BlackRock Greater Europe Investment Trust

Consistency in philosophy and approach

Investment trusts
European equities

BlackRock Greater Europe Investment Trust (BRGE) has a long-term record of outperformance versus its peers and the broad European market. It has two co-managers: Stefan Gries, since June 2017, covering developed European markets (c 90% of the fund); and Sam Vecht, since the trust's launch in September 2004, covering emerging European markets (c 10% of the fund). While all the trust's positions are selected following thorough fundamental analysis rather than taking a view on the macro environment, Gries is optimistic about the prospects for an upcoming economic recovery in Europe. So far, its vaccine program has lagged the pace of other regions such as the US and the UK, so there is potential to catch up, and there is a coordinated €750bn EU Recovery Fund in place to be spent on green initiatives, which has not yet been employed.

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

Source: Refinitiv, Edison Investment Research

The analyst's view

Gries, who manages the bulk of BRGE's portfolio, consistently follows his long-term philosophy and process as 'an investor in businesses, not a trader in shares'. Stocks are selected on a bottom-up basis; the manager stresses that 'he buys units of earnings and cash flow not units of economic growth'. Gries has made a significant contribution to BRGE's improved investment performance since becoming co-manager in July 2017; the trust's NAV total returns now rank first (out of eight funds) in the AIC Europe sector over the last one, three, five and 10 years (despite a period of underperformance in Q121).

Now afforded a premium valuation

BRGE has been re-rated in recent quarters and now regularly trades at a premium, indicating strong demand for the company's shares. It is currently trading at a 2.0% premium to cum-income NAV, compared with a 0.8% to 3.8% range of average discounts over the last one, three, five and 10 years. So far in FY21, the board has been able to reissue a meaningful number of shares from treasury (see page 9). While BRGE offers a modest 1.0% dividend yield, the annual distribution has increased each year since the trust was launched, and this was possible in FY20 (a period of lower income) due to its revenue reserves.

6 July 2021

Price		**638.0p**
Market cap		**£580m**
AUM		**£564m**
NAV*		625.4p
Premium to NAV		2.0%
*Including income. As at 2 July 2021.		
Yield		1.0%
Ordinary shares in issue		91.1m
Code/ISIN		BRGE/GB00B01RDH75
Primary exchange		LSE
AIC sector		Europe
52-week high/low	640.0p	430.0p
NAV* high/low	626.4p	441.0p
*Including income		
Net gearing*		5.6%
*As at 31 May 2021		

Fund objective

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

Bull points

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

Bear points

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

Analysts

Mel Jenner	+44 (0)20 3077 5720
Sarah Godfrey	+44 (0)20 3681 2519

investmenttrusts@edisongroup.com

Edison profile page

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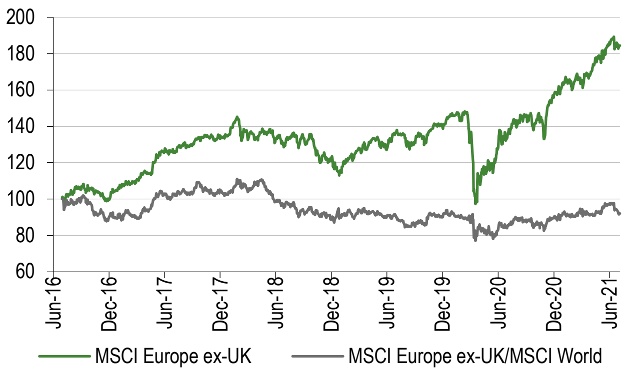
NOT INTENDED FOR PERSONS IN THE EEA

Market outlook: Reasons for optimism

As shown in Exhibit 1 (left-hand side), there appears to have been increased interest in European equities as since mid-2020 the MSCI Europe ex-UK Index has been outperforming the MSCI World Index. While the speed of the European vaccine programme has been slower than in other regions, progress is being made and consensus expectations are for an economic recovery in 2021. Policy responses to the pandemic have been unprecedented and include the €750bn EU Recovery Fund, which is an indication of solidarity and more cohesion within the region. Europe is also a beneficiary of a global economic rebound as around 60% of its revenues are generated outside of the area. Following the successful coronavirus vaccine trials in early November 2020, market leadership has broadened away from companies seen as COVID-19 beneficiaries and investors have favoured recovery and cyclical stocks. While equity valuations are generally unappealing compared to history (Exhibit 1, right-hand side), the potential returns from this asset class remain favourable versus some others such as government bonds or cash. Given a multi-year period of relative underperformance versus the global market, although there has already been an increase in fund flows into the region, global investors may continue to benefit from a higher allocation to European equities.

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	16.3	17.4	8.0	12.9	126
UK	13.1	15.7	8.6	13.1	100
US	22.7	23.9	11.2	16.7	136
World	18.1	19.8	10.0	14.5	125
Dividend yield (%)					
Europe ex-UK	2.2	4.4	2.2	3.1	69
UK	2.7	6.4	2.7	3.5	76
US	1.3	2.7	1.3	2.0	63
World	1.8	3.4	1.8	2.5	71

Source: Refinitiv, Edison Investment Research. Note: Valuation data as at 5 July 2021.

The fund managers: Stefan Gries and Sam Vecht

The manager's view: Upbeat outlook on Europe

Gries emphasises that all portfolio decisions are made on a bottom-up basis. He explains that since the announcement of successful COVID-19 vaccine trials in early November 2020, the market 'has largely been driven by a powerful top-down macro narrative, which can be frustrating for fundamental investors'. Cyclical and value stocks including airlines, autos and banks have performed very well as lockdowns have eased. High-growth, high-quality companies that were deemed to be COVID-19 beneficiaries in 2020 have struggled in 2021 and BRGE underperformed in Q121, partly due to its underweight exposure to the banks and energy sectors, which the manager avoids as he deems their fundamentals to be unattractive. BRGE has performed relatively better in Q221, helped by a strong first quarter earnings season, which Gries had anticipated; a number of portfolio companies reported results that were above consensus expectations.

There are high levels of pent-up consumer demand across multiple regions including China, the US and Europe, as people feel that they want to treat themselves. As an example, luxury goods company Kering has announced that its business has returned to pre-COVID-19 levels. Gries anticipates that consumer spending will also increase for travel and services as economies reopen. Royal Unibrew reported a very strong set of Q121 results and increased its guidance as people are returning to bars; the company is very confident on the outlook for its business for the rest of this year. While technology stocks came under pressure earlier in 2021, semiconductor companies are seeing strong underlying business trends and there is a global shortage of chips. Auto companies have had to cease production due to product shortages, as electric vehicles have five to six times the amount of chip content compared with traditional models.

Recent inflation data points show that prices are rising, but the manager says this is to be expected given easy year-on-year comparisons. He is not overly concerned by higher inflation, which he expects to normalise by the end of the year, and notes that the trust's emerging European exposure tends to perform well in this type of environment. Gries informs his understanding about the macro environment from his interactions with company management teams. He reports that chemical and steel prices are at record levels partly due to industry capacity reductions in 2020, as there was uncertainty about the timing of an economic recovery due to lockdowns, and while inventories are low the manager says that supply is coming back onstream. He comments that there has been consumer spending on higher-ticket items, such as autos and home improvements as people have replenished their savings from furlough payments and by working from home.

Gries is constructive on the outlook for European equities, more so than he has been for a number of years, as the region has been under-owned by global investors. However, they are returning as evidenced by higher fund flows, which started earlier this year. The manager explains that the European economic recovery has lagged that in the US, which has a more advanced COVID-19 vaccine programme, and travel has resumed quicker. Gries anticipates a strong European economic recovery in the second half of this year; also, looking further out over the next two years or so, the manager is positive on the outlook for the European economy. The US government has already spent a significant amount of money on fiscal stimulus and while the European authorities have funded furlough schemes, the €750bn EU Recovery Fund has not yet been deployed. The majority of projects undertaken are expected to increase digitisation and help fight climate change including areas such as buildings emissions, clean public transport, electric vehicles and renewable energy, which should extend into 2023/24.

The manager comments that trends that were in place before the coronavirus outbreak, such as initiatives to address climate change, higher levels of digitisation and an increase in online shopping, have accelerated during the pandemic. He suggests that politics can be problematic so it is very important to understand which companies will be the real beneficiaries of ongoing trends and increased spending.

Current portfolio positioning

Exhibit 2: Top 10 holdings (at 31 May 2021)

Company	Country	Sector	Portfolio weight %	
			31 May 2021	31 May 2020*
ASML	Netherlands	Technology hardware & equipment	7.5	6.2
Kering	France	General retailers	6.0	5.2
Sika	Switzerland	Construction & materials	5.4	5.1
DSV Panalpina	Denmark	Industrial transportation	5.2	3.7
Lonza Group	Switzerland	Pharmaceuticals & biotechnology	5.2	5.0
Hexagon	Sweden	Software & computer services	5.0	N/A
Royal Unibrew	Denmark	Beverages	4.3	4.6
Novo Nordisk	Denmark	Pharmaceuticals & biotechnology	4.2	6.0
Netcompany Group	Denmark	Software & computer services	3.5	N/A
Safran	France	Aerospace & defence	3.3	3.3
Top 10 (% of portfolio)			**49.6**	**49.7**

Source: BRGE, Edison Investment Research. Note: *N/A where not in end-May 2020 top 10.

At end-May 2021, BRGE's top 10 positions made up 49.6% of the portfolio, which was broadly in line with 49.7% a year earlier; eight positions were common to both periods.

Gries says ASML has been a consistent winner operating as a quasi-monopoly. High demand for its leading-edge equipment means the company's capacity is sold out until 2024, which the manager suggests is a beautiful position to be in. ASML is hosting a capital markets day later this year, which should provide more clarity about its business in 2025 and beyond. The company has a net cash position and Gries expects more of this will be returned to shareholders; he considers himself to be a happy ASML shareholder.

Sika is a speciality chemicals company with a leading position in the development and production of systems and products for bonding, sealing, damping, reinforcing and protecting in the building sector and motor vehicle industry. Its products ensure buildings are more energy efficient and are involved in large infrastructure projects. The manager describes the firm as an innovation powerhouse, with a very wide distribution network that is driving cost savings for its customers. Sika has an 8–9% global share in a fragmented market that is growing at 3–4% pa. The company's organic growth is 6–8% pa and its management team has a successful acquisition track record leading to higher revenue growth and margin expansion. Sika is exceeding its growth targets as its end-markets are recovering.

Chemicals and biotech company Lonza has been in the portfolio for around five years. Its shares performed very well in 2020 appreciating by c 60%. However, they retreated after the announcement of positive vaccine trials in early-November 2020, despite its fundamentals being stronger than ever, says Gries. He added to the position on weakness and Lonza's share price has subsequently recovered. The company has a 10-year partnership with Moderna, which the manager considers is not fully appreciated by investors and provides an option on this customer's product pipeline. Lonza has pricing power, it is increasing capacity to service Moderna, which is paying for one of the three additional production lines. The firm is selling its speciality ingredients business, which should allow Lonza to close the gap versus its peers in terms of becoming a pure-play provider to the healthcare industry.

BRGE's sector weightings are shown below in Exhibit 3. It is not possible to provide a year-on-year comparison as Industry Classification Benchmark (ICB) sector classifications have recently changed. Although all holdings are selected on a bottom-up basis, in aggregate, compared with the reference index at the end of May 2021, the manager particularly favoured the technology, industrials and consumer discretionary sectors. There is no exposure to real estate, telecoms or utilities, which combined make up c 10% of the reference index. Gries suggests many old economy companies are 'value' stocks for a reason due to disruption threats to their future profits. He believes shares in these companies are typically trades, rather than long-term investments.

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

	Portfolio end-May 2021	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Technology	25.5	8.7	16.7	2.9
Industrials	25.2	17.6	7.5	1.4
Consumer discretionary	17.7	14.4	3.3	1.2
Healthcare	15.0	14.8	0.3	1.0
Financials	4.5	16.3	(11.7)	0.3
Consumer staples	4.3	9.2	(4.9)	0.5
Basic materials	4.1	5.3	(1.1)	0.8
Energy	3.7	3.9	(0.2)	1.0
Real estate	0.0	1.9	(1.9)	0.0
Telecommunications	0.0	3.5	(3.5)	0.0
Utilities	0.0	4.5	(4.5)	0.0
Total	**100.0**	**100.0**		

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

Over the 12 months to the end of May 2021, BRGE had higher exposure to Switzerland (+7.5pp) and the Netherlands (+4.5pp) with lower exposure to Germany (-6.0pp). Compared with the reference index, the largest overweights were Denmark (+13.8pp) and the Netherlands (+7.8pp), while the largest underweights were Germany (-15.3pp) and France (-7.5pp).

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

	Portfolio end-May 2021	Portfolio end-May 2020	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Switzerland	19.8	12.3	7.5	18.5	1.2	1.1
Denmark	18.7	18.0	0.6	4.8	13.8	3.9
Netherlands	16.5	12.1	4.5	8.8	7.8	1.9
France	14.3	12.4	2.0	21.9	(7.5)	0.7
Sweden	6.0	5.6	0.4	7.7	(1.7)	0.8
Italy	4.8	6.0	(1.2)	5.1	(0.3)	0.9
Russia	4.5	5.6	(1.1)	0.0	4.5	N/A
Germany	3.6	9.6	(6.0)	19.0	(15.3)	0.2
UK	3.0	5.3	(2.2)	0.0	3.0	N/A
Other	8.7	13.0	(4.3)	14.2	(5.5)	0.6
Total	**100.0**	**100.0**		**100.0**		

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

A few new holdings have been added to the portfolio in recent months. **Logitech International** is a Swiss manufacturer of computer peripherals and software that had been viewed as a beneficiary of people working from home, but its share price pulled back on increased discussion about employees returning to offices. Gries says the company has a strong management team and should continue to benefit from hybrid work models. Business travel is expected to decline over the next two years as it will no longer be required. The manager explains that Logitech can equip a video conferencing room for corporates, without compromising on quality, at a third of the cost of its main competitor, which provides ample room for the company to take market share. While online gaming is a competitive business, Gries believes that Logitech is a good way to gain exposure to the sector. The company's web traffic is very high, and it is posting job opportunities, illustrating that the firm is hiring engineers and investing in its business.

Fix Price Group is a Russia-based retailer with a strong value proposition that came to the market in March 2021. The company's share price has come under pressure due to higher shipping costs as a result of a global shortage of containers. As Fix Price Group is in the Emerging Europe part of the portfolio, which is more tactical and value driven, this position is likely to be sold once it meets the manager's price target.

Denmark-listed **ChemoMetec** designs, develops and produces instruments for a range of applications in cell counting and evaluation (it can analyse blood cells in less than a minute). The company has a strong management team, high gross margins and operates in a business that has significant barriers to entry due to its high product development costs and strict regulatory requirements.

Marel is an Iceland-based poultry, meat and fish processor. Gries explains that the company is a market leader in a highly fragmented industry and is benefiting from robust demand for high-protein foods in emerging markets. Marel's business is becoming increasingly automated, which affords higher margins. It is an example of a founder-owned business, a model favoured by the manager as it ensures that all shareholders' interests are aligned (the CEO owns c 25% of the company).

Switzerland-listed **VAT Group** is a designer and producer of industrial valves used in the manufacture of semiconductors, displays and solar panels. The company is increasing its market share and Gries believes that it has the potential to do very well over the next two years due to its growing end markets and best-in-class returns.

The holding in Russian bank **Sberbank** was sold as it reached the manager's price target. This position was initiated when the company's shares were at a depressed level and sold following the value-led rally that started in November 2020.

Performance: Long-term record of outperformance

Exhibit 5: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	MSCI Europe ex-UK (%)	CBOE UK All Companies (%)	MSCI World (%)
30/06/17	24.7	22.6	25.3	18.3	22.3
30/06/18	13.4	12.6	4.4	9.5	9.9
30/06/19	11.4	12.6	4.3	0.3	10.9
30/06/20	12.5	10.8	(2.3)	(13.6)	6.5
30/06/21	52.2	43.7	37.1	21.1	24.9

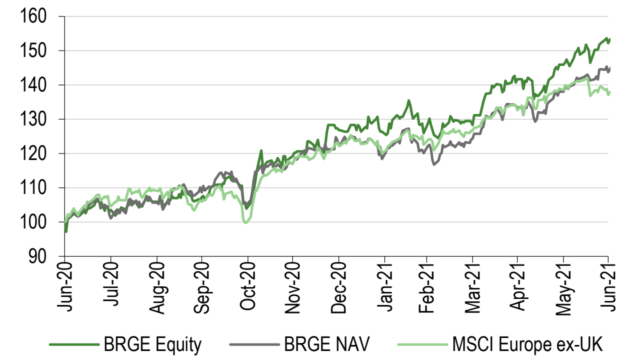
Source: Refinitiv. Note: All % on a total return basis in pounds sterling.

In H121 (ending 28 February 2021), BRGE's net asset value (NAV) and share price total returns of +14.0% and +18.8% respectively were meaningfully ahead of the reference index's +7.8% total return. The outperformance was primarily due to successful stock selection, although sector allocation was also positive, helped by an underweight exposure to defensive areas of the market (the trust does not hold large index constituents Nestlé, Novartis, Roche and Sanofi). Technology stocks were the largest contributor to BRGE's relative returns, including holdings in ASML, BE Semiconductor, Hexagon and Infineon Technologies. Stocks exposed to strong consumer spending were also positive contributors, such as e-commerce platforms Allegro (Poland, IPO in October 2020) and Ozon Holdings (Russia), and luxury brand Hermès International.

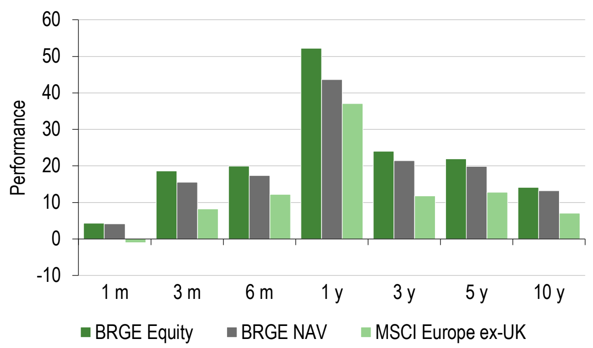
Positions that detracted from the trust's relative performance included those that had done well for most of last year, such as Lonza Group and Royal Unibrew, which then lagged following increased investor focus on recovery and cyclical stocks, and companies that posted disappointing results including SAP. Not holding some of the larger cyclical stocks, including BBVA, Banco Santander, Daimler and Siemens, also detracted from BRGE's performance; however, the manager does not consider these companies' fundamentals warrant a place in the portfolio.

Exhibit 6: Investment trust performance to 30 June 2021

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



Price, NAV and benchmark total return performance (%)



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

BRGE's relative returns are shown in Exhibit 7. It has notably outperformed the Continental European, UK and world markets (particularly the UK) over one, three, five and 10 years in both NAV and share price terms.

The manager believes he can deliver the best results for shareholders by taking a mid- to long-term view rather than focusing on quarterly performance. He considers there is a real benefit from an active approach in Europe operating as an owner of businesses rather than as a trader of shares.

Gries is confident his philosophy and process are working and highlights that in the 12 months to the end of March 2021, BRGE's performance was generated across a number of different industries with c 71% due to successful stock selection rather than sector allocation.

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	5.3	9.6	6.9	11.0	36.6	47.5	90.6
NAV relative to MSCI Europe ex-UK	5.2	6.8	4.6	4.8	28.3	35.4	75.7
Price relative to CBOE UK All Companies	4.2	12.5	7.7	25.7	81.9	98.3	102.6
NAV relative to CBOE UK All Companies	4.1	9.6	5.4	18.7	70.9	82.1	86.8
Price relative to MSCI World	(0.2)	10.1	7.0	21.8	29.2	35.9	11.2
NAV relative to MSCI World	(0.3)	7.3	4.7	15.0	21.4	24.7	2.5

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

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

Source: Refinitiv, Edison Investment Research

Discussing BRGE's year-to-date relative performance, Gries says that one of the best positive contributors is the position in DSV Panalpina, whose logistics operations are benefiting from high e-commerce volumes. It has recently announced the acquisition of the logistics division of Kuwait's Agility Public Warehousing in an all-share deal worth $4.1bn, creating the world's third largest freight forwarding company. The deal will boost DSV's volumes and should be integrated with low incremental costs. The manager believes that this will be another of the company's successful acquisitions, and he expects more transactions in the future. Semiconductor manufacturer ASML's shares have continued to perform well as a result of very robust industry fundamentals. Gries notes that the company's capacity is booked out until 2024, providing very high visibility regarding its income. This is currently BRGE's largest holding, and the manager still sees potential for long-term value creation.

Positions that have detracted from the trust's relative performance this year include some that performed very well last year, but have been less in demand due to an increased investor focus on cyclical and recovery stocks, such as the long-term holding in Lonza, which has a 10-year manufacturing contract with Moderna including the production of its COVID-19 vaccine; Allegro, where investors have concerns about Amazon.com entering the Polish e-commerce market; DiaSorin, whose shares have been subject to profit taking; and Neste (while there has been some unwinding of the renewable energy trade, the manager remains confident about the company's long-term prospects).

Peer group comparison

BRGE is one of the mid-sized funds in the eight-strong AIC Europe sector. It is a standout performer with its NAV (net of fees) ranking first over all periods shown. Over the last 12 months, BRGE's NAV total return is 17.2pp above the mean, +40.2pp over three years, +56.8pp over the last five years and +67.5pp over the last decade. Gries is very encouraged by BRGE's performance versus its peers. He notes that Baillie Gifford European Growth Trust is also doing well; but while both invest for the long term, BRGE tends to have a higher exposure to emerging European markets. On 5 July 2021, the trust was the only fund in the sector trading at a premium, its ongoing charge is above average, it has a higher-than-average level of gearing, while its dividend yield is 0.6% below the mean.

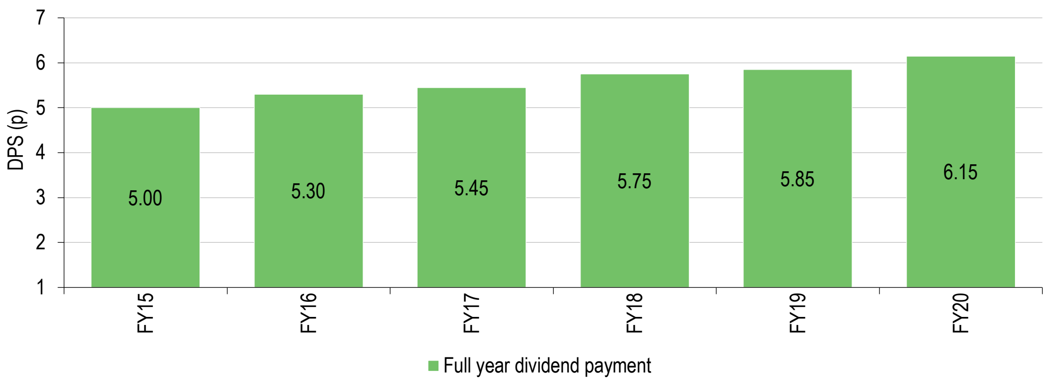
Exhibit 9: AIC Europe peer group as at 5 July 2021*

% unless stated	Market cap (£m)	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield
BlackRock Greater Europe	580.1	43.7	84.1	147.4	256.2	2.1	1.0	No	106	1.0
Baillie Gifford European Growth	560.8	39.7	70.1	128.1	177.8	(1.8)	0.4	No	105	0.2
European Opportunities Trust	805.1	11.7	14.1	58.3	204.0	(12.6)	1.0	No	106	0.5
Fidelity European Trust	1,265.3	19.1	43.4	91.1	177.3	(7.3)	0.9	No	112	2.1
Henderson European Focus Trust	345.3	27.4	41.9	80.8	207.9	(7.8)	0.8	No	102	1.9
Henderson EuroTrust	319.4	19.8	52.6	99.3	219.6	(9.8)	0.8	No	100	1.7
JPMorgan European Growth Pool	259.1	24.6	28.8	67.9	130.8	(10.1)	1.0	No	103	1.2
JPMorgan European Income Pool	133.5	26.0	16.2	51.8	136.5	(8.2)	1.0	No	108	4.3
Average	**533.6**	**26.5**	**43.9**	**90.6**	**188.7**	**(6.9)**	**0.9**		**105**	**1.6**
BRGE rank in sector (8 trusts)	**3**	**1**	**1**	**1**	**1**	**1**	**3**		**4**	**6**

Source: Morningstar, Edison Investment Research. Note: *Performance to 2 July 2021 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 annual increase

Exhibit 10: Dividend history since FY15



Source: Bloomberg, Edison Investment Research

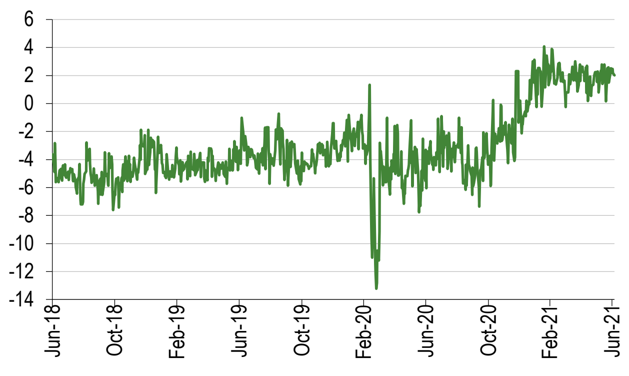
BRGE's annual distribution has increased each year since the trust was launched in 2004; over the last five years it has compounded at a rate of 4.2% pa. Since 2014, dividends have been paid twice a year in May and December, rather than a single annual payment. In H121, BRGE's revenue return of 0.54p per share was 3.6% lower year-on-year as the coronavirus has caused some companies to cut or cancel their dividends, and it should be remembered that the majority of the trust's income is generated in the second half of its financial year. The board held the interim dividend steady at 1.75p per share by dipping into BRGE's revenue reserves; at the end of H121 these amounted to c £7.7m (around 1.4x the last annual dividend). Based on its current share price, the trust offers a modest 1.0% dividend yield.

Valuation: Regularly trading at a premium

BRGE has been revalued in recent months and now regularly trades at a premium, which compares with a historical c 2% to c 8% range of discounts. It is currently trading at a 2.0% premium to cum-income NAV, which compares with average discounts of 0.8%, 3.2%, 3.8% and

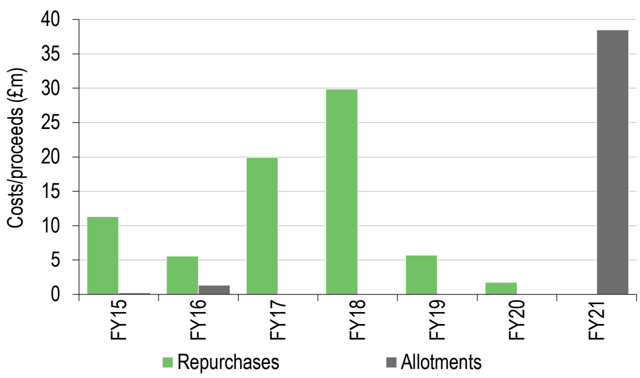
3.6% over the last one, three, five and 10 years respectively. BRGE's board actively manages the discount via periodic share repurchases and discretionary semi-annual tender offers for up to 20% of shares outstanding (none undertaken since November 2018). It also issues shares at a premium; in H121, c 1.1m shares (c 1.3% of the base) were reissued from treasury at a gross consideration of c £5.8m. As shown in Exhibit 12 below, the pace of share issuance has accelerated. Gries is very encouraged with this level of activity. He suggests that for a trust to trade at a premium requires good performance, a team that is well known in the market and an asset class that is in favour – 'we can tick all three boxes' the manager adds.

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 – 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 towards the lower end of the 6% to 18% historical range), 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%. BRGE 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 5.6% at end-May 2021).

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 19 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 (there was a record number of c 2,000 in 2020).

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 39 holdings (33 in developed markets and six in emerging markets) selected from an investible universe of more than 2,000 companies. Gries says the emerging market companies play an important role in diversifying portfolio risk and provide a hedge against market distortions. 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. Gries says COVID-19 has been a real test of his investment philosophy and despite a powerful macro narrative dominating the market this year, portfolio turnover remains low at around 5% year to date.

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 environmental, social and governance (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 the 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-H121, BRGE had an available overdraft facility of the lower of £52m or 15% of NAV, which is the maximum permitted at the time of drawdown. At end-May 2021, net gearing was 5.6%; 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.

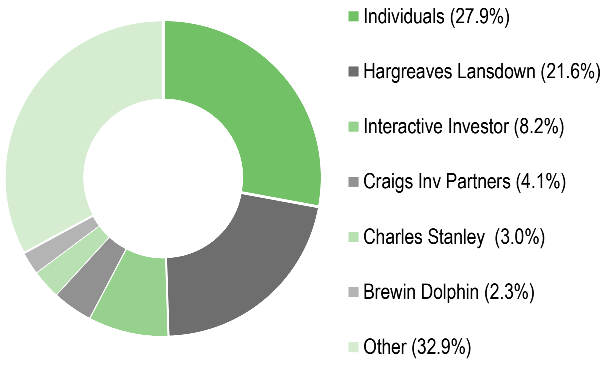
Fees and charges

BlackRock is paid an annual management fee of 0.85% of NAV (based on the NAV at the end of each month) and is allocated 80:20 between the capital and revenue accounts; no performance fee is payable. In FY20, ongoing charges were 1.01%, which was 7bp lower than 1.08% in FY19.

Capital structure

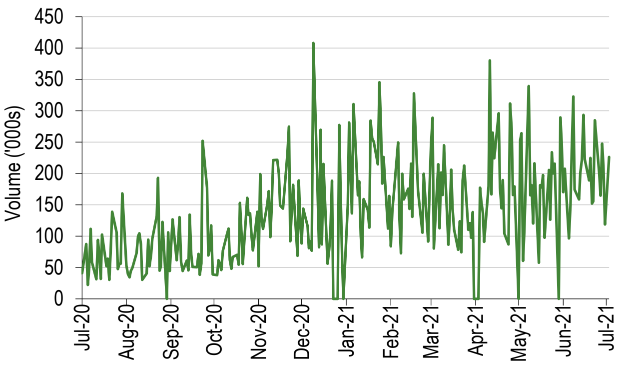
BRGE is a conventional investment trust, with one class of share. There are currently 91.1m ordinary shares in issue, with a further 19.3m held in treasury. Over the last 12 months the trust has had an average daily trading volume of c 145k shares.

Exhibit 13: Major shareholders



Source: Bloomberg, as at 31 May 2021

Exhibit 14: Average daily volume



Source: Refinitiv. Note 12 months to 5 July 2021.

The board

Exhibit 15: BRGE's board of directors

Board member	Date of appointment	Remuneration in FY20	Shareholdings at end-H121
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	5,500

Source: BRGE

Peter Baxter is chair of the audit and management engagement committee. The directors have backgrounds in banking, investment management and economics.

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