EDISON

BlackRock Greater Europe Investment Trust

Finding attractive investment opportunities

BlackRock Greater Europe Investment Trust (BRGE) invests in continental European equities across the market cap spectrum; it is a concentrated portfolio and up to 25% may be invested in companies listed in developing European markets. The primary aim is long-term capital growth; however BRGE has a progressive dividend strategy – ordinary dividends have increased in every year since fund launch in 2004. Despite modest economic growth and political uncertainties in the region, managers Vincent Devlin and Sam Vecht continue to identify attractive investment opportunities. Following significant fund outflows from European equities, any change in investor sentiment would be supportive for the asset class.

12 months ending	Share price (%)	NAV (%)	Benchmark (%)	FTSE All-Share (%)	FTSE World (%)
31/10/12	6.7	10.1	6.3	9.8	9.7
31/10/13	34.3	33.0	32.5	22.8	25.3
31/10/14	(6.3)	(3.3)	(0.8)	1.0	8.9
31/10/15	12.0	8.6	5.2	3.0	4.6
31/10/16	18.9	20.0	19.7	12.2	29.7

Source: Thomson Datastream. Note: All % on a total return basis in GBP.

Investment strategy: In-depth, bottom-up research

BRGE's managers are able to draw on the well-resourced teams within BlackRock to select a concentrated portfolio of European ex-UK equities aiming to achieve long-term capital growth. There is a disciplined process, which distils the investable research universe into a pipeline of companies that are considered for inclusion in the portfolio. Meeting with company managements is a key part of the investment process. The resulting portfolio typically includes 45-65 securities selected on a bottom-up basis, although the managers acknowledge the importance of taking a view on the macro environment. Over the last three years, portfolio turnover has averaged c 90% per year.

Market outlook: Valuations relatively attractive

In its latest World Economic Outlook, the International Monetary Fund has modestly revised upwards its estimates for continental European growth for both 2016 and 2017. While equities in general are trading above their 10-year average valuation multiples as investors search for yield in a low interest rate environment, European equities are more attractively valued versus UK and US equities on a forward P/E basis and more attractive versus UK, US and world equities on a price-to-book basis. For investors seeking exposure to the region, a fund focusing on companies with strong fundamentals may hold appeal.

Valuation: Discount modestly wider than average

BRGE's current share price discount to cum-income NAV of 5.5% is modestly wider than the averages of the last one, three, five and 10 years (range of 3.6% to 4.5%). In addition to regular share repurchases, the board has the option to implement a semi-annual tender for up to 20% of shares outstanding when this is considered advantageous to shareholders. The next tender offer will be on 1 December 2016. BRGE has a progressive dividend policy; the current dividend yield is 2.0%.

Investment trusts

10 November 2016

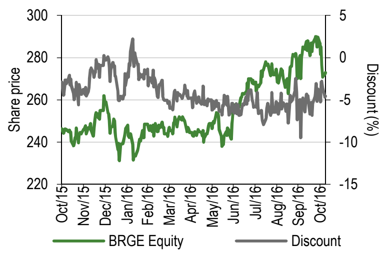
Price	**270.3p**
Market cap	**£276m**
AUM	**£300m**

NAV*	285.9p
Discount to NAV	5.5%
NAV**	286.1p
Discount to NAV	5.5%

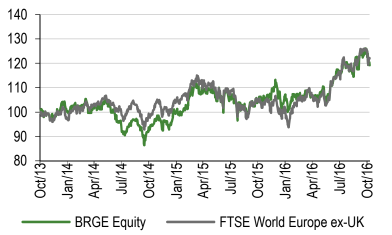
*Excluding income. **Including income

Yield	2.0%
Ordinary shares in issue	102.0m
Code	BRGE
Primary exchange	LSE
AIC sector	Europe
Benchmark	FTSE World Europe ex-UK

Share price/discount performance



Three-year performance vs index



52-week high/low	290.0p	231.3p
NAV** high/low	303.8p	232.4p

**Including income.

Gearing

Gross*	1.6%
Net*	1.4%

*As at 30 September 2016.

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

Exhibit 1: Trust at a glance

Investment objective and fund background

BlackRock Greater Europe Investment Trust's objective is achieving 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 the benchmark FTSE World Europe ex-UK index (in sterling terms).

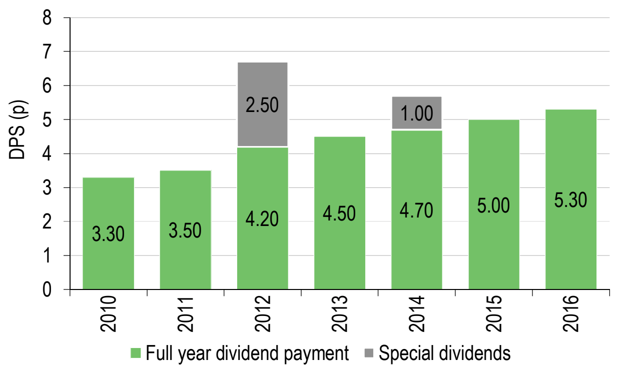
Recent developments

- 19 October 2016: Full-year results for 12 months ending 31 August 2016. NAV TR 16.9% versus benchmark TR 15.4%. Share price TR 13.8%. Recommended final dividend of 3.65p representing annual dividend of 5.30p (+6% versus prior year).
- 19 September 2016: Announcement of tender offer for up to 20% of shares outstanding at 98% of 30 November 2016 NAV.
- 1 June 2016: Cancellation of subscription share listing.

Forthcoming		Capital structure		Fund details	
AGM	December 2016	Ongoing charges	1.07% (at 31 August 2016)	Group	BlackRock Investment Mgmt (UK)
Interim results	April 2017	Net gearing	1.4%	Managers	Vincent Devlin, Sam Vecht
Year end	31 August	Annual mgmt fee	0.85%	Address	12 Throgmorton Avenue, London, EC2N 2DL
Dividend paid	April, October	Performance fee	None		
Launch date	20 September 2004	Trust life	Indefinite	Phone	+44 (0) 20 7743 3000
Continuation vote	None	Loan facilities	£20m overdraft facility	Website	blackrock.co.uk/brge

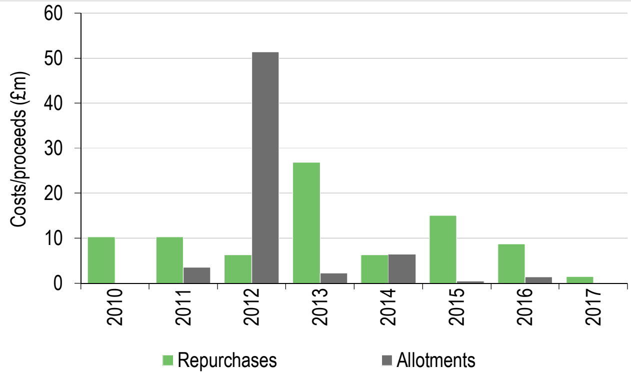
Dividend policy and history

BRGE pays two dividends a year in April and October. Ordinary dividends have increased every year since trust launch.

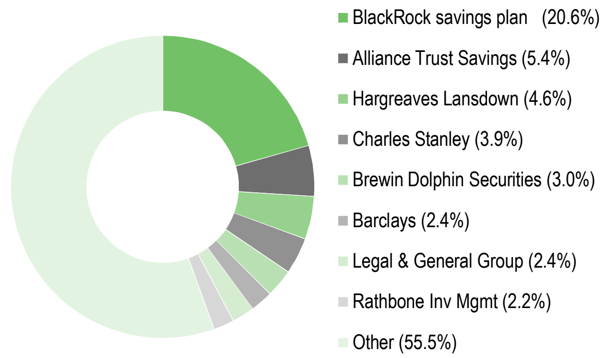


Share buyback policy and history

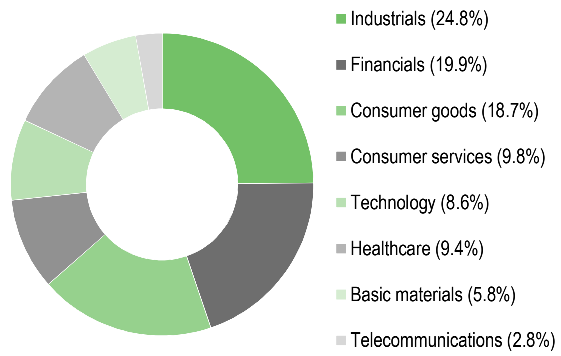
To help manage the discount, the board has the authority (alongside normal buyback powers) to implement a twice-annual tender for up to 20% of shares outstanding, renewed annually.



Shareholder base (as at 31 October 2016)



Portfolio exposure by sector (as at 30 September 2016)



Top 10 holdings (as at 30 September 2016)

			Portfolio weight %	
Company	**Country**	**Sector**	**30 September 2016**	**30 September 2015***
Anheuser-Busch InBev	Belgium	Beverages	3.8	N/A
Zurich Insurance	Switzerland	Insurance	3.3	2.6
RELX	Netherlands	Media	3.3	N/A
Tenaris	Luxembourg	Basic materials	2.9	N/A
Vinci	France	Industrials	2.9	N/A
Bayer	Germany	Beverages	2.9	3.8
KPN	Netherlands	Telecoms	2.9	N/A
Pandora	Denmark	Personal goods	2.8	N/A
Unibail-Rodamco	France	Real estate	2.8	N/A
Pernod Ricard	France	Beverages	2.5	N/A
Top 10			**30.1**	**34.0**

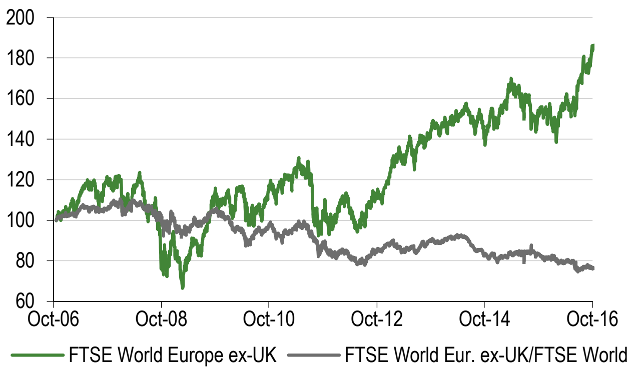
Source: BlackRock Greater Europe Investment Trust, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in September 2015 top 10.

Market outlook: Relative valuations less extended

Exhibit 2 (left-hand side) shows the performance of the continental European stock market in sterling terms over the last 10 years in absolute terms and relative to the world market. Europe has been relatively weaker since the end of the global financial crisis; a contributing factor has been slower economic growth versus the US (>50% of the World index). However, in its latest World Economic Outlook, the International Monetary Fund increased its forecasts for European economic growth by 0.1pp in both 2016 and 2017, while reducing US forecasts by 0.6pp and 0.3pp for 2016 and 2017 respectively. European forecast growth for 2016 is now higher than in the US, although 2017 estimates remain lower. Looking at valuations in Exhibit 2 (right-hand side), while above average, Europe ex-UK looks more attractive than both the UK and US markets on a forward P/E basis, trading at a 15% premium to its 10-year average versus 21% and 17% respectively. On a price-to-book basis, Europe ex-UK looks more attractive than the UK, US and world markets.

Exhibit 2: Market performance and valuation

Performance of FTSE World Europe ex-UK index over 10 years



Valuation multiples of global Datastream indices

	Last	High	Low	10-year average	Last as % of average
Forward P/E (x)					
Europe ex-UK	13.4	15.5	7.8	11.6	115
UK	14.5	15.6	7.4	11.9	121
US	16.8	17.7	9.4	14.4	117
World	14.8	16.0	8.8	13.0	113
Price-to-book (x)					
Europe ex-UK	1.6	2.3	0.9	1.5	103
UK	1.9	2.6	1.2	1.8	104
US	2.9	3.1	1.3	2.4	124
World	1.9	2.5	1.1	1.8	107

Source: Thomson Datastream, Edison Investment Research

Fund profile: Focused, bottom-up investment

BRGE was launched in September 2004, aiming to generate long-term capital growth from a portfolio of European equities. Investments are made across the market cap spectrum, although the majority of holdings are above €5bn; the portfolio comprises c 30-70 holdings (typically 45-65). Manager Vincent Devlin (a senior manager in the European equity team) selects developed European equities, while Sam Vecht (head of the emerging markets specialist equity team) suggests investments in developing Europe – up to a maximum of 25% is permitted, although in practice exposure tends to be in a range of 5-8% (currently 4.8%). Up to a maximum 10% may be invested in Russia (currently 3.4%), up to 20% in debt instruments and up to 5% in unquoted securities (both currently 0%); gearing of up to 15% of NAV is permitted. There is an active discount control mechanism in place; the board has discretion to conduct a semi-annual tender of up to 20% of shares outstanding, along with regular share repurchases.

The fund managers: Vincent Devlin and Sam Vecht

The manager's view: Finding opportunities

Manager Vincent Devlin suggests that the environment of low economic growth and interest rates in continental Europe will continue and, unlike in the US, there is no sign of wage inflation. Although recovery is muted, the improvement seen over the last two years remains intact and the manager is still finding attractive investment opportunities. The political environment is constantly changing and in recent years there has been a rise in 'non-traditional' parties. This may make it difficult to pass fiscal policy in the coming years as stimulus shifts from monetary to fiscal accommodation. There will also be potential impacts from Brexit; the manager sold BRGE's position in Ryanair on the back of an uncertain outlook. Since 2012, in developed markets ex-US there has been a fiscal drag as a result of austerity. However, the fiscal contribution of developed markets to world GDP has now turned positive, which is beneficial for construction and materials stocks such as French infrastructure and construction company Vinci and Swiss sanitary ware manufacturer Geberit, both of which are represented in the BRGE portfolio.

Devlin comments that in aggregate, there is a lack of earnings growth in 2016, and some sectors have seen estimate downgrades, such as banks and commodities. As a result, he believes that earnings estimates are now realistic. He suggests that companies which are able to grow are trading on high multiples due to their scarcity value and that valuations in aggregate are high versus history. Asset allocators are favouring equities in a search for yield and the valuations of fixed-income securities are unattractive. In a low-growth, low interest rate environment, companies generating low single-digit earnings growth and yielding 3-4% are viewed as attractive and, while dividend growth of c 3% is modest, companies are not having to cut their dividends.

The manager highlights an important issue regarding investor sentiment towards continental European equities. Year to date, there have been massive outflows; to mid-October, there were 36 consecutive weeks of outflows totalling c $100bn, which is very unusual. Other areas of the market such as Japanese and emerging market equities and US and European credit are seeing inflows; a reversal in fund flows would be supportive for continental European equities.

Asset allocation

Investment process: Bottom-up fundamental analysis

BRGE adopts a flexible investment style, conducting disciplined fundamental research to identify inefficiencies in the equity market. The process is bottom-up, with a high awareness of the macro environment. The manager and the BlackRock European equity team seek to invest in companies that have sustainable cash flow generation, which should lead to capital appreciation and the payment of dividends. An initial screen of the investment universe highlights companies that are worthy of further investigation. This involves in-depth fundamental analysis, financial modelling, team discussion to challenge investment assumptions and company meetings, which form a key part of the investment process. Stocks are then given a rating between 1 (strong buy) and 5 (sell); the portfolio will typically comprise 20% 1-rated, 60% 2-rated and 20% 3-rated stocks. As the majority of companies in which BRGE invests have global operations, the manager needs to be aware of a broad range of issues including global interest rates and currencies. He is able to draw on the vast available resources at BlackRock to help him form his views. Risk management is a key part of the investment process; BlackRock uses a proprietary model to evaluate portfolio risk. For a more detailed discussion of the investment process, please see our March 2016 initiation report.

Current portfolio positioning

At end-September 2016, the top 10 positions accounted for 30.1% of BRGE's portfolio; this was a modest decrease in concentration from 34.0% at end-September 2015. Two names were common to both periods. Versus the benchmark, the portfolio continues to be underweight mega-cap stocks, with the largest overweight exposure in companies with market caps between €2bn and €5bn.

Looking at sector exposure in Exhibit 3, over the last 12 months the largest increases in exposure are in consumer goods and industrials, while the largest decrease was in financials. In consumer goods, Pernod Ricard has been added to the portfolio. Spirits industry supply/demand is back in balance following a boom in Asia and subsequent destocking; this will lead to a better pricing environment and the US market is now growing as a result of higher advertising spending. In industrials, a position was initiated in Tenaris, which manufactures seamless pipes, some of which are used in shale oil and gas production. The stock was purchased at an attractive valuation following weakness in the oil price. Tenaris has a strong balance sheet and has been investing in client solutions; it is taking market share from its indebted French competitor, Vallourec. In financials, Intesa Sanpaolo and Helvetia were sold. Intesa Sanpaolo is a high-quality Italian bank with a strong balance sheet and a high dividend. However, the manager is concerned about the risk inherent in the whole Italian banking system. Helvetia is a Swiss multi-line insurance company. It purchased its competitor, National Suisse, which resulted in the generation of significant synergies; the manager considered that the benefits had been reflected in the prevailing share price.

Exhibit 3: Portfolio sector exposure vs benchmark (% unless stated)

	Portfolio end-September 2016	Portfolio end-September 2015	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Industrials	24.8	17.7	7.2	15.4	9.4	1.6
Financials	19.9	31.8	-11.9	20.4	-0.4	1.0
Consumer goods	18.7	8.4	10.3	20.2	-1.4	0.9
Consumer services	9.8	9.8	0.0	5.6	4.2	1.7
Healthcare	9.4	12.3	-2.9	13.3	-3.9	0.7
Technology	8.6	7.6	1.0	4.7	3.9	1.8
Basic materials	5.8	3.8	2.0	8.3	-2.4	0.7
Telecommunications	2.8	4.0	-1.2	4.0	-1.2	0.7
Oil & gas	0.0	1.9	-1.9	4.3	-4.3	0.0
Utilities	0.0	2.5	-2.5	3.8	-3.8	0.0
	100.0	**100.0**		**100.0**		

Source: BlackRock Greater Europe Investment Trust, Edison Investment Research

Recent transactions in the BRGE portfolio include a switch from Heineken into Anheuser-Busch InBev (ABI) on valuation grounds. ABI's recent acquisition of SABMiller should generate additional earnings growth from synergies. It is a major industry deal and will allow ABI to have better control over its pricing and products, while bringing economies of scale, better distribution and lower costs. InBev purchased Anheuser-Busch in 2008; the acquisition was very well integrated, illustrating ABI's ability to deliver shareholder value following a major transaction. The SABMiller deal will increase ABI's exposure to Africa, which is a less penetrated market. It has the lowest per-capita consumption, but is the highest-growth beer market in the world.

Within the healthcare sector, longstanding position Novo Nordisk was sold. Competitor Sanofi's key diabetes drug has been removed from the approved drug lists of some healthcare providers on the basis of cost. Although this should provide a short-term boost to Novo, Devlin says it illustrates that drug purchasers are playing hardball, which is a risk to the company in the future, despite its premium products and strong pipeline. Drug pricing remains a hot topic in the US and there is a potential approval later in 2016 of a competing biosimilar product to Sanofi's Lantus diabetes medication. The manager will reconsider his view on Novo's stock in 2017, once there is greater clarity on drug pricing and the US election has passed. The company has a structural growth profile given the global rise in diabetes patients, both in developed economies and emerging markets, where people are adopting a more Western diet and lifestyle.

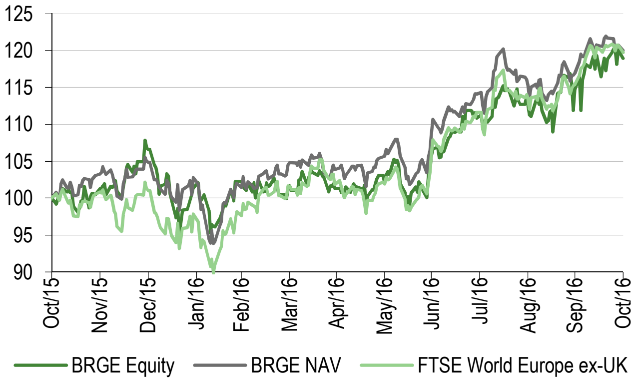
Performance: Outperformance over three to 10 years

In the 12 months to 30 September, on a sector basis, the largest contributors to performance were consumer goods (+0.63pp) and industrials (+0.41pp), while the largest detractors were basic materials (-1.02pp) and consumer services (-0.93pp). On an individual stock basis, the largest contributors were positions in sportswear company Adidas (+1.55pp), which has accelerating sales growth, restructuring benefits and a new CEO; and Russian bank Sberbank (+0.90pp), which has a 50% share of the Russian retail deposit market. The largest detractors were Bank of Ireland

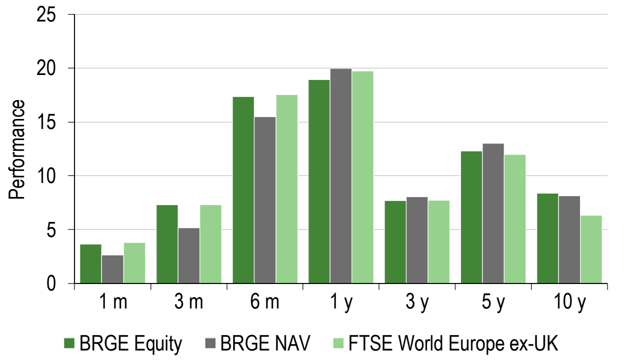
(-0.90pp), whose share price fell following the Brexit vote, given that 25% of profits are generated in the UK, and Italian asset manager Anima Holding (-0.82pp), where there have been question marks over its ability to gather assets from Italian bank distribution partners, given concerns about the strength of the Italian banking system.

Exhibit 4: Investment trust performance to 31 October 2016

Price, NAV and benchmark total return performance, one-year rebased



Price, NAV and benchmark total return performance (%)



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

Exhibit 4 shows absolute returns, which have been boosted over the last year by the weakness in sterling versus the euro. Exhibit 5 shows BRGE's relative performance; its NAV total return has beaten the benchmark total return over one, three, five and 10 years. As a reference to UK-based investors, its NAV and share price total returns have outperformed the FTSE All-Share index over all periods shown. BRGE's underperformance versus the FTSE World index is a result of the strong relative performance of US equities.

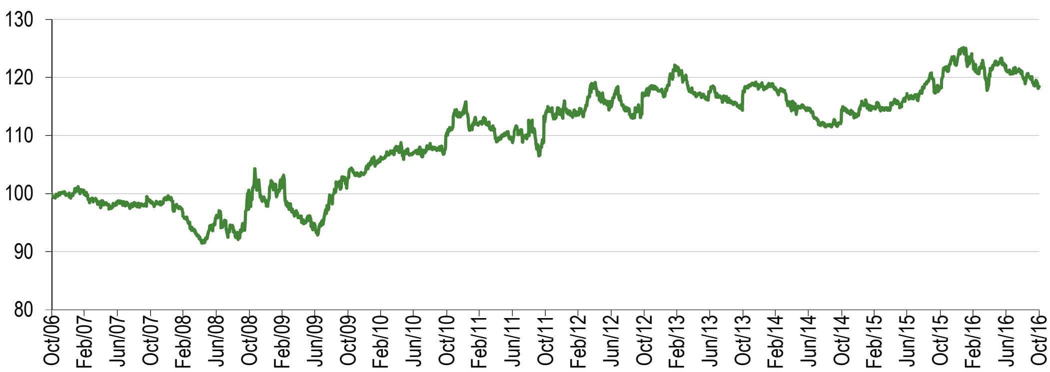
Exhibit 5: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to FTSE World Europe ex-UK	(0.1)	0.0	(0.1)	(0.7)	(0.1)	1.6	21.1
NAV relative to FTSE World Europe ex-UK	(1.1)	(2.0)	(1.7)	0.2	0.9	4.8	18.5
Price relative to FTSE All-Share	3.1	3.0	4.6	6.0	7.0	13.7	30.5
NAV relative to FTSE All-Share	2.0	0.9	2.9	6.9	8.0	17.3	27.6
Price relative to FTSE World	(0.9)	(0.5)	(5.0)	(8.3)	(15.5)	(11.9)	(7.6)
NAV relative to FTSE World	(1.9)	(2.5)	(6.5)	(7.5)	(14.7)	(9.1)	(9.6)

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-October 2016. Geometric calculation.

Exhibit 6 shows the performance of BRGE relative to the benchmark over the last 10 years. While there have been periods of underperformance, the overall trend is positive. BRGE's NAV total return has outperformed the benchmark by an average c 1.9% pa over the period.

Exhibit 6: NAV performance relative to benchmark over 10 years



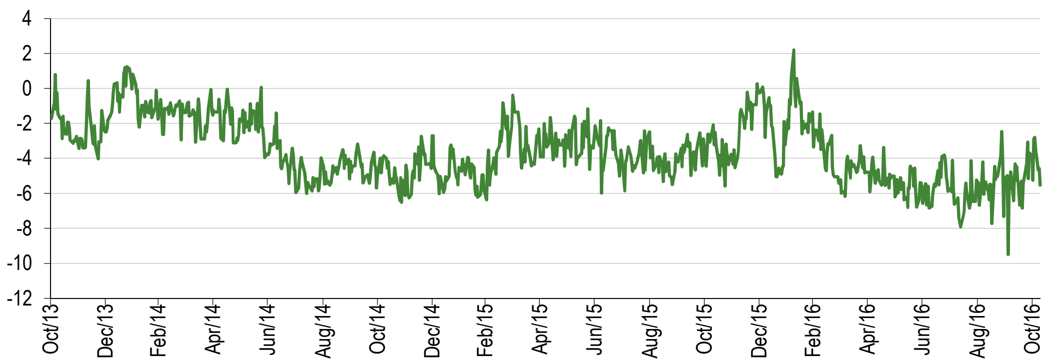
Source: Thomson Datastream, Edison Investment Research

Discount: Option of tender offers to manage discount

BRGE's current share price discount to cum-income NAV of 5.5% compares to a range of a 2.2% premium to a 9.5% discount over the last 12 months. It is modestly wider than the averages of one, three, five and 10 years (range of 3.6% to 4.5%).

BRGE's board actively manages the discount; it has the option to implement a semi-annual tender offer for up to 20% of shares outstanding, in addition to share repurchases between tenders, when this is considered to be in the interests of shareholders. The last tender offer was on 1 December 2015, when 1.19% of issued shares were tendered at a price of 250.56p. The board decided not to implement a tender offer in May 2016, given a narrow discount, the cost of the exercise and the low take-up of the previous offer. The next tender offer will be on 1 December 2016, based on the end-November fully diluted NAV minus a 2% discount.

Exhibit 7: Share price premium/discount to NAV (including income) over three years (%)



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

BRGE is a conventional investment trust with one class of share; there are currently 102.0m ordinary shares in issue, plus a further 8.3m shares held in treasury. In FY16, BRGE issued 0.5m shares following the conversion of subscription shares; total proceeds were £1.3m. The final exercise date for the subscription shares was on 29 April 2016 – the subscription conversion price of 248p was above the prevailing share price in the offer period, hence the 20.0m outstanding subscription shares lapsed.

Since 1 September 2015, BlackRock has been paid an annual fee of 0.85% of net asset value and no performance fee; prior to this the annual fee was 0.70% of market value plus a performance fee of 15% of any outperformance versus the benchmark, over a rolling three-year period, up to a maximum of 1.15%. In FY16, ongoing charges were 1.07% versus 0.89% in the prior year. In FY15, the inclusion of a performance fee meant that total ongoing charges were 1.22%.

Gearing of up to 15% of NAV is permitted. BRGE has a £20m overdraft facility in place, repayable at any time, which is used when the manager has more buy than sell ideas, rather than taking a view on the direction of the stock market. At end-September 2016, net gearing was 1.4%.

Dividend policy and record

Despite the focus on capital appreciation, BRGE adopts a progressive dividend policy. Dividends are currently paid twice a year in April and October; prior to 2014 payments were made annually.

Ordinary dividends have increased every year since the trust's inception in 2004. A final dividend of 3.65p per share for 2016 has been recommended; coupled with the interim dividend of 1.65p this means the annual dividend for FY16 is 6.1% higher than FY15. This is in line with the increase in revenue return. The FY16 dividend is 1.06x covered and the current dividend yield is 2.0%.

Peer group comparison

BRGE is one of eight trusts that comprise the AIC Europe sector. Its NAV total return is ahead of the peer group weighted average over one year, ranking fourth, but lags the averages over three, five and 10 years. In terms of risk-adjusted returns as measured by the Sharpe ratio, it is above average over one year and below over three years. BRGE has the narrowest discount in the sector. Its ongoing charge is modestly higher than the average and there is no performance fee. As befits BRGE's focus on capital growth rather than income, its dividend yield is the equal third-lowest in the group.

Exhibit 8: AIC Europe peer group as at 9 November 2016

% unless stated	Market cap £m	NAV TR 1 Year	NAV TR 3 Year	NAV TR 5 Year	NAV TR 10 Year	Sharpe 1y (NAV)	Sharpe 3y (NAV)	Discount (ex-par)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
BlackRock Greater Europe	279.0	19.7	25.8	84.0	118.2	(0.3)	(0.1)	(5.3)	1.1	No	100	2.0
European Investment Trust	317.2	18.6	14.7	66.3	45.4	(0.3)	(0.2)	(15.1)	0.6	No	100	2.2
Fidelity European Values	746.4	21.1	32.1	94.4	103.9	(0.3)	0.0	(11.7)	0.9	No	103	1.9
Henderson European Focus Trust	220.8	19.4	41.8	119.5	159.0	(0.4)	0.2	(7.8)	0.9	Yes	105	2.3
Henderson EuroTrust	196.1	22.3	38.9	108.8	160.8	(0.2)	0.2	(10.3)	0.9	Yes	105	2.0
JPMorgan European Growth Pool	196.5	18.6	30.2	93.6	84.2	(0.4)	0.0	(13.3)	1.1	No	101	2.3
JPMorgan European Income Pool	124.2	23.6	37.8	103.5	119.9	(0.2)	0.1	(14.2)	1.1	No	115	3.6
Jupiter European Opportunities	596.9	7.4	40.1	124.9	237.1	(0.8)	0.2	(6.1)	1.0	Yes	115	1.0
Weighted average		**17.5**	**32.6**	**100.3**	**136.2**	**(0.4)**	**0.1**	**(10.0)**	**0.9**		**106**	**1.9**
BRGE rank in sector	**4**	**4**	**7**	**7**	**5**	**5**	**7**	**1**	**2**		**7**	**5**

Source: Morningstar, Edison Investment Research. Note: TR=total return. Performance data to end-October 2016. Sharpe ratio is a measure of risk-adjusted return. The ratios shown are calculated by Morningstar for the past 12- and 36-month periods by dividing a fund's annualised excess returns over the risk-free rate by its annualised standard deviation. Net gearing is total assets less cash and equivalents as a percentage of net assets.

The board

There are four directors on the BRGE board; all are non-executive and independent of the manager. Chairman Carol Ferguson was appointed in June 2004. She will be stepping down as chairman at the next AGM, but will remain on the board as a non-executive director. Ferguson will be succeeded by Eric Sanderson, who was appointed to the board in April 2013. The other two directors and their dates of appointment are Davina Curling (December 2011) and Peter Baxter (April 2015). The board is in the process of seeking an additional director.

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