-quality European companies, including exposure to long-term growth themes such as digitisation, building refurbishment and electric vehicles. There have been periods of indiscriminate selling this year, meaning that some of the 'best businesses' in the region are now trading at more attractive valuations than historically, which may provide a good opportunity for investors to consider BRGE.

Potential for a higher valuation

Having traded at a premium for most of 2021, BRGE is now trading on a 5.2% share price discount to cum-income NAV, which compares with a 1.0% to 3.4% range of average discounts over the last one, three, five and 10 years. A return to the trust's historical positive performance trend could well see BRGE being afforded a higher valuation.

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

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

Bear points

- Performance is likely to lag a stock market led by old economy value stocks.
- Relatively concentrated portfolio.
- Modest dividend yield.

Analyst

Mel Jenner +44 (0)20 3077 5700
investmenttrusts@edisongroup.com
Edison profile page

BlackRock Greater Europe Investment Trust is a research client of Edison Investment Research

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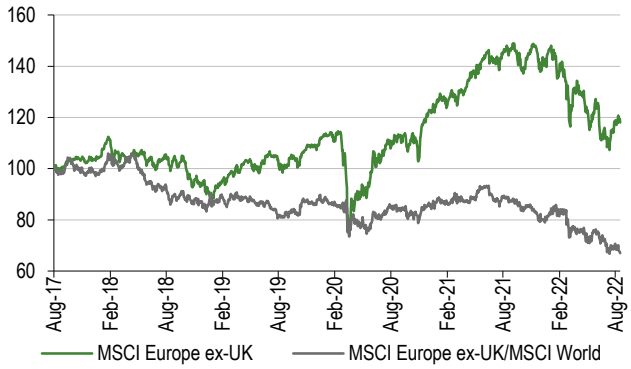
Market outlook: Selectivity required

European equities have been out of favour with global investors (Exhibit 1, left-hand side), which has been exacerbated by the Russian invasion of Ukraine in February 2022. With weaker economic conditions in Europe, which like other parts of the world is experiencing higher interest rates as Central Banks try to combat rising inflation, investors are likely to benefit from a more selective approach. Europe is home to a range of world-class companies and is likely to a benefit when the global economy rebounds as around 60% of its revenues are generated outside of the region. The current bear market has left equity valuations looking more attractive, which should provide some support to stock prices unless consensus earnings estimates prove to be too optimistic. As shown by the Datastream indices in the table below, in aggregate, European stocks are trading at a 15.2% forward P/E multiple discount to global equities and on a wider discount to their 10-year average, while offering a more attractive dividend yield.

Exhibit 1: Market performance and valuation

Performance of MSCI Europe ex-UK Index over five years (£)



Valuation multiples of Datastream indices

	Last	High	Low	10-year average	Last as % of average
Forward P/E (x)					
Europe ex-UK	12.7	18.5	10.1	14.5	88
UK	10.8	15.7	9.8	13.4	81
US	18.6	23.5	12.3	17.6	106
World	15.0	19.9	11.4	15.3	98
Dividend yield (%)					
Europe ex-UK	3.0	4.4	2.1	3.0	99
UK	4.3	6.4	2.7	3.5	122
US	1.5	2.7	1.2	1.9	78
World	2.3	3.4	1.8	2.4	95

Source: Refinitiv, Edison Investment Research. Note: Valuation data at 17 August 2022.

The fund managers: Stefan Gries and Sam Vecht

The manager's view: Increased importance of pricing power

Gries comments that stock markets have been very volatile in 2022 in response to rising inflation and interest rates. Investor unease has also been heightened by China's zero-COVID-19 policy and the war in Ukraine, especially given its proximity to the rest of Europe. There was a very strong rally in value stocks in early 2022, but following the Russian invasion of Ukraine on 24 February, defensive names are performing relatively better. The manager explains that there has been a disconnect between companies' operating performance and their share price performance: amid fears of recession, higher-quality/higher-multiple names have derated even if their fundamentals have remained solid.

Historically, energy is not typically viewed as a defensive area, but it is the best performing sector year-to-date by a wide margin, on the back of higher commodity prices. The market is very narrow, with telecoms being the only other European sector in positive territory this year, which has made it tough to outperform, says Gries. He suggests that the Q222 earnings season should prove interesting, following a satisfactory Q122 reporting period. The manager highlights that portfolio company Kingspan issued a trading statement highlighting recent weaker volumes, which could be due to customers pre-ordering earlier in the year ahead of significant price rises; BRGE's exposure to this company has been reduced. Gries notes that there are signs of a weakening construction market, particularly in the do-it-yourself area. Within the retail sector, German online fashion

company Zalando (not owned) has recently also warned about its earnings, and there have been disappointing results at major US general retailers Walmart and Target.

The manager explains that BRGE's gearing has been meaningfully reduced; he is taking risk off the table, reducing some of the portfolio's cyclical exposure and increasing the fund's weighting to defensive companies. Gries suggests that Europe, especially Germany, is too dependent on Russian oil and gas imports. Gazprom is cutting exports into Europe, which increases the risk of an economic slowdown in the region, although the manager considers a severe recession is unlikely. The German government is talking about rationing gas supplies, which could see manufacturers reduce to a three- or four-day working week. However, for a sharp slowdown the manager believes that there would have to be economic imbalances that needed to be addressed. He cites a lack of excessive leverage at the corporate and consumer levels and robust balance sheets. Gries comments that there is a shift in consumer spending from goods to services due to elevated spending on goods over the last couple of years. Experiences such as travel and dining out remain popular, says the manager, as demand is being supported by record-low employment in Europe.

Gries envisages further multiple compression in the valuations of non-profitable technology companies and cautions about the Q222 earnings season given the change in business trends in recent months. He says equity prices are discounting a worsening economic environment, with the market essentially talking itself into a recession; the manager cites the weakness in IMCD's share price, despite the lack of a business slowdown. Gries believes that even if the overall European economy is weakening, quality European companies can thrive in all conditions. He and his team have revisited BRGE's portfolio companies to try to understand how they could be affected by rising energy costs and any knock-on effect on consumer demand. However, the manager notes that the strength of the eurozone economy has never been a prerequisite for the right companies to make progress. He highlights the importance of distinguishing between the operational performance of companies and their share price performances. Gries comments that while share prices have been volatile, BRGE's companies' strategies have been successful, suggesting that 2021 was a formidable test for these firms' management teams, but they came through.

The manager suggests that if businesses' operational performances improve while share prices are falling, it may present an opportunity for active investors. There have been fund flows out of Europe in recent months due to fears of contagion surrounding the Ukraine crisis; Gries remains mindful that the war is contributing to global inflation including higher prices for energy, steel and agricultural products. The manager had anticipated that inflationary pressures would ease in H222, but the inflation outlook is now more uncertain. Given this backdrop, Gries says that it is more important than ever to focus on businesses that have pricing power. He needs to ensure that BRGE's investee companies can pass on higher input costs to customers and effectively negotiate with suppliers. The manager comments that scale in procurement means a firm will be a higher priority customer for suppliers, so such firms' supply chains are not as vulnerable to disruption, thereby providing a competitive advantage.

Current portfolio positioning

Over the 12 months to end-July 2022, there was an increase in BRGE's top 10 concentration from 48.5% to 53.6%; six holdings were common to both periods. A noticeable change is the percentage in Novo Nordisk, which has roughly doubled due to both share price performance and the manager adding to the position.

Exhibit 2: Top 10 holdings (at 31 July 2022)

Company	Country	Sector	Portfolio weight %	
			31 July 2022	31 July 2021*
Novo Nordisk	Denmark	Pharmaceuticals & biotechnology	8.3	4.5
ASML	Netherlands	Technology hardware & equipment	7.7	7.6
LVMH Moët Hennessy Louis Vuitton	France	Luxury goods	6.7	N/A
RELX	UK	Media	6.0	N/A
Lonza Group	Switzerland	Pharmaceuticals & biotechnology	5.5	5.7
DSV Panalpina	Denmark	Industrial transportation	5.1	4.8
Royal Unibrew	Denmark	Beverages	3.9	4.1
Sika	Switzerland	Construction & materials	3.5	5.4
IMCD	Netherlands	Speciality chemicals	3.5	N/A
Hermès International	France	Luxury goods	3.4	N/A
Top 10 (% of portfolio)			**53.6**	**48.5**

Source: BRGE, Edison Investment Research. Note: *N/A where not in end-July 2021 top 10.

From a sector perspective, over the last 12 months the largest changes are increased exposure to financials (+5.9pp) and healthcare (+5.1pp), with lower weightings in technology (-8.3pp) and energy (-4.0pp). BRGE has notable overweight exposures to the technology (+7.6pp), consumer discretionary (+6.0pp), industrials (+4.9pp) and healthcare (+4.3%) sectors. The fund has no holdings in the energy, real estate, telecommunications and utilities sectors, which together make up 14.0% of the reference index.

Exhibit 3: Portfolio sector exposure versus reference index (% unless stated)

	Portfolio end-July 2022	Portfolio end-July 2021	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Industrials	22.1	24.2	(2.1)	17.2	4.9	1.3
Healthcare	21.5	16.3	5.1	17.1	4.3	1.3
Cons discretionary	18.9	17.2	1.7	12.9	6.0	1.5
Technology	16.2	24.5	(8.3)	8.6	7.6	1.9
Financials	11.6	5.7	5.9	15.2	(3.7)	0.8
Consumer staples	6.3	4.1	2.2	10.2	(3.9)	0.6
Basic materials	3.5	4.0	(0.5)	4.7	(1.2)	0.7
Energy	0.0	4.0	(4.0)	4.6	(4.6)	0.0
Real estate	0.0	0.0	0.0	1.4	(1.4)	0.0
Telecommunications	0.0	0.0	0.0	3.7	(3.7)	0.0
Utilities	0.0	0.0	0.0	4.3	(4.3)	0.0
Total	**100.0**			**100.0**		

Source: BRGE, Edison Investment Research. Note: Rebased for net current assets/liabilities.

The largest changes to BRGE's geographic exposure over the last 12 months are a higher UK weighting (+4.0pp) and a lower allocation to 'other countries' (-8.5pp), the largest component of which is the write down to zero of the fund's Russian holdings (4.2% of the fund at end-July 2021).

Exhibit 4: Portfolio geographic exposure versus reference index (% unless stated)

	Portfolio end-July 2022	Portfolio end-July 2021	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Denmark	20.2	18.4	1.8	5.7	14.6	3.6
Netherlands	17.6	16.8	0.8	9.0	8.6	2.0
Switzerland	17.5	20.1	(2.6)	21.1	(3.6)	0.8
France	14.1	13.7	0.4	22.1	(8.0)	0.6
UK	7.1	3.1	4.0	0.0	7.1	N/A
Sweden	6.7	6.4	0.3	7.0	(0.3)	1.0
Italy	6.0	4.8	1.2	4.8	1.2	1.2
Belgium	2.5	0.0	2.5	2.0	0.5	1.2
Spain	2.4	2.4	0.1	4.9	(2.4)	0.5
Other	5.7	14.2	(8.5)	23.4	(17.7)	0.2
Total	**100.0**	**100.0**		**100.0**		

Source: BRGE, Edison Investment Research. Note: Rebased for net current assets/liabilities.

In recent months, Gries has lowered BRGE's cyclical exposure by reducing the trust's positions in ASML, LVMH, Straumann and Partners Group, where the manager has concerns that the valuation of private equity assets will follow the weakness in listed securities. He has increased exposure to

Lindt, although within consumer staples Gries cautions that one needs to be careful as some businesses are struggling with higher costs. He notes that for Lindt the premium chocolate segment is doing well as cocoa and milk prices have not risen in line with some other inputs.

There is a new position in Belgium-listed bank KBC Group, which the manager considers to be a high-quality business. He has generally avoided investing in banks, apart from some in emerging markets, as he considered their fundamentals unappealing. However, for the first time in many years, the European Central Bank is starting to raise interest rates and mortgages are being repriced in several European countries. Gries says that banks are in a better position, compared with 10–15 years ago, as their balance sheets are much stronger. Bank valuations became more attractive as their shares sold off in February 2022 following the start of the war in Ukraine, due to concerns that they held Russian assets that would be negatively affected by sanctions.

The manager sold the Dassault Systèmes position to reduce BRGE' s risk. He comments that there is always competition for capital within the portfolio, especially now that gearing has been reduced, and Dassault was a smaller, lower-conviction holding. Logitech was sold; it was added for its exposure to the growing gaming sector and Gries thought that there would be higher demand for video conferencing equipment due to less business travel. However, this aspect of the investment thesis has not played out as expected. The manager also sold BRGE's Netcompany Group position, which is benefiting from the digitisation trend and has a large amount of government contracts. However, the company acquired Intrasoft International, which has increased its business complexity.

Gries notes that there are some high-quality, formerly highly valued European companies that have derated. He comments that these businesses are starting to look more attractive, but the manager considers that it is too early to add them to BRGE's portfolio. While Gries wants to protect the fund now, at some stage he plans to increase portfolio risk. The manager suggests this may be in a couple of quarters' time if inflation rolls over and the end of the current bear market looks likely. He says that the stock market is a discounting mechanism, so equity prices will bottom before earnings stop declining; Gries wants to be ready for a recovery.

Performance: Market rotation and Russia hurting 2022

Exhibit 5: Five-year discrete performance data

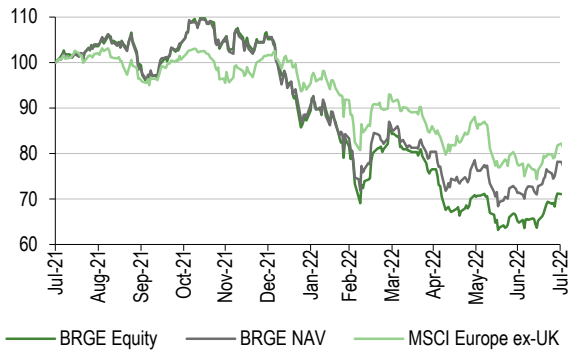
12 months ending	Share price (%)	NAV (%)	MSCI Europe ex-UK (%)	CBOE UK All Companies (%)	MSCI World (%)
31/07/18	14.7	14.7	5.6	9.1	13.1
31/07/19	11.5	9.7	(2.0)	1.1	11.6
31/07/20	14.1	10.5	4.2	(18.5)	0.6
31/07/21	53.9	49.7	33.9	26.4	28.1
31/07/22	(28.8)	(21.8)	(18.2)	6.1	4.3

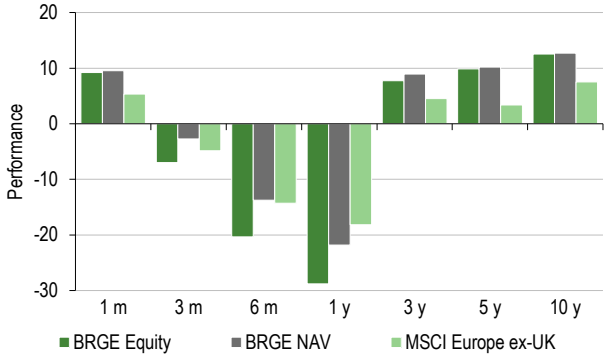
Source: Refinitiv. Note: All % on a total return basis in pounds sterling.

In H122 (ending 28 February), BRGE's NAV and share price total returns of -20.0% and -21.8%, respectively, trailed the reference index's -7.8% total return. Of the 12.2pp NAV underperformance, 5.7pp was attributable to the trust's Russian exposure; these assets were written down to zero at the beginning of March 2022. Other stocks that detracted from BRGE's performance in H122 included Lonza, DiaSorin and Netcompany Group. On the positive side, stocks that contributed to the trust's performance included: RELX; Novo Nordisk; LVMH; National Bank of Greece and ICL Group (both emerging market stocks); Amadeus IT; and Safran.

Exhibit 6: Investment trust performance to 31 July 2022

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.

The tough period of relative performance in early 2022 has negatively affected BRGE's one-year record (Exhibits 7 and 8). However, the trust remains ahead of the reference index over the last three, five and 10 years in both NAV and share price terms.

Exhibit 7: 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	3.7	(2.2)	(7.1)	(13.0)	9.6	35.4	57.4
NAV relative to MSCI Europe ex-UK	3.9	2.2	0.6	(4.5)	13.3	37.8	59.7
Price relative to CBOE UK All Companies	4.6	(6.2)	(20.8)	(32.9)	14.4	32.6	62.9
NAV relative to CBOE UK All Companies	4.9	(1.9)	(14.3)	(26.3)	18.3	34.8	65.2
Price relative to MSCI World	1.4	(8.7)	(20.5)	(31.7)	(6.9)	(5.6)	(9.4)
NAV relative to MSCI World	1.7	(4.6)	(13.9)	(25.0)	(3.7)	(4.0)	(8.1)

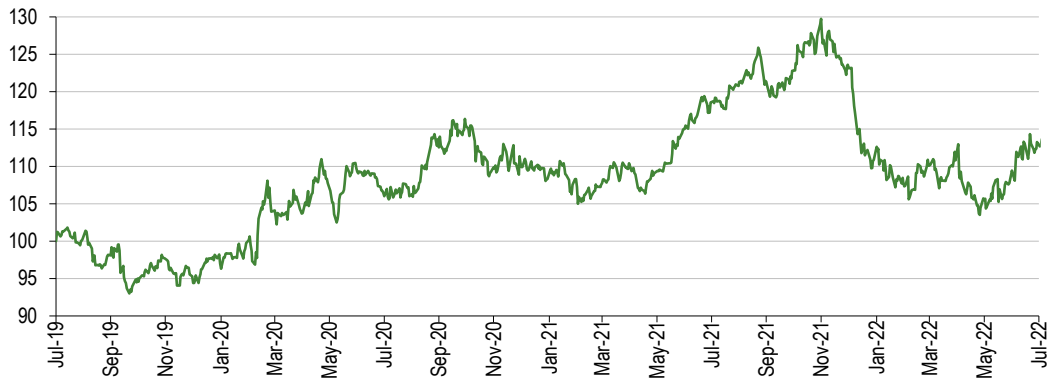
Source: Refinitiv, Edison Investment Research. Note: Data to end-July 2022. Geometric calculation.

Gries explains that performance has been very difficult this year. At the end of January 2022, the fund had c 6% in Russian securities, which have been written down to zero (Sberbank, LUKOIL, Ozon Holdings and Fix Price Group). In developed markets, higher-multiple stocks and 'COVID winners' have derated despite a lack of negative news, such as IMCD, Lonza, Sika and Straumann. Semiconductor stocks have also weakened, including ASML, as they are generally viewed as cyclical stocks, although the manager believes the industry is less economically sensitive now than in past cycles. DSV Panalpina performed very well throughout the pandemic and Gries suggests that this company has one of the best management teams in Europe and can further reduce costs. The firm is likely to make further acquisitions and the manager's three-year view on the business remains very positive.

Positive contributors to BRGE's performance this year include Novo Nordisk, which has benefited from being in the defensive healthcare sector but also from company-specific news. It successfully launched an anti-obesity drug in 2021 and investors expected a strong H122 update. Other defensive sectors have performed less well this year, such as utilities, where there is politically driven volatility as different governments have been talking about implementing windfall taxes. As noted previously, some traditionally defensive consumer businesses have suffered margin pressure due to higher costs. The manager says that it is not clear yet if there will be a major shift in consumers' spending habits; as an example, people have been buying premium-priced pet food and could trade down to less expensive brands or private-label products. Pharma companies have pricing power and are not experiencing higher input costs; they appear to be a better place for investors to hide in than utilities and consumer staples, opines Gries.

Other portfolio stocks that have performed relatively well this year include ChemoMetec (medtech), RELX (information and analytics provider) and National Bank of Greece. BRGE has also benefited from not holding positions in a range of companies such as Adidas, Delivery Hero, Deutsche Post, SAP, Siemens and Zalando, as these shares have underperformed.

Exhibit 8: NAV total return performance relative to MSCI Europe ex-UK over three years



Source: Refinitiv, Edison Investment Research

Peer group comparison

Stock market rotation from growth to value stock market leadership in 2022 has negatively affected BRGE's recent performance, along with the write-down of the trust's Russian assets. However, although BRGE's NAV total return ranks sixth out of seven funds in the Association of Investment Companies (AIC) Europe sector over the last 12 months, it has a commendable longer-term record. The trust ranks first over three, five and 10 years; 0.1pp, 6.7pp and 20.7pp respectively ahead of the second-ranked fund. BRGE continues to trade on the highest valuation in the group, it has one of the larger ongoing charges (modestly above the sector average) and is currently ungeared. Given its focus on capital growth rather than income, BRGE's dividend yield is below average, 70bp below the peer-group mean.

Exhibit 9: AIC Europe peer group as at 17 August 2022*

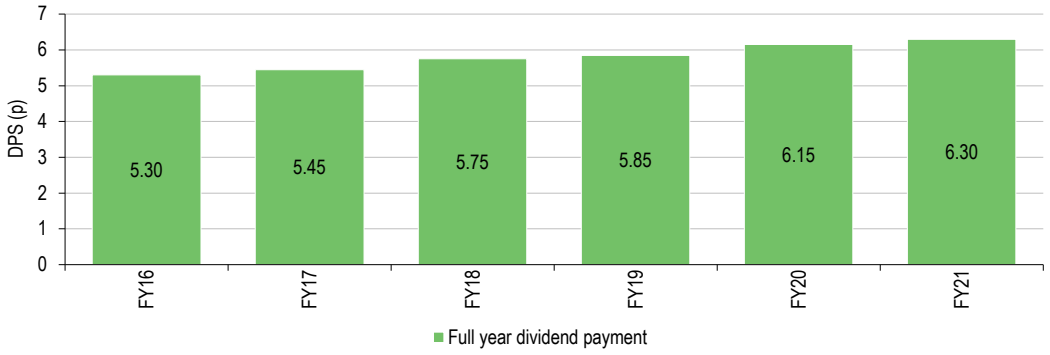
% unless stated	Market cap (£m)	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield
BlackRock Greater Europe	489.6	(24.5)	32.1	57.2	224.0	(4.6)	1.0	No	100	1.3
Baillie Gifford European Growth	329.5	(35.1)	22.7	8.3	115.3	(14.6)	0.7	No	111	0.4
European Opportunities Trust	734.8	(8.3)	1.2	20.5	181.3	(16.0)	1.0	No	110	0.3
Fidelity European Trust	1,216.6	(5.0)	32.0	50.5	193.2	(10.2)	0.8	No	111	2.3
Henderson European Focus Trust	293.7	(9.2)	24.7	29.5	203.3	(14.6)	0.8	No	108	2.4
Henderson EuroTrust	257.9	(16.8)	18.9	29.3	195.6	(14.9)	0.8	No	103	2.1
JPMorgan European Growth & Inc	351.6	(7.7)	22.0	23.1	174.9	(14.0)	1.3	No	103	5.0
Simple average	**524.8**	**(15.2)**	**22.0**	**31.2**	**184.0**	**(12.7)**	**0.9**		**107**	**2.0**
BRGE rank in sector (7 funds)	**3**	**6**	**1**	**1**	**1**	**1**	**6**		**7**	**5**

Source: Morningstar, Edison Investment Research. Note: *Performance to 17 August 2022 based on ex-par NAV. TR: total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

Dividends: Another step up in FY21

BRGE's annual dividend has grown every year since the trust was launched in 2004 and over the last five years has compounded at an annual rate of 3.5%. Distributions are made twice a year in May and December. In H122, BRGE's revenue return of 1.37p per share was 153.7% higher year-on-year; however, the trust's H222 income will be negatively affected by the write down of the trust's high-yielding Russian securities. The FY22 interim dividend was 1.75p per share, which was flat year-on-year and 0.8x covered by income. At the end of H122 BRGE had c £6.1m of revenue reserves, which is roughly equivalent to the last annual dividend. Based on its current share price, the trust offers a 1.3% dividend yield.

Exhibit 10: Dividend history since FY16



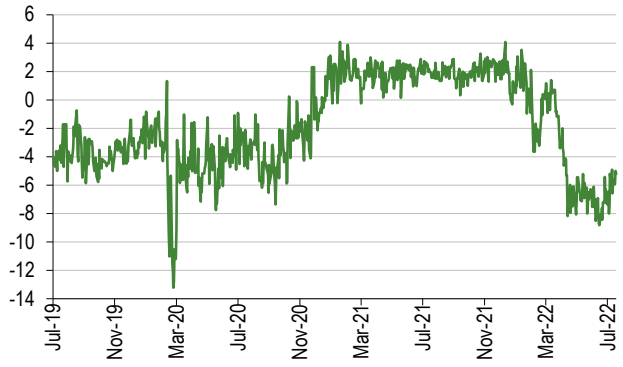
Source: Bloomberg, Edison Investment Research

Valuation: Return to trading at a discount

Having traded at a premium for most of 2021, BRGE is now once again trading at a discount (Exhibit 11), which may well reflect the trust's recent weaker relative performance as well as higher levels of stock market volatility. Its 5.2% discount to cum-income NAV compares with a range of a decade-high 4.1% premium to an 8.8% discount over the last 12 months. Over the last one, three, five and 10 years, the trust has traded at average discounts of 1.0%, 1.8%, 2.9% and 3.4% respectively.

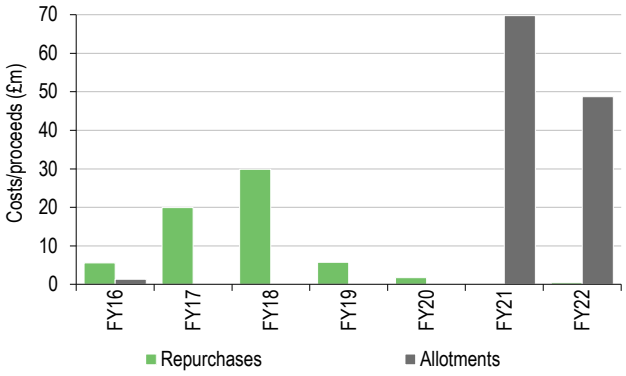
Renewed annually, BRGE's board has the authority to allot up to 10% or repurchase up to 14.99% of the trust's shares. There are also discretionary semi-annual tender offers for up to 20% of shares outstanding, although none have been undertaken since November 2018. In H122, c 4.3m shares were issued and c 1.9m were reissued from treasury with total proceeds of c £42.6m.

Exhibit 11: Discount over three years



Source: Refinitiv, Edison Investment Research

Exhibit 12: Buybacks and issuance



Source: Morningstar, Edison Investment Research

Fund profile: Broad European equity exposure

BRGE was launched in September 2004 and is listed on the Main Market of the London Stock Exchange. The trust has two co-managers: Stefan Gries (since June 2017 – with responsibility for developed Europe) and Sam Vecht (since launch – emerging Europe). They aim to generate long-term capital growth from a focused portfolio of European equities, across the market cap spectrum, although the majority of the fund will be invested in companies with a market cap above €5bn. BRGE's performance is measured against a broad Europe ex-UK index. The fund typically has 35–40 high-conviction positions and there are no constraints on sector exposure. Up to 25% of the

portfolio may be held in emerging European markets (currently c 5% compared to the 6% to 18% historical range following the write-down of BRGE's Russian securities), while up to 5% may be held in unquoted securities (none currently held); together these two exposures may not exceed 25% of the fund. Investment in developing Europe is either direct or via funds (up to a maximum 15% of the portfolio), and direct exposure to Russia is limited to 10%. The managers may invest in debt securities (up to 20% of the portfolio – none currently held) and derivatives are permitted for efficient portfolio management. Maximum gearing of 15% of NAV at the time of drawdown is permitted (net gearing of 0.0% at end-July 2022).

BRGE's ability to invest across the whole of Europe is a differentiating feature of the trust and the managers have a long-term focus, avoiding short-term market 'noise'; they emphasise that they are 'owners of companies, not traders of shares'. The managers look to align themselves with the best management teams in the region that can generate long-term value for shareholders.

Investment process: Fundamental stock selection

BRGE's stocks are selected on a bottom-up basis. The managers can draw on the broad resources of BlackRock's Fundamental Equity division, with 20 fund managers and analysts in the European Equity team and a further six analysts in the Global Emerging Markets team focusing on emerging Europe. Between them, they conduct more than 1,500 company meetings a year.

The first step of the investment process is idea generation, which is important in ensuring there is a continuous flow of new ideas entering the proprietary research process. A research pipeline is in place to make sure that team resources are used efficiently and to take advantage of the most promising investment opportunities.

Analysts undertake thorough industry and company analysis, looking at a firm's market dynamics, revenue drivers, financial statements, valuations and risks to the investment thesis. It is important to understand the factors that influence a company's share price and what the stock market is anticipating or may be missing. A proprietary research template is used to provide a consistent approach and researched stocks are assigned a rating between 1 (strong buy) and 5 (sell), while constructive debate between team members is actively encouraged.

There are four primary investment criteria when assessing a potential addition to the fund: a unique aspect – such as a product, brand or contract structure – which allows sustainable returns; options to deploy cash in areas of high and sustainable returns; a high and predictable return on capital and strong free cash flow conversion; and a quality management team with a clearly defined strategy and a strong track record of value creation.

The portfolio currently has 40 holdings, 34 in developed markets (c 95% of the fund) and two (plus four Russian securities valued at nil) in emerging markets (c 5%), selected from an investible universe of more than 2,000 companies. Portfolio turnover in 2022 is running at a c 20% annualised rate. Stocks may be sold if there is a fundamental change in the investment case that will negatively affect a company's earnings and cash flow, if it has reached its estimated valuation target, or if a better investment opportunity is identified. While BRGE's portfolio is concentrated, the managers and their teams are risk aware and work closely with BlackRock's independent Risk and Quantitative Analysis group to ensure the trust's portfolio risk is closely monitored and understood.

BRGE's approach to ESG

BRGE's managers use ESG information when conducting research and due diligence on new investments, and also when monitoring investments in the portfolio, believing that this can help enhance risk-adjusted returns. They employ both quantitative and qualitative assessments, focusing on areas including environmental risks, corporate structures and capital allocation. Given

its size, BlackRock has unparalleled access to company management teams, and its managers seek to understand how firms approach ESG risks and opportunities and what potential impact these may have on their financial returns; they can encourage change when required. The managers believe a company's ability to manage ESG matters demonstrates strong leadership and good governance that is essential to sustainable growth.

The criteria applied for BRGE's stock selection means the portfolio is made up of businesses that score well from an ESG perspective and Gries highlights the importance of a strong corporate culture within investee companies in terms of creating value for shareholders.

Gearing

At end-H122, BRGE had an available overdraft facility of the lower of £70m or 15% of NAV, which is the maximum permitted at the time of drawdown. At end-July 2022, net gearing was 0.0%; this compares with a historical range of c 15% geared to c 10% net cash (the typical range is 5–8% net gearing). The manager does not try to time the market; the trust's level of gearing is driven by the opportunities available either for current or new holdings.

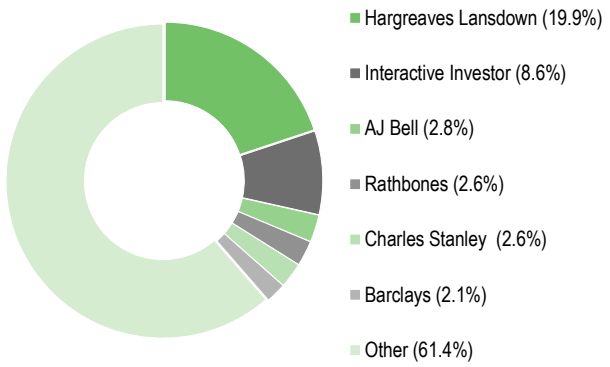
Fees and charges

BlackRock is paid an annual management fee of 0.85% of NAV (based on the NAV at the end of each month), which is allocated 80:20 between the capital and revenue accounts; no performance fee is payable. In FY21, ongoing charges were 1.02%, which was 1bp higher than 1.01% in FY20.

Capital structure

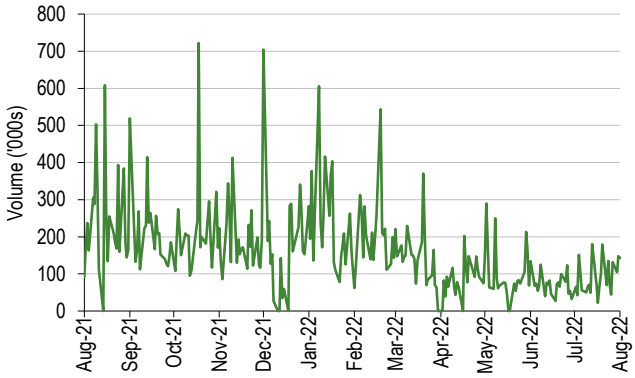
BRGE is a conventional investment trust, with one class of share. There are currently 102.1m ordinary shares in issue, with a further 15.8m held in treasury. Over the last 12 months the trust had an average daily trading volume of c 170k shares.

Exhibit 13: Major shareholders



Source: Bloomberg. Note: At 31 July 2022.

Exhibit 14: Average daily volume



Source: Refinitiv. Note: 12 months to 17 August 2022.

The board

On 10 February 2022 the board announced the appointment of Ian Sayers as a non-executive director with immediate effect. He was CEO of the AIC from 2010 to 2021, following his promotion from deputy director general. Prior to that, Sayers was the AIC's technical director, advising

members on areas such as taxation, accounting, company law and regulation, as well as having a key role in its public affairs activity. Before joining the AIC, he qualified as a chartered accountant and chartered tax adviser at Ernst & Young and worked in the funds section of the investment management group, providing compliance and advisory services to investment trusts and their management groups.

The other directors have backgrounds in banking, investment management and economics.

Exhibit 15: BRGE's board of directors at end-FY21

Board member	Date of appointment	Remuneration in FY21	Shareholdings at end-FY21
Eric Sanderson (chairman since Nov 2016)	April 2013	£41,000	4,000
Peter Baxter*	April 2015	£32,500	5,000
Davina Curling	December 2011	£28,000	Nil
Paola Subacchi	July 2017	£28,000	5,513

Source: BRGE. Note: *Peter Baxter is chair of the audit and management engagement committee.

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia