BlackRock Greater Europe Investment Trust

Intensively researched stock selection

Investment trusts

BlackRock Greater Europe Investment Trust (BRGE) invests primarily in developed European equites across the capitalisation spectrum, with the primary aim of achieving long-term capital growth. Up to 25% of the trust may be invested in developing European markets (currently c 5%). The portfolio is concentrated, typically holding between 45 and 65 securities. Vincent Devlin (developed Europe) and Sam Vecht (emerging Europe) have managed BRGE since July 2008 and fund inception respectively. It has outperformed the benchmark FTSE World Europe ex-UK index over one, three, five and 10 years and the dividend has been increased each year since the trust's inception in 2004; the current dividend yield is 2.0%.

12 months ending	Total share price return (%)	Total NAV return (%)	FTSE World Europe ex-UK (%)	FTSE All-Share (%)	FTSE World index (%)
29/02/12	(5.4)	(8.3)	(9.7)	1.5	0.6
28/02/13	24.6	26.5	18.6	14.1	16.2
28/02/14	13.2	12.2	15.4	13.3	8.6
28/02/15	(1.7)	2.2	5.2	5.6	17.1
29/02/16	6.4	1.7	(5.2)	(7.3)	(1.5)

Note: Twelve-month rolling discrete £-adjusted total return performance.

Investment strategy: Rigorous fundamental research

BRGE primarily aims for capital growth, although dividends have grown annually since launch. BlackRock's European Equity team comprises 21 portfolio managers and analysts. The investment process is flexible with no inherent bias to growth, value or income. Research is conducted in house and best ideas are sourced from seven sector teams. The result is a pipeline of companies considered for inclusion in the portfolio, with each potential investment given a rating between 1 and 5. The portfolio typically holds between 45 and 65 securities selected on a bottom-up basis, although the macro environment is taken into consideration. The EPS growth of companies is modelled over three- and five-year periods; the typical intended holding period is in excess of one year.

Market outlook: Continuing low-growth environment

The start of 2016 has proved to be a volatile period for global stock markets. Investor concerns have included slowing global growth, a continuing weak oil price and geopolitical issues. There is also a divergence in monetary policy between central banks, which adds another element of uncertainty. However, against this backdrop, IMF forecasts for economic growth in Europe, although below the levels of some other advanced economies, have been revised higher for 2016 and represent acceleration versus 2015. Following stock market weakness since April 2015, valuation metrics are returning to more attractive levels.

Valuation: Discount at low end of long-term average

At 18 March 2016, BRGE's shares were trading at a 3.1% discount to cum income net asset value. Over one, three, five and 10 years, BRGE has traded at an average discount ranging from 3.1% to 3.5%. The board has been active in managing the discount, including through twice-yearly tender offers when they have been considered advantageous.

21 March 2016

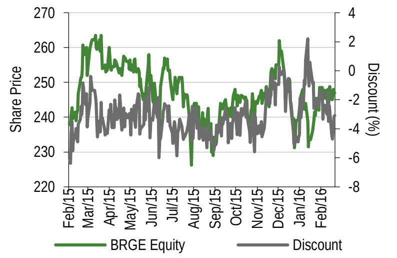
Price	**247.0p**
Market cap	**£254.6m**
AUM	**£262.7m**

NAV*	254.0p
Discount to NAV	2.8%
NAV**	254.9p
Discount to NAV	3.1%

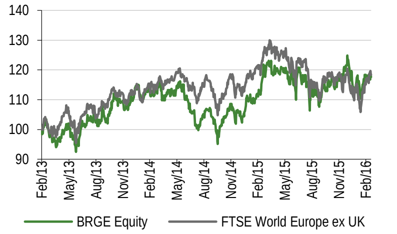
*Excluding income. **Including income as at 18 March 2016.

Yield	2.0%
Ordinary shares in issue	103.1m
Code	BRGE
Primary exchange	LSE
AIC sector	Europe

Share price/discount performance



Three-year cumulative perf. graph



52-week high/low	263.5p	226.3p
NAV** high/low	272.2p	232.4p

**Including income.

Gearing

Gross*	0.0%
Net*	-3.0%

*As at 29 February 2016.

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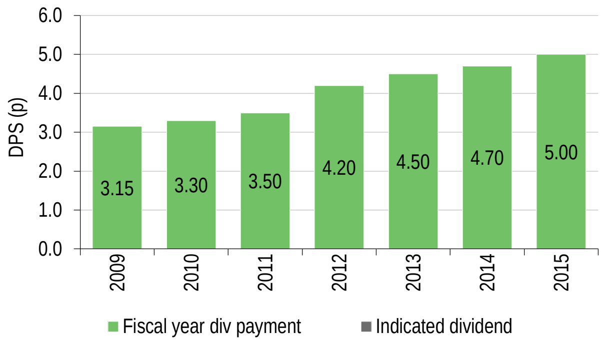
Edison profile page

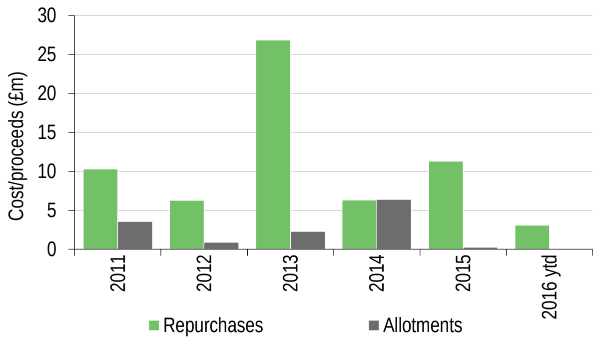
Exhibit 1: Trust at a glance

Investment objective and fund background	Recent developments
BlackRock Greater European Investment Trust's objective is achieving capital growth, primarily through investment in a focused portfolio of large, mid- and small capitalisation 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).	■ 1 December 2015: Results of tender offer. 1.19% of issued shares tendered at a price of 250.56p. ■ 22 October 2015: Full year results. NAV + 7.5% vs 1.3% for the FTSE World Europe ex-UK index. Share price +9.1%. Final dividend of 3.35p announced. ■ 2 June 2015: Results of tender offer. 1.38% of issued shares tendered at a price of 256.66p.

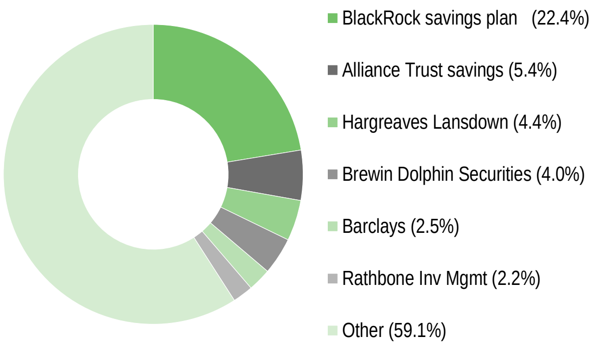
Forthcoming		Capital structure		Fund details	
AGM	December 2016	Ongoing charges	0.89% (at 31 August 2015)	Group	BlackRock Investment. Mgmt (UK)
Interim results	April 2016	Gearing	-3.0% (at 29 February 2016)	Managers	Vincent Devlin, Sam Vecht
Year end	31 August	Annual mgmt fee	0.85%	Address	12 Throgmorton 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	Share buyback policy and history
BRGE pays two dividends a year in April and October. Dividends have increased every year since trust launch.	To help manage the discount, the board has the authority (alongside normal buyback powers) to implement a twice-annual tender for 20% of shares outstanding, renewed annually.

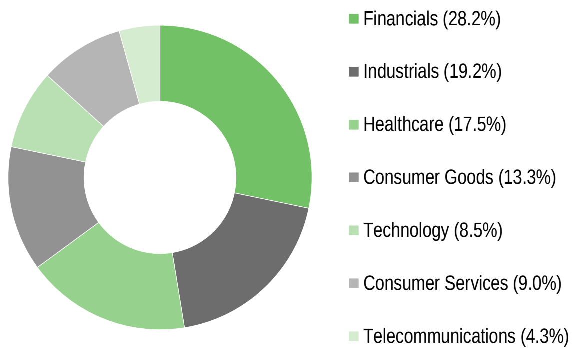




Shareholder base (as at 21 March 2016)



Portfolio exposure by sector (as at 29 February 2016)



Top 10 holdings (as at end February 2016)

			Portfolio weight %	
Company	Country of listing	Sector	29 February 2016	28 February 2015*
Novo Nordisk	Denmark	Pharmaceuticals	5.0	4.6
Novartis	Switzerland	Pharmaceuticals	4.4	4.2
Ryanair	Ireland	Airlines	3.0	N/A
Adidas	Germany	Personal goods	2.9	N/A
Heineken	Netherlands	Beverages	2.8	2.7
RELX	Netherlands	Media	2.8	N/A
Vinci	France	Industrials	2.8	N/A
Deutsche Telekom	Germany	Telecommunications	2.7	2.8
Unibail-Rodamco	France	Financials	2.7	N/A
Sampo	Finland	Financials	2.5	N/A
Top 10 (% of portfolio)			31.6	34.5

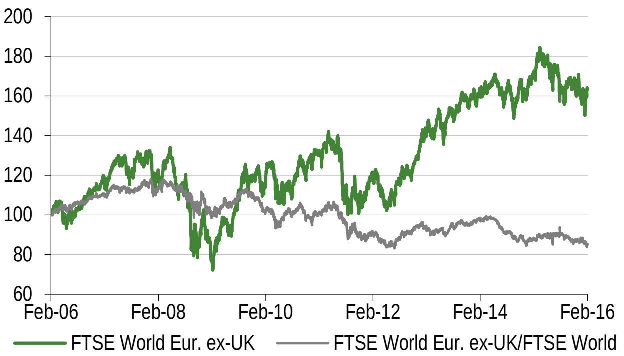
Source: BlackRock Greater Europe Investment Trust, Edison Investment Research, Morningstar, Thomson. Note: *N/A where not in February 2015 top 10.

Market outlook: Potential for relative improvement

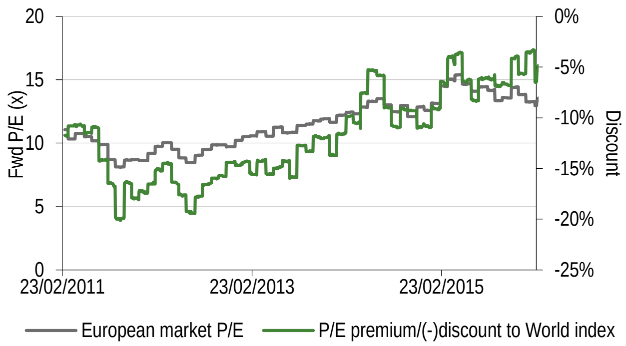
To set the context, we have shown the performance of the FTSE World European ex-UK index in absolute terms and relative to the equivalent world index (Exhibit 2, left hand side). Key features have been relative weakness for Europe following the financial crisis as the European economies lagged US recovery. Recently, relative performance has been more stable, perhaps signalling increasing investor interest.

Exhibit 2: Market valuation and performance

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



Valuation metrics



Source: Thomson Datastream, Edison Investment Research. Note: Index data to 29 February, valuation data to 2 March 2016.

The right-hand chart in Exhibit 2 shows that the European market P/E multiple has risen over the last four years and its valuation discount to the world market has narrowed significantly. Exhibit 3 also highlights that on a historical comparison the forward P/E multiple is significantly above its 10-year average. However, the price-to-book ratio, generally a more stable valuation measure, is modestly below its 10-year average and the dividend yield modestly higher. The return on equity is still relatively depressed following the global financial crisis, suggesting scope for mean reversion, and is recovering from the low levels seen in 2009. Also, in absolute terms, the European forward P/E multiple of 13.6x is lower than both the UK (15.2x) and US (16.2x) markets.

Exhibit 3: Valuation of Europe ex-UK

	Last	High	Low	10-year average	Last as % of average
Price to forward earnings (x)	13.6	15.4	7.8	11.6	117
Price to book (x)	1.6	2.3	0.9	1.6	99
Return on equity (%)	8.3	18.0	4.0	11.2	74
Dividend yield (%)	3.3	6.4	2.1	3.2	101

Source: Thomson Datastream, Edison Investment Research. Note: As at 2 March 2016.

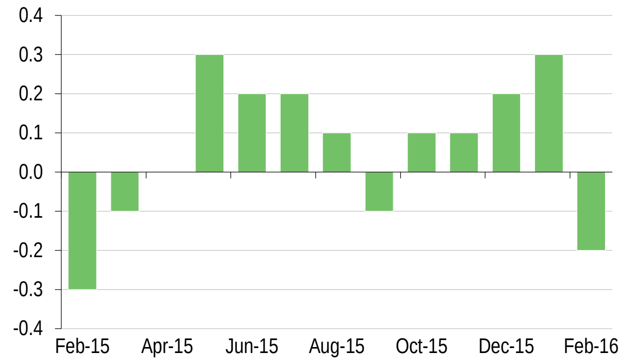
Year to date there has been a wide divergence of performance between different European sectors. Looking at the Euro Stoxx 50 index, most of the share prices are in negative territory so far in 2016, but financials have fared particularly poorly.

A series of macroeconomic issues has contributed to heightened volatility in the global stock markets. Following the increase in interest rates in the US in December 2015 (the first hike since 2006) and given the expectations (albeit recently diminished) of further increases in the medium term, there is now global monetary policy divergence, with both the European Central Bank and the Bank of Japan continuing to ease. This has put upward pressure on the dollar and other currencies have weakened. For Europe, the possibility of the UK leaving the EU adds to uncertainty.

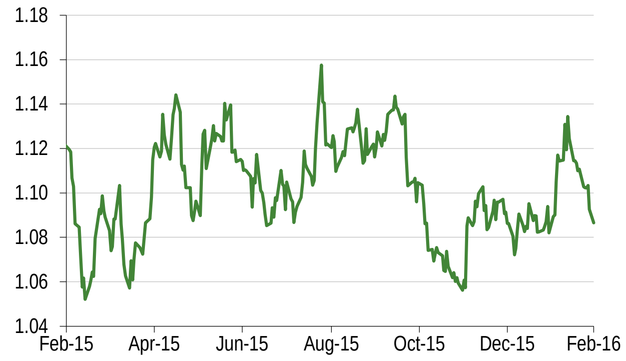
In the latest IMF World Economic Outlook, expected eurozone GDP growth for 2016 was revised up by 0.1pp to 1.7%, representing acceleration versus 2015. Estimates for Europe remain at 1.7% expansion in 2017; by contrast forecasts for global growth were again revised downwards for 2016 and 2017. Looking at the major economies, forecasts have been revised higher for Germany and lower for France. Germany has historically been viewed as an export-led economy, but data suggest that there has been a pick-up in consumption and the property market. However, deflation in the eurozone is a potential problem. February inflation data were weaker than expected at both the headline and core levels. Headline inflation fell from +0.3% in January to -0.2% in February; this is well below the European Central Bank (ECB) target of 2% and below market expectations of flat pricing. This suggests that the ECB will continue to ease, although investors may be concerned about the range of policy options available given that interest rates are already in negative territory. However, deflation is a double-edged sword; while it suggests sluggish economic growth and an absence of 'animal spirits', it boosts consumer spending power and provides lower input costs for businesses. In addition, some of the countries in Europe, such as Spain and Ireland, took advantage of the financial crisis to adopt structural reforms that will provide benefits in the current low-growth environment.

Exhibit 4: Eurozone inflation and exchange rate

ECB monthly inflation (%)



€/US$ exchange rate



Source: ECB, Thomson Reuters, Edison Investment Research

There is room for European equities to move higher over the course of 2016; the economy is improving (albeit slowly), the ECB's monetary policy remains accommodating and the weak currency is helping the export sector. While the background in Europe may be encouraging in uncertain global markets, the dispersion of valuations and growth prospects suggests an active investment approach could be rewarded. In these circumstances, a fund managed with a research-intensive stock-picking approach may appeal to investors.

Fund profile: Concentrated, bottom-up focused trust

BlackRock Greater Europe Investment Trust (BRGE) was launched in September 2004. The portfolio is managed by Vincent Devlin, a senior portfolio manager in the European equity team, who joined BlackRock in 2008, and Sam Vecht, who joined the firm in 2000. He is head of the Emerging Markets Specialist Equity team. Devlin also manages pan-European long/short funds (European Absolute Return Strategy) with Stefan Gries; Devlin manages €2.1bn of Europe ex-UK portfolios. BRGE pursues long-term capital growth, primarily through investment in a focused portfolio of large, mid- and small capitalisation European companies, together with some investment in developing European markets. The trust can invest in any country included in the benchmark FTSE World Europe ex-UK index and developing countries considered by the manager and directors to be part of greater Europe. The portfolio consists of 30-70 securities (typically 45-65), the majority of which are larger capitalisation (over €5bn). Up to 25% may be invested in developing Europe and up to 5% of the portfolio can be in unquoted investments. However, combined exposure to developing European countries and unquoted investments will not exceed 25%. Maximum investment in other funds is limited to 15% of the portfolio and the limit on direct investment in Russia is 10%. BRGE also has the flexibility to invest up to 20% of the portfolio in debt securities, although it has not done so historically. There is occasional use of derivatives for the purpose of efficient portfolio management.

The portfolio exposure to emerging Europe is typically 5-6%, generally in two to four stocks, selected on a bottom-up basis. Ideas are submitted to the European Equity team from the Emerging Markets Specialist Equity team. Each team has separate people and processes; the work of the emerging markets team focuses more on country and macroeconomic factors than the developed markets team.

The fund managers: Vincent Devlin and Sam Vecht

The manager's view: More caution regarding cyclical sectors

We spoke with Vincent Devlin, who noted that since November 2015 he has been more cautious about the cyclical sectors in the market: for example, banks had weak results in the third and fourth quarters of 2015. In the industrial sector, stocks have been under pressure, especially for companies with emerging market or US exposure. The US went through an inventory destocking period from summer 2015 to January 2016. There was weakness in industrials despite service and jobs data remaining strong.

The manager notes there are macroeconomic risks, for example the divergence between the ECB and the Federal Reserve's monetary policies. Having raised interest rates in December 2015, the direction of change is now less clear; the level of interest rates was held again in March. If the Federal Reserve makes a U-turn, there will be questions about economic growth and the dollar. The December change in US monetary policy has led to a shift in sentiment regarding US equities, as companies were using low interest rate debt to fund share repurchases, which boosted earnings per share. This has been less common in Europe and, as a result, dividends there are viewed as being more sustainable. The manager believes that whereas the US was viewed as a bastion of growth, there is now more reason for investors to consider other geographies.

The manager comments that, so far, despite macroeconomic issues, not a lot has changed economically. The low-growth, low interest rate environment is expected to continue for a long time and this view is reflected in the portfolio construction. He is not overly bearish and notes that at the company level, industrial companies are not experiencing short cycle weakness; emerging markets are generally weak, Europe is solid and growing and the US is stable. Fastenal (a US distributor) on its fourth quarter conference call talked about improving business trends in January 2016, so perhaps an inventory restocking is starting, which would be positive for global equity market sentiment. Another example is the credit insurance companies, which are a bellwether for economic downturns; they are talking about stability in their businesses. Hence, the manager suggests that the market is probably a bit oversold.

Devlin suggests there are three potential outcomes for the economy:

1. strong growth – in which case the portfolio will likely underperform the benchmark. However, given BRGE's flexible strategy the bias could be altered if necessary;
2. continuation of low growth – the growth bias in the portfolio means it should outperform given the focus on companies with stable growth and strong cash flow generation; or
3. recession – defensive companies should do well and the portfolio should outperform.

It is important to note that these are relative outcomes. For example, option 1 might be the worst relative outcome, but should still see positive returns, while the portfolio might outperform under option 3, but returns in a recession could still be negative.

Asset allocation

Investment process: Research-intensive stock picking

BlackRock's European Equity team comprises 21 fund managers and analysts. There is no house view to be adhered to. The structure beneath Nigel Bolton, the head of the team, is flat and everyone is involved in research. Analysis is conducted by sector not country; there are seven research sectors headed by generalist fund managers and supported by specialised analysts (business services [headed by Devlin], capital investment, consumer, commodities, financials, healthcare and infrastructure). The differentiation in the process is that it is flexible in nature with no inherent portfolio bias to growth, income or value. The manager's natural style is to hold high-conviction positions in quality, long-duration companies. However, the portfolio also contains restructuring and value names. Currently, the portfolio has more of a growth than a value bias, but this is a reflection of what is working in the market, as well as the manager's style. There is no permanent bias in the fund.

To generate ideas, a series of screens are run, which change depending on the current market relevance. The team does not adopt a maintenance research strategy (ie covering every stock in the market), preferring to focus on 'best ideas'. Along with generic and specific screens, the importance of company meetings is stressed. As the world's largest asset manager, BlackRock has good access to company managements; the team has c 850 meetings each year. All research is proprietary; positions are not taken on the basis of sell-side research, although this may be used as an additional information source. The macro environment is considered regarding the sourcing of ideas and portfolio positioning, but all investment is on a bottom-up basis.

Potential portfolio investments undergo in-depth company analysis. There is a formal research pipeline formed by company access, analyst experience and in-house screens. This is updated once a fortnight and limited to one or two stocks per sector at a time. Senior portfolio managers allocate the research hours on the back of the pipeline. A due date is assigned for the analyst to deliver the research ideas. The advantages of the approach are depth of knowledge in the team, swift turnaround of ideas and communication to the rest of the team. Reports on companies researched use a common template and before presentation to the team, the analysts have usually already met with the company management. A range of valuation measures are used that are appropriate to the individual companies. A discounted cash flow valuation is generally used as a check rather than a driver; price targets are generally derived using relative multiples. Stocks are given a rating of 1 (strong buy) to 5 (short). 1 is a hard rating for a company to achieve; the portfolio typically comprises 20% 1-rated, 60% 2-rated and 20% 3-rated companies. A 3-rated company might be a long-term idea with not much happening in the short term. It would be unusual for the manager to take a new position in a company with a 3 rating. The research template is updated as or when there is a real change in the company newsflow or valuation; all portfolio holdings have a template.

Team meetings are an important element of the investment process. The whole team meets each morning to discuss market news, earnings releases, company meeting feedback, debate holdings and, if time allows, company research. Research meetings are held twice a week and may include a portfolio review, where each portfolio manager presents on a five-week rotational basis. The pipeline meeting is once a fortnight and there is a 'top picks' meeting once a month, where two or three potential investments are discussed. There are also formal meetings with Risk Quantitative Analysis (RQA), a well-resourced team that acts as an internal consultant about market and portfolio risk and any problems with the risk model; the managers describe it as an "intelligent overlay" on the model numbers. A team chat room is regularly used given that the team has offices in both London and Edinburgh. Members of the dealing team also contribute to the chat room.

When the portfolio is constructed there are three basic principles: risk within it is deliberate; the portfolio is appropriately diversified and positions are appropriately scaled (ensuring that a lower-conviction stock does not have an overly large weighting in the fund). There are sophisticated systems used to control risks. The internal model BFRE (a risk model similar to the widely used Barra) is factor based, taking into account beta, country, industry, stock-specific and forecast risk. Stock-specific risk should be the dominant driver of returns. Tracking error – a measure of 'active risk', or how much portfolio returns deviate from the benchmark – was 3.67% at the end of 2015. BRGE is actively managed and because stocks are selected on a bottom-up basis, there may be a significant deviation from the benchmark sector weights. Stocks may be sold when the price target is hit, if there is a better idea available, or if the investment case has changed, such as following an economic shift or from observations about the end-market. Portfolio turnover over the last three years has averaged c 90% pa; as well as new positions and complete exits, the managers may trim and add to holdings to ensure that positions remain appropriately sized.

Current portfolio positioning

At the end of February 2016, the portfolio had 54 holdings, in the middle of the typical range of 45 to 65. 5.4% of the portfolio was invested in developing Europe and there were no unquoted investments. The top 10 holdings accounted for 31.6% of the portfolio compared to 34.5% a year earlier. Four holdings were represented in each time period.

Exhibit 5: Portfolio breakdown by market cap as at 31 December 2015 (%)

	Portfolio*	Benchmark	Difference
Greater than €25bn	34.0	52.6	-18.6
€10 to €25bn	35.1	25.4	9.7
€5 to €10bn	16.3	13.6	2.7
€2 to €5bn	12.4	7.7	4.7
Less than €2bn	4.4	0.7	3.7
Total	102.2	100.0	2.2

Source: BlackRock Greater European Investment Trust. Note: *Includes 2.2% gearing.

In the current low growth environment, portfolio holdings are typically companies that can demonstrate high single-digit/double-digit earnings growth without being overly tied to the economy, which the manager refers to as "stocks that are driven on their own merits". There are also turnaround names in the portfolio such as Adidas, selected income opportunities, for example in insurance and real estate, and businesses with attractive valuations such as infrastructure. Adidas has struggled in terms of market share as a result of poor management of its distribution network. In the US it has been underrepresented at key retailer Foot Locker and has seen additional competitive pressure from Under Armour. A new CEO and management are in place, which has reinvigorated the business and led to the potential for higher margins.

Exhibit 6: Portfolio sector exposure vs benchmark (%)

	Portfolio end February 2016	Portfolio end February 2015	Change	Index weight	Active weight vs index	Trust weight/ index weight
Financials	28.2	33.8	-5.5	21.3	7.0	1.3
Industrials	19.2	15.6	3.6	12.2	7.0	1.6
Healthcare	17.5	8.2	9.3	12.3	5.3	1.4
Consumer goods	13.3	18.7	-5.4	19.5	-6.2	0.7
Consumer services	9.0	7.1	1.9	7.8	1.2	1.2
Technology	8.5	6.3	2.2	3.5	4.9	2.4
Telecommunications	4.3	2.9	1.5	5.0	-0.6	0.9
Basic materials	0.0	4.9	-4.9	7.0	-7.0	0.0
Oil & gas	0.0	0.0	0.0	7.5	-7.5	0.0
Utilities	0.0	2.5	-2.5	4.0	-4.0	0.0
	100.0	100.0		100.0		

Source: BlackRock Greater Europe Investment Trust, Edison Investment Research

The largest increase in sector exposure over the last 12 months has been a 9.3 percentage point increase in healthcare. The sector was weak in 2015 due to criticism about aggressive pharmaceutical price increases; but is more exposed to developed markets than the more challenging emerging markets. Top 10 holding Novo Nordisk is a high-conviction idea; earlier in 2016, the share price fell by c 20% on no newsflow and with no change in operating earnings, but it has subsequently rallied by more than 20% from the local trough. At the Q415 results, 10% mid-term local currency operating profits growth guidance was maintained, which the manager thinks is too conservative. Novo Nordisk launched Tresiba, a next-generation insulin treatment, which is proving to be superior to the competition, so is likely to see improved labelling and hence higher volumes.

There are three new healthcare positions in the portfolio, all of which offer mid- to high-single digits earnings growth on mid- to high-teens forward P/E multiples, seen by the manager as attractive in the current market environment:

- Fresenius Medical Care (dialysis and healthcare services) – is growing revenue at mid-single digits (6% volume +1% pricing). The company has a strong franchise and is undergoing a cost-cutting programme. On its recent earnings conference call, management reiterated guidance for accelerating revenue and net income growth in 2016.
- William Demant (hearing aids) – the stock has an attractive valuation as a result of the general stock market move, rather than as a result of any company-specific news. There is an upcoming product cycle from mid-2016 in 2GHz hearing aids. It is a stable business; there is structural growth in demand for the company's products due to the ageing population. It has 10% revenue growth with a forward P/E valuation of less than 20x.
- Lonza (chemicals and drugs) – one third of the business is the outsourcing of pharmaceutical production. The FDA is currently approving more drugs, which is stretching pharmaceutical companies' manufacturing capacity, leading to more outsourcing and hence strong growth in the business. Lonza's other businesses in chemicals and agribusinesses are lower growth operations.

The industrial overweight is one of the largest active positions in the portfolio. Within Europe, the sector is heterogeneous, ranging for example from global cyclicals, to aerospace, to toll road operators. BRGE focuses on specific subsector exposure, such as Assa Abloy, which is a Swedish manufacturer of secure door opening systems. Within the overweight position in financials, the manager favours insurance stocks for their income and cost control and diversified financials. He is underweight banks and cautions that despite their low valuations, value stocks have continued to get cheaper.

One of the portfolio's largest underweight positions is in consumer staples. The group is considered to be too expensive given its growth rate. A lot of the companies within the sector have exposure to emerging market consumption, which is being affected by depressed commodity prices. Selective positions are held, such as Heineken and Ontex, but a big negative position within the portfolio is a zero weight in Nestlé, which represents c 3% of the benchmark. The underweight in consumer staples is a counterpoint to the overweight positon in the healthcare sector, which the manager sees as having better growth potential and more attractive valuations.

BRGE has zero exposure to the oil and gas sector. The manager suggests that is it tough to build a strong case for the sector as free cash flow generation is unachievable with oil below $60 a barrel. This price is hard to envisage in the current macroeconomic environment. Oil and gas has outperformed the broader market year-to-date, despite the weak oil price, which is not currently reflected in the sector's stock prices. The manager states that over the long term the major oil companies do not generate enough cash to fund their dividend payments. The trust did have a position in Lundin Petroleum (a Swedish independent oil and gas exploration and production company). However, the stock was sold in 2016 as the share price rallied on news that Statoil was taking a stake in the company; it was willing to pay a price that implied a current oil price of $60/barrel. There is also currently no exposure to the basic materials and utilities sector. Within utilities earnings are under pressure as spreads are linked to the depressed oil price. In addition, there is a lot of supply coming on stream.

Exhibit 7: Portfolio geographic exposure vs benchmark (%)

	Portfolio end February 2016	Portfolio end February 2015	Change	Index weight	Active weight vs index	Trust weight/ index weight
France	17.6	16.4	1.2	20.2	-2.6	0.9
Switzerland	15.5	13.5	2.0	19.8	-4.3	0.8
Germany	10.8	17.0	-6.2	18.8	-8.0	0.6
Denmark	8.8	5.4	3.4	4.3	4.5	2.1
Netherlands	8.8	7.3	1.5	6.7	2.1	1.3
Ireland	8.3	6.4	1.9	0.7	7.6	12.2
Italy	7.3	11.5	-4.2	4.7	2.6	1.6
Sweden	5.2	6.9	-1.7	6.3	-1.1	0.8
Finland	4.7	2.6	2.1	2.3	2.4	2.0
Other	13.0	13.0	0.0	16.2	-3.2	0.8
	100.0	100.0		100.0		

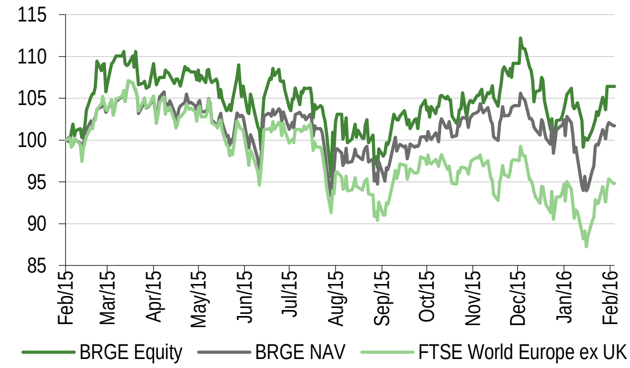
Source: BlackRock Greater Europe Investment Trust, Edison Investment Research.

The above exhibit is for illustrative purposes, as the portfolio is constructed on a bottom-up stock selection basis, rather than with reference to the benchmark country weightings. However, demonstrating the active management of the portfolio, it is interesting to note underweight positions versus the three largest countries in the index: France, Switzerland and Germany.

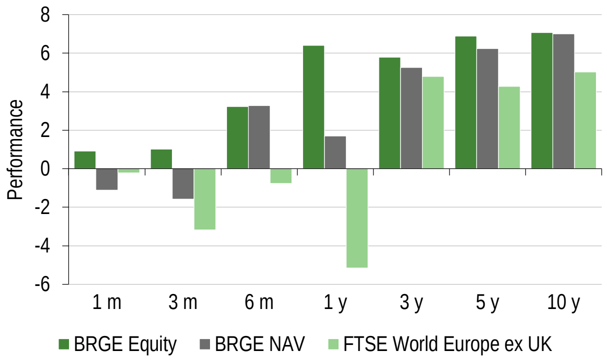
Performance: Persistent outperformance vs benchmark

Exhibit 8: Investment trust performance to 29 February 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 9: Share price and NAV total return performance, versus indices (percentage points)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to FTSE World Europe ex-UK	1.1	4.3	4.0	12.2	2.9	13.2	21.2
NAV relative to FTSE World Europe ex-UK	(0.9)	1.6	4.1	7.2	1.3	9.8	20.4
Price relative to FTSE All-Share	0.1	4.7	4.5	14.8	6.8	8.7	22.8
NAV relative to FTSE All-Share	(1.9)	2.0	4.6	9.7	5.2	5.5	22.0
Price relative to FTSE World index	(0.3)	1.8	(1.4)	8.0	(5.5)	(4.8)	3.3
NAV relative to FTSE World index	(2.3)	(0.9)	(1.4)	3.3	(6.9)	(7.6)	2.7
Price relative to IA OE Europe ex-UK	(0.0)	3.3	2.3	7.7	(0.3)	6.2	21.5
NAV relative to IA OE Europe ex-UK	(2.1)	0.7	2.4	3.0	(1.8)	3.0	20.8

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

In FY15 ending 31 August, BRGE's undiluted NAV increased by 7.5% versus a rise of 1.3% in the FTSE World Europe ex-UK index. The share price rose by 9.1%. The primary driver of outperformance was stock selection, with the greatest contribution versus the benchmark coming from an overweight position in Ryanair, whose share price rose by 64% over the period as a result of raising earnings guidance on the back of strong passenger growth. The company has revamped its service offering to attract customers and is targeting the business community with attractively priced business tickets and flexible fares. Another strong contributor to performance was Italian asset manager Anima Holding, whose shares rose by 92% in the period. It has experienced strong asset inflows and increases in management fees. A strategic alliance with Poste Italiane to distribute its funds to a wider audience should be accretive to earnings. The largest detractor to performance was the position in Halk Bank, which fell by 43%. The stock fell due to political concerns in Turkey, despite the company's consistent record of generating high returns on equity.

BRGE's NAV has outperformed its benchmark over all periods shown in Exhibit 9, with the exception of one month. It has similarly outperformed the FTSE All-Share Index, which we include for its broad relevance to UK investors. Compared to the Investment Association's Open Ended Europe group, BRGE's NAV has outperformed over one, five and 10 years. Exhibit 10 illustrates BRGE's performance versus its benchmark over a five-year period. Within the overall positive trend there have been periods of relative underperformance such as in 2014, as a result of BRGE's overweight exposure to growth, defensives and mid-caps. There was a style reversal in the market and these strategies underperformed. Likewise, in Q313 value outperformed growth strategies on increasing evidence of economic recovery.

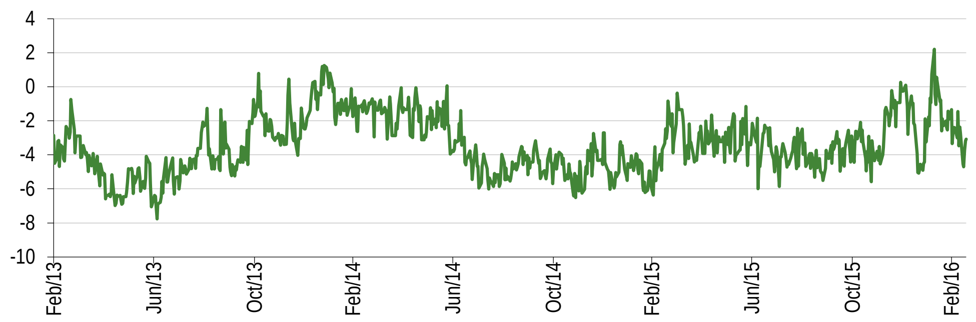
Exhibit 10: NAV performance relative to FTSE World Europe ex-UK Index over five years

Source: Thomson Datastream, Edison Investment Research

Discount: Active management via tender offers

The current share price discount to NAV of 3.1% compares to a range of a 6.4% discount to a 2.2% premium over the last 12 months. It is also narrower than the averages for the last one, three, five and 10 years, which fall between 3.1% and 3.5%. The board has the option to implement a tender offer to assist in controlling the discount to NAV. It will also consider buying back shares in between tenders, when it is believed to be in the interests of shareholders. The last semi-annual tender was on 1 December 2015 when 1.19% of issued shares were tendered at a price of 250.56p. The next semi-annual tender will take place on 1 June 2016 for up to 20% of the ordinary shares in issue (excluding treasury shares) at the prevailing fully diluted NAV minus a 2% discount.

Exhibit 11: Share price premium/discount to NAV (including income) over three years (%)



Source: Thomson Datastream, Edison Investment Research. Note: Negative values indicate a discount, positive values a premium.

Capital structure and fees

BRGE currently has 103.1m ordinary shares outstanding. Historically, there was a 5% limit on the number of shares that could be held in treasury. The board has recently increased this to 10%, in line with Investment Association guidance. Shares repurchased into treasury will be at a minimum 2% discount to NAV. On 19 April 2013, BRGE issued subscription shares as a bonus issue to ordinary shareholders on the basis of 1:5. There are currently 20.5m subscription shares outstanding. The last opportunity for shareholders to subscribe is 30 April 2016. The share price on the expiry date will need to be above 248p for it to be worthwhile exercising the shares.

Since 1 September 2015, there has been a change in the fee structure. The prior arrangement was an annual fee of 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%. The performance fee has been removed and the previous fee was replaced with a base fee of 0.85% of NAV. Ongoing charges (which exclude performance fees) in FY15 were 0.89% versus 0.94% in FY14.

The manager believes that the appropriate use of gearing can add value over time. This is typically via a £20m overdraft facility that can be repaid at any time. The maximum level of gearing permitted is 15% of NAV. Gearing is principally used if the manager has more buy than sell ideas; it is not used to make a bet on the direction of the stock market.

Dividend policy and record

Although the trust has an objective of capital growth, BRGE's board also sees the value of a progressive dividend policy. Dividends have increased every year since the trust was launched in 2004. Some income stocks are held, but they are not targeted specifically for their yield. If portfolio income is lower, BRGE has reserves to top up its dividend. If portfolio companies pay a special dividend, it is passed onto BRGE's shareholders, as the manager recommends to the board that shareholders should be compensated for their commitment during riskier periods in the market. Special dividends of 2.5p and 1.0p were paid in 2011 and 2013 respectively. In 2013, a 20% stock dividend was also paid.

Dividends are currently paid twice a year in April and October. Prior to 2014, regular dividends were paid annually. The 5.00p dividend paid in 2015 was a 6.4% increase versus the prior year. FY15 revenue return per share was 5.28p, a 15% increase versus the prior year. At the end of the fiscal year, distributable reserves were equivalent to more than three times last year's dividend, including an adjustment for the exercise of all outstanding subscription shares. Based on the FY15 dividend and the current share price of 247.0p, the dividend yield is 2.0%.

Peer group comparison

There are eight trusts in the Association of Investment Companies' Europe sector, three of which are very well established (1972, 1947 and 1929). BRGE runs a more concentrated portfolio than the peer group average and is one of the largest by market capitalisation. In terms of NAV total returns, it is above the average over one year, ranking second. The ongoing charge is average, there is no performance fee and the discount is narrower than the weighted average. Unlike most of the trusts in the group, BRGE currently has no gearing. Despite the focus on capital return, the dividend yield is in line with the sector average. In terms of risk-adjusted returns, BRGE is above the average over one year and below over three years.

Exhibit 12: AIC Europe peer group as at 21 March 2016

% unless stated	Market Cap (£m)	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	Ongoing charge	Perform. fee	Discount (ex-par)	Net gearing	Dividend yield (%)	Sharpe 1y (NAV)	Sharpe 3y (NAV)
BlackRock Greater Europe	254.6	1.5	16.4	35.2	0.9	No	(3.1)	100.0	2.0	(0.5)	0.2
European Investment	291.3	(13.2)	9.8	17.6	0.6	No	(6.4)	100.0	2.3	(1.3)	0.1
Fidelity European Values	683.4	(2.1)	17.7	40.2	1.0	No	(8.8)	104.0	2.2	(0.7)	0.3
Henderson European Focus Trust	200.2	(2.2)	32.7	64.8	0.9	Yes	(2.3)	108.0	2.5	(0.7)	0.6
Henderson EuroTrust	184.3	0.0	29.2	55.7	0.9	Yes	(1.1)	108.0	2.1	(0.5)	0.5
JPMorgan European Growth Pool	182.1	(1.6)	24.4	33.1	1.0	No	(8.9)	109.0	2.7	(0.6)	0.4
JPMorgan European Income Pool	116.4	(1.8)	32.9	49.4	1.1	No	(7.8)	81.0	3.8	(0.7)	0.6
Jupiter European Opportunities	585.8	8.3	42.4	90.3	1.1	Yes	(2.0)	115.0	0.7	(0.0)	0.7
Weighted average		(0.4)	25.7	51.8	0.9		(5.2)	105.5	2.0	(0.6)	0.4
Rank	4	2	7	6	5		4	7	7	2	7

Source: Morningstar, Edison Investment Research. Note: Performance data is to 29 February 2016. TR=total return. The 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 (100 = ungeared).

The board

Following the retirement of Gerald Holtham at the December 2015 AGM, the board is comprised of four members. Chair Carol Ferguson was appointed in June 2004. She is a qualified accountant and has more than 25 years' experience in the investment and financial services industries. Eric Sanderson is chair of the Audit and Management Engagement Committee and was appointed in April 2013; his background is in accountancy and banking. Davina Curling was appointed in December 2011; she has more than 25 years' experience in investment management. The newest member of the board is Peter Baxter, appointed 1 April 2015. He too has more than 25 years' experience in the investment management industry.

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