EDISON

# BlackRock Greater Europe Investment Trust

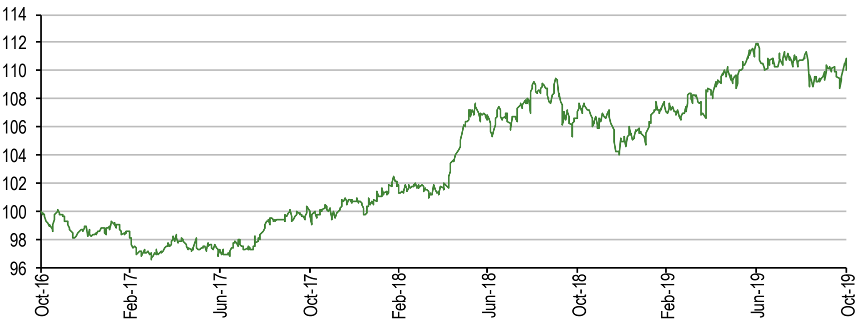
## Continued outperformance for quality portfolio

Investment trusts
European equities

**7 November 2019**

**BlackRock Greater Europe Investment Trust (BRGE) is co-managed by Stefan Gries (since June 2017) and Sam Vecht (since launch in 2004). Gries believes that investors do not have to be positive on the prospects for Europe to consider this trust, as it seeks to invest in companies with potential to create shareholder wealth over the medium to long term. He says that investor sentiment towards the region is very negative, which may provide an incremental opportunity when opinions change. Gries remains optimistic about the prospects for BRGE's portfolio of high-quality companies, based on his assessment that there will be no major economic slowdown or recession in the coming year.**

**NAV outperformance under current co-manager (tenure since June 2017)**



Source: Refinitiv, Edison Investment Research

## The market opportunity

The investment backdrop remains somewhat uncertain in terms of slowing global growth, which is not helped by tensions between the US and its trading partners, and above-average equity valuations. This environment should favour skilled fund managers who can identify attractive, niche businesses whose management teams align their interests with those of their shareholders.

## Why consider investing in BRGE?

- Broad exposure to both developed and emerging markets in Europe.
- Portfolio of high-quality growth businesses; the managers seek companies that can generate long-term shareholder value.
- Disciplined, repeatable investment process, with the ability to draw on the broad resources of BlackRock's investment teams.
- Long-term outperformance versus the market and the AIC Europe peer group.

## Active discount management

BRGE's board actively manages the discount via periodic repurchases and discretionary semi-annual tender offers. Its current 4.0% share price discount to cum-income NAV is narrower than the 4.1% to 4.5% range of average discounts over the last one, three, five and 10 years. BRGE has a progressive dividend policy, growing the annual distribution every year since the trust was launched in 2004. It currently offers a 1.5% dividend yield.

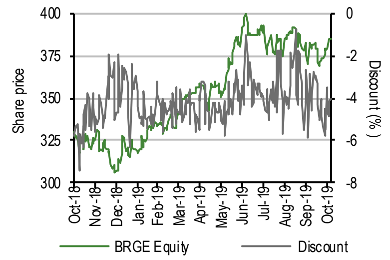
| | |
|---|---|
| **Price** | **385.5p** |
| **Market cap** | **£325m** |
| **AUM** | **£345m** |

| | |
|---|---|
| NAV* | 401.6p |
| Discount to NAV | 4.0% |
| NAV** | 401.7p |
| Discount to NAV | 4.0% |

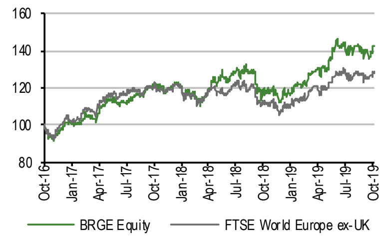
*Excluding income. **Including income. As at 5 November 2019.

| | |
|---|---|
| Yield | 1.5% |
| Ordinary shares in issue | 84.4m |
| Code | BRGE |
| Primary exchange | LSE |
| AIC sector | Europe |
| Reference index | FTSE World Europe ex-UK |

### Share price/discount performance




### Three-year performance vs index




| | | |
|---|---|---|
| 52-week high/low | 400.0p | 306.0p |
| NAV* high/low | 411.2p | 317.2p |

*Including income.

### Gearing

| | |
|---|---|
| Net* | 1.4% |

*As at 30 September 2019.

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

## Exhibit 1: Trust at a glance

### Investment objective and fund background

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 the FTSE World Europe ex-UK Index (in sterling terms).

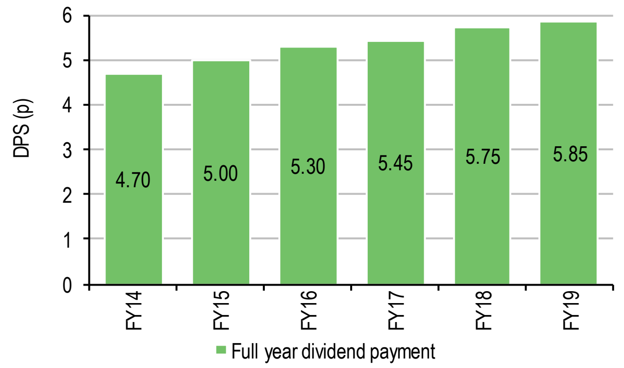
### Recent developments

- 22 October 2019: Annual results ending 31 August 2019. NAV TR +6.3% versus reference index TR +4.8%. Share price TR +7.9%.
- 16 September 2019: Board announced its decision not to implement a semi-annual tender in November 2019.
- 1 May 2019: Six-month results ending 28 February 2019. NAV TR -8.4% versus reference index TR -6.6%. Share price TR -7.1%.

| Forthcoming | | Capital structure | | Fund details | |
|---|---|---|---|---|---|
| AGM | 5 December 2019 | Ongoing charges | 1.08% (FY19) | Group | BlackRock Investment Mgmt (UK) |
| Interim results | May 2020 | Net gearing | 1.4% | Managers | Stefan Gries, Sam Vecht |
| Year end | 31 August | Annual mgmt fee | 0.85% | Address | 12 Throgmorton Avenue, London, EC2N 2DL |
| Dividend paid | May, December | Performance fee | None | | |
| Launch date | 20 September 2004 | Trust life | Indefinite | Phone | +44 (0) 20 7743 3000 |
| Continuation vote | None | Loan facilities | See page 8 | Website | blackrock.co.uk/brge |

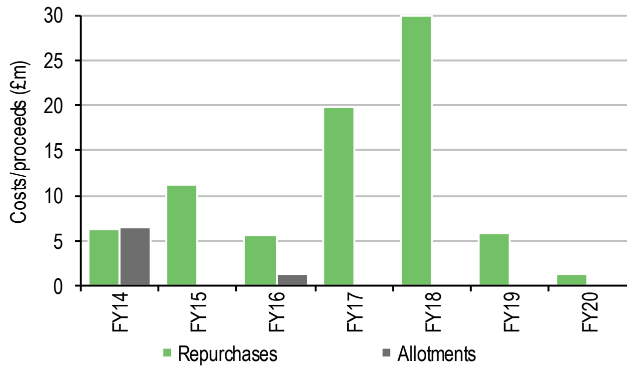
### Dividend policy and history (financial years)

BRGE pays two dividends a year in May and December. Ordinary dividends have increased every year since the trust's launch.

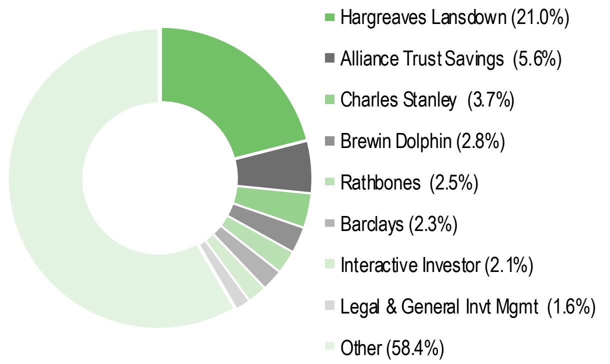



### Share buyback policy and history (financial years)

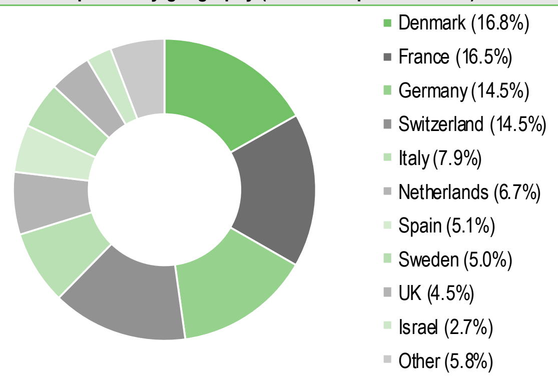
To help manage the discount, the board has the authority (alongside normal buyback powers) to implement a twice-yearly tender for up to 20% of shares outstanding, renewed annually.




### Shareholder base (as at 30 September 2019)




### Portfolio exposure by geography (as at 30 September 2019)




### Top 10 holdings (as at 30 September 2019)

| Company | Country | Sector | Portfolio weight % | |
|---|---|---|---|---|
| | | | 30 September 2019 | 30 September 2018* |
| Safran | France | Aerospace & defence | 7.1 | 5.1 |
| Novo Nordisk | Denmark | Pharmaceuticals & biotechnology | 6.4 | 4.6 |
| Adidas | Germany | Personal goods | 6.1 | N/A |
| SAP | Germany | Software & computer services | 5.7 | 5.4 |
| Sika | Switzerland | Construction & materials | 5.2 | 4.6 |
| Royal Unibrew | Denmark | Beverages | 4.8 | N/A |
| Lonza Group | Switzerland | Pharmaceuticals & biotechnology | 4.5 | 7.3 |
| ASML | Netherlands | Technology hardware & equipment | 4.5 | N/A |
| DSV | Denmark | Industrial transportation | 4.5 | N/A |
| RELX | UK | Media | 4.5 | N/A |
| **Top 10 (% of holdings)** | | | **53.3** | **43.0** |

Source: BlackRock Greater Europe Investment Trust, Edison Investment Research, Bloomberg, Morningstar, Refinitiv. Note: *N/A where not in end-September 2018 top 10.

## Market outlook: Valuations suggest selectivity needed

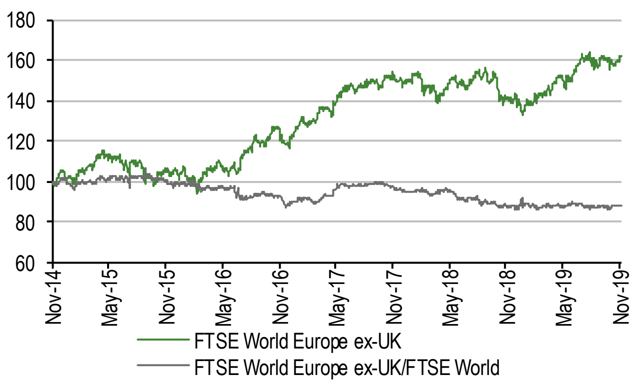
While European equities have made solid gains in recent years (Exhibit 2, left-hand side chart), they have not kept pace with world indices, as these are dominated by the US market, which has performed relatively well. So far this year, shareholders in many markets have enjoyed above-average total returns; this is despite an uncertain backdrop of slowing global growth, trade tensions and shifting monetary policy. Stock markets have polarised, with performance being led by growth and perceived 'safe-haven' companies, while cyclical and value sectors have lagged.

In aggregate, shares are not looking particularly attractively valued versus history. On a forward P/E multiple basis, European equities are trading at a 12% premium to their 10-year average, although they do offer an above-average dividend yield of 3.3% (Exhibit 2, right-hand side).

In the current environment of slowing growth and above-average valuations, investors may be well served by focusing on high-quality companies with demonstrable growth drivers that are trading at a discount to their intrinsic value.

**Exhibit 2: Market performance and valuation**

**Performance of FTSE World 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 | 13.6 | 15.5 | 7.3 | 12.2 | 112 |
| UK | 12.7 | 15.7 | 8.5 | 12.6 | 101 |
| US | 17.9 | 19.0 | 11.2 | 15.4 | 116 |
| World | 15.2 | 16.3 | 9.8 | 13.6 | 112 |
| **Dividend yield (%)** | | | | | |
| Europe ex-UK | 3.3 | 4.3 | 2.7 | 3.2 | 102 |
| UK | 4.2 | 4.5 | 2.7 | 3.5 | 121 |
| US | 1.9 | 2.4 | 1.7 | 2.0 | 94 |
| World | 2.5 | 3.1 | 2.2 | 2.6 | 99 |

Source: Refinitiv, Edison Investment Research. Note: Valuation data as at 1 November 2019.

## Fund profile: Broad European 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), focusing on developed European markets; and Sam Vecht (since launch), focusing on emerging European markets. They aim to generate long-term capital growth, investing across the market cap spectrum, in a portfolio of 30–45 high-conviction holdings.

Gries and Vecht have the flexibility to invest in any country in the FTSE World Europe ex-UK Index, which is used as a reference rather than a benchmark, as well as developing markets in Europe; this broad exposure is an important differentiating feature of BRGE. There are no constraints on the trust's sector exposure. Up to 25% of the portfolio risk allocation may be held in emerging European markets (currently at the low end of the 6% to 18% historical range due to profit taking), and up to 5% may be held in unquoted securities (together, these two exposures may not exceed 25%). Investment in developing Europe may be 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, and derivatives are permitted for efficient portfolio management. Gearing is limited to 15% of NAV at the time of drawdown; at end-September 2019, net gearing was 1.4%.

# The fund managers: Stefan Gries and Sam Vecht

## The manager's view: Signs of economic improvement

Gries stresses that he is a stock picker, and his assessment of the macro backdrop is based on his interaction with companies. He cites the benefits of working in a large investment team that undertakes more than 1,200 company meetings a year. The manager says that in early 2019, macro data was softer than expected, unlike a year earlier when market participants were enjoying synchronised global growth. Gries says that since then 'there has been disappointment after disappointment', although he finds the September 2019 economic data interesting. The manager and his team believe it is a pivotal time to reassess the macro environment, as indicators have been softening for a long time and are now at a level that has historically heralded economic stabilisation or recovery. Gries attended a series of company meetings this September and the overall message he received was one of business stabilisation, which he views as encouraging; certain companies are also 'seeing glimmers of sequential improvement', which has led to some better-than-expected results and outlook statements. The manager's base case is that there will be no global recession; he expects stabilisation and a recovery from very low levels of activity.

In terms of the European stock market, Gries says that volatility has provided opportunities to add to and trim positions in BRGE's portfolio. He says it is interesting to note that due to investors' bearish positioning with high levels of cash, sentiment appears to have reached an extreme, so companies reporting earnings that are weaker than expected are getting only a muted response in the market. The manager also notes the large underweight European positions of global asset allocators (outflows of c $100bn from European equities in the first nine months of 2019), so there is potential for significant inflows if there is a change in investor sentiment towards the region. Despite concerns about slowing economic growth, European (and global) equities have delivered higher-than-average total returns so far this year, following on from very weak markets in Q418, supported by a continued favourable monetary environment. However, Gries notes that there have been wide divergences in performance at both the sector and stock level, highlighting the importance of active stock selection.

The manager suggests that investment bankers have been disappointed this year as although there was a rich pipeline of companies coming to market, several initial public offerings (IPOs) have been cancelled or postponed due to poor market conditions. BRGE recently participated in an IPO of a Swedish company (name withheld). Gries says he is able to leverage BlackRock's significant internal capabilities, ensuring that he is able to connect with companies at an early stage, maybe meeting with them multiple times before they come to market.

# Asset allocation

## Investment process: Bottom-up stock selection

Gries and Vecht are able to draw on the broad resources of BlackRock, which includes a 21-strong European equity team and seven analysts in the global emerging markets team who focus on emerging Europe; in aggregate, they conduct more than 1,200 company meetings a year. The managers look through short-term noise in the stock market, focusing on being 'owners of companies, not traders of shares'. They aim to align themselves with the best management teams, which have the ability to create long-term value for shareholders. Gries and Vecht aim to generate long-term capital growth from a relatively concentrated portfolio of 30–45 European equities, selected from an investible universe of more than 2,000 companies. The majority of the portfolio is invested in larger-cap companies (above €5bn).

There are four primary investment criteria:

- a quality management team, with a record of value creation;
- a unique aspect such as a product, brand or contract structure;
- a high and predictable return on capital, with strong free cash flow conversion; and
- the ability to invest for future growth.

The first step of the investment process is idea generation, using a formal research pipeline to ensure efficient use of team resources and prioritise the most interesting investment opportunities. Analysts conduct thorough industry and company analysis, including a firm's market dynamics, revenue drivers, financials, valuations and risks to the investment thesis. A proprietary research template is used to provide a consistent approach, which encourages debate and helps to ensure that the investment case is robust; researched companies are assigned a rating between 1 (strong buy) and 5 (sell).

Positions may be sold if the original buy thesis is no longer valid, if the investment case has played out (meaning a lack of further upside), or if a more attractive investment opportunity is identified. The managers and their teams work with BlackRock's independent Risk and Quantitative Analysis (RQA) group to ensure the trust's portfolio risk is closely monitored and understood.

BRGE's performance has improved since Gries became manager of the developed Europe portfolio in June 2017 (illustrated on the front-page chart). He has tightened up the investment process and moved to a more concentrated portfolio. The manager says he has demonstrated that he can generate attractive returns in a risk-controlled manner, delivering a stream of diversified alpha. He is particularly encouraged that the fund's top performing positions come from a variety of sectors and geographies.

## Current portfolio positioning

At end-September 2019, BRGE's top 10 holdings made up 53.3% of the portfolio, a meaningfully higher concentration compared with 43.0% a year earlier; five names were common to both periods. As shown in Exhibit 1, in geographic terms, the trust's largest exposure is Denmark. Gries explains that the country is home to a number of innovative, world-leading companies that have created long-term value for shareholders. He attributes this to the Danish management style, which employs a flat organisational structure, with incentives in place to allow decentralised decision-making. This strategy encourages employees to think like business owners, with a greater focus on costs and capital allocation. BRGE's Danish holdings include Novo Nordisk (pharmaceuticals), Royal Unibrew (beverages) and DSV (freight forwarding).

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

| | Portfolio end-Sept 2019 | Portfolio end-Sept 2018 | Change (pp) | Index weight | Active weight vs index (pp) | Trust weight/ index weight (x) |
|---|---|---|---|---|---|---|
| Industrials | 26.3 | 35.9 | (9.7) | 15.6 | 10.7 | 1.7 |
| Healthcare | 20.1 | 22.7 | (2.6) | 15.3 | 4.8 | 1.3 |
| Technology | 17.2 | 9.6 | 7.6 | 6.8 | 10.4 | 2.5 |
| Consumer goods | 16.7 | 9.6 | 7.1 | 20.1 | (3.4) | 0.8 |
| Financials | 8.9 | 11.6 | (2.8) | 19.9 | (11.0) | 0.4 |
| Consumer services | 6.1 | 3.5 | 2.6 | 4.3 | 1.8 | 1.4 |
| Basic materials | 3.2 | 3.4 | (0.2) | 5.1 | (1.9) | 0.6 |
| Telecommunications | 1.6 | 1.7 | (0.1) | 3.3 | (1.7) | 0.5 |
| Oil & gas | 0.0 | 2.0 | (2.0) | 4.7 | (4.7) | 0.0 |
| Utilities | 0.0 | 0.0 | 0.0 | 4.7 | (4.7) | 0.0 |
| **Total** | **100.0** | **100.0** | | **100.0** | | |

Source: BlackRock Greater Europe Investment Trust, FTSE Russell, Edison Investment Research. Note: Rebased for net current assets/liabilities.

Exhibit 3 shows the trust's sector exposures versus the FTSE World Europe ex-UK Index. The portfolio currently has a modest pro-cyclical tilt expressed through late-cycle industrials including aerospace and luxury goods companies. In the 12 months to end-September 2019, the largest changes were higher weightings in technology (+7.6pp) and consumer goods (+7.1pp), with lower industrial exposure (-9.7pp). Portfolio positioning is similar to when we published our last note in May 2019, with significant overweights in industrials (+10.7pp) and technology (+10.4pp), and an underweight exposure in financials (-11.0pp), where the manager has concerns about fundamentals in the banking sector in developed Europe.

Gries highlights some of the changes in BRGE's portfolio in recent months, including new positions in Bank Pekao and Royal Unibrew. He has built up the fund's position in sportswear company Adidas, due to higher conviction, following a further meeting with the company. The manager argues that the firm operates in an attractive growth industry, driven by healthier living and lifestyle trends, that is dominated by two players (Adidas and Nike). Gries says that Adidas has a focused management team, aiming to generate higher margins, returns and cash flow. He expects an acceleration in the company's top-line growth, and believes that due to operating leverage and share repurchases, its earnings per share can grow in the low-to-mid double-digit range. The manager is confident that Adidas will be a long-term holding in the fund.

**Bank Pekao** is a Polish bank. A buying opportunity arose because of a price arbitrage between the company's shares and its convertible bond. Gries says that the bank has an attractive market position and valuation (c 6% dividend yield). The Polish economy is robust, helped by rising minimum wages and government spending, while Bank Pekao's loan book, Tier 1 capital ratio and return on equity are strong. The manager says that the potential for higher interest rates provides an 'option value' for the bank's earnings; he calculates that if Polish interest rates rise by 1%, Bank Pekao's earnings could increase by 20%.

**Royal Unibrew** – Gries initiated the position in spring 2019, and built it up over the summer as his level of conviction increased. It is a Danish-listed firm that has transformed, via a series of acquisitions, from a brewer to a multi-beverage company. The manager says that Royal Unibrew has a 'very smart management team, with a clear idea about shareholder value creation'. The company focuses on generating a high return on capital from under-managed/under-priced brands. They are repositioned via investment in marketing, reformulation of their stock keeping units (SKUs), and exports. Royal Unibrew generates a return on capital in excess of 20%, with high single-digit to low double-digit earnings growth. Gries says its stock has defensive characteristics and is under-followed by the wider investment community.

There have been a number of disposals in the portfolio in recent months:

- **Danske Bank** is a leading Danish commercial bank. The manager stayed close to the company following the announcement of a money-laundering scandal in its Estonian operation. He sold the position, as despite the company having sufficient resources to pay a fine, the settlement process was taking longer than expected, while the operating environment in certain businesses, such as fixed income and equity trading, was deteriorating. Subsequent to the position being sold, Danske Bank issued a profit warning.
- **Fresenius Medical Care** is the German global leader in dialysis, with significant operations in the US. The manager was concerned about regulatory risk and margin pressure associated with the negotiation of reimbursement rates. He notes that he received mixed messages from the company's CEO and CFO regarding their strategy for the business and was no longer convinced about their ability to create long-term value for shareholders. Gries said that he achieved a very good exit price and Fresenius Medical Care's share price has subsequently weakened.
- **Schindler** provides elevator and escalator products and services. Gries was frustrated by the way that its management communicated with the market: setting expectations too high and failing to deliver. He had hoped for margin improvement, but the company continues to invest and the manager is unsure about the returns that will be achieved on these projects.

Schindler's business conditions are deteriorating, and Gries said that he was able to deploy BRGE's capital more effectively elsewhere within the portfolio.

- **Unilever** – the manager had reduced confidence in the company's ability to re-accelerate top-line growth and improve margins while undergoing a cost-cutting programme.
- **Wärtsilä** manufactures and services power sources and other equipment in the marine and energy markets. Gries was excited about the opportunities for flexible energy products and services in emerging markets; however, the head of this division left the company and new orders dried up. At the group level, Wärtsilä appointed a new CFO, who is delivering a different message about the risks of increased competition in the high-margin marine spares division compared with his predecessor. BlackRock undertook expert calls to vessel owners, who confirmed that for older units they are tending to employ lower-cost, third-party providers. Gries says that Wärtsilä's investment thesis had changed, and since the position was sold the company has issued two profit warnings.

## Performance: Long-term record of outperformance

**Exhibit 4: Five-year discrete performance data**

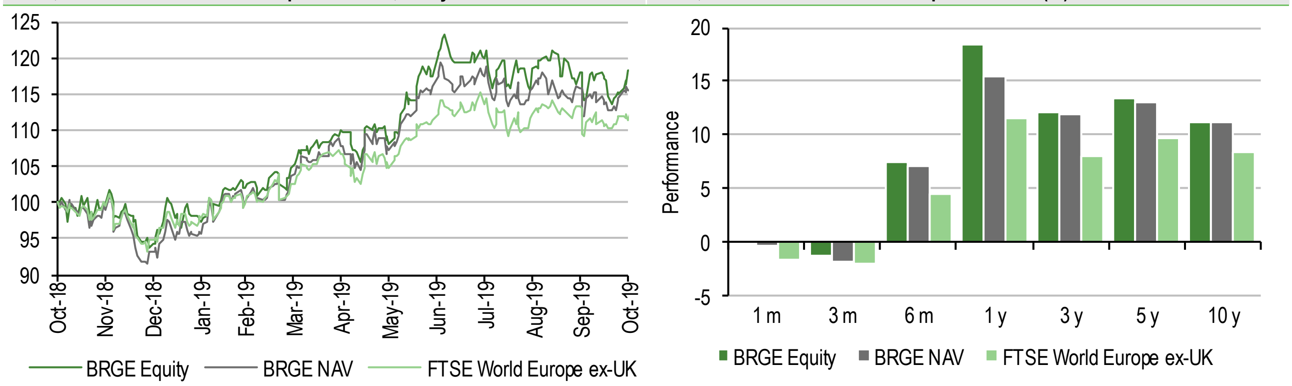
| 12 months ending | Share price (%) | NAV (%) | FTSE World Europe ex-UK (%) | FTSE All-Share (%) | FTSE World (%) |
|---|---|---|---|---|---|
| 31/10/15 | 12.0 | 9.5 | 5.2 | 3.0 | 4.6 |
| 31/10/16 | 18.9 | 20.2 | 19.7 | 12.2 | 29.7 |
| 31/10/17 | 21.1 | 19.9 | 19.9 | 13.4 | 13.7 |
| 31/10/18 | (1.7) | 1.1 | (5.6) | (1.5) | 4.7 |
| 31/10/19 | 18.4 | 15.5 | 11.5 | 6.8 | 11.7 |

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

In FY19 (ending 31 August), BRGE's NAV and share price total returns of +6.3% and +7.9% outpaced the performance of the FTSE World Europe ex-UK Index (+4.8%). The largest contributor was Russian bank Sberbank, which Gries says is a credit to the emerging market exposure that the trust can offer. Its shares rallied as the market took its improving earnings profile on board. Due to the company reaching what the manager considered to be fair value, BRGE's position was sold. The holding in Danske Bank detracted from performance; it was caught up in a money laundering scandal in Estonia, and has also exited the portfolio (see Current portfolio positioning section).

**Exhibit 5: Investment trust performance to 31 October 2019**

**Price, NAV and index total return performance, one-year rebased** | **Price, NAV and index total return performance (%)**




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

Gries highlights recent significant contributors to BRGE's performance. Top holding Safran has performed well; the company recently reported a strong set of earnings and raised guidance. Its high-margin civil aftermarket business was especially encouraging, while the order book for its new Leap engine is building. Safran is also benefiting from the integration and restructuring of Zodiac Aerospace (interior components), which it acquired in 2018. Despite its cyclical business, ASML has rallied significantly so far this year. The company is well positioned with a quasi-monopoly in lithography equipment. Its EUV (extreme ultraviolet) tool was launched last year, and has been adopted by all major semiconductor producers, as it improves manufacturing efficiencies. Relative detractors to performance have come from not owning some of the large-cap defensive names that have benefited from investor risk aversion and a flight to safety, such as Nestlé, Novartis and Roche. Gries says that with hindsight, he made an incorrect call in not buying Nestlé, as its fundamentals improved. However, he says there is always 'competition for capital' within BRGE's portfolio and at the time he saw more exciting opportunities elsewhere in the market.

**Exhibit 6: 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 | 1.9 | 0.7 | 2.8 | 6.2 | 11.7 | 18.2 | 28.7 |
| NAV relative to FTSE World Europe ex-UK | 1.2 | 0.1 | 2.4 | 3.6 | 10.9 | 16.0 | 29.6 |
| Price relative to FTSE All-Share | 1.7 | 0.9 | 7.1 | 10.9 | 18.2 | 36.2 | 29.3 |
| NAV relative to FTSE All-Share | 1.1 | 0.3 | 6.6 | 8.2 | 17.3 | 33.7 | 30.2 |
| Price relative to FTSE World | 2.5 | 1.5 | 2.8 | 6.0 | 6.0 | 4.1 | (9.9) |
| NAV relative to FTSE World | 1.8 | 0.9 | 2.4 | 3.4 | 5.2 | 2.1 | (9.3) |

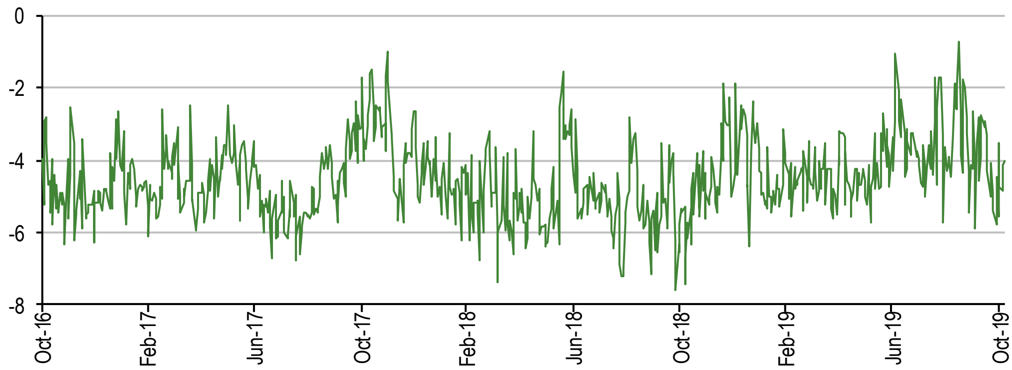
Source: Refinitiv, Edison Investment Research. Note: Data to end-October 2019. Geometric calculation.

BRGE's relative returns are shown in Exhibit 6. It has outperformed the FTSE World Europe ex-UK Index over the last one, three, five and 10 years in both NAV and share price terms. The trust has also outpaced the FTSE All-Share Index over these periods. Its performance is ahead of the FTSE World Index over one, three and five years despite the outperformance of the dominant US market (c 60% of the world index).

## Discount: Consistent with historical averages

BRGE's current 4.0% share price discount to cum-income NAV compares with the 0.7% to 7.4% range of discounts over the last 12 months. Its historical averages are pretty consistent at 4.1%, 4.5%, 4.3% and 4.2% over the last one, three, five and 10 years, respectively. The board actively manages the discount via periodic repurchases and discretionary semi-annual tender offers for up to 20% of shares outstanding (the last tender offer was in November 2018, as the board decided not to undertake them in May 2019 and November 2019). So far in FY19, c 0.4m shares have been repurchased at a cost of c £1.4m.

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




Source: Refinitiv, Edison Investment Research

## Capital structure and fees

BRGE is a conventional investment trust, with one class of share. There are 84.4m ordinary shares in issue, with a further 25.9m held in treasury. At end-FY19, the trust had had an available overdraft facility of the lower of £23.5m or 15% of NAV (the maximum permitted at the time of drawdown). At end-September 2019, net gearing was 1.4%, which compares to a historical range of c 15% geared to c 10% net cash.

BlackRock is paid an annual management fee of 0.85% of NAV (no performance fee is payable). In FY19, ongoing charges were 1.08% (FY18: 1.09%).

## Dividend policy and record

In FY19, BRGE's total dividend of 5.85p per share was a modest 1.7% higher year-on-year, continuing the board's progressive dividend policy; the annual distribution has increased every year since the trust was launched in 2004. The board is prepared to fund part of the dividend from reserves when required (the FY19 dividend was c 0.8x covered). The revenue return per share in FY19 was 4.87p per share, 18.2% lower year-on-year due to the absence of one-off French withholding tax reclaims, and the portfolio shift in recent years to lower-yielding growth stocks. At end-FY19, BRGE had revenue reserves of £10.1m, which is c 2x the last annual dividend. Since 2014, dividends have been paid twice a year, in May and December (historically, there was a single annual payment). Based on its current share price, BRGE offers a 1.5% dividend yield.

## Peer group comparison

BRGE is a member of the eight-strong AIC Europe sector. Its performance has improved following the appointment of Gries in June 2017, and now ranks first over one year (5.2pp above average), second over three and five years (+12.6pp and +14.8pp), and fourth over 10 years (broadly in line with the average). BRGE has the narrowest discount in the group and one of the highest ongoing charges, although in common with the majority of its peers, no performance fee is payable. It currently has one of the lowest levels of gearing in the peer group, and, befitting its primary focus on capital growth, BRGE's dividend yield is 1.0pp below average.

**Exhibit 8: AIC Europe peer group as at 6 November 2019***

| % 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 | 325.4 | 18.9 | 50.2 | 88.5 | 185.5 | (4.4) | 1.1 | No | 101 | 1.5 |
| European Investment Trust | 338.9 | 5.6 | 19.4 | 35.7 | 96.3 | (10.7) | 0.6 | No | 100 | 3.3 |
| Fidelity European Values | 1,043.1 | 18.6 | 47.7 | 85.0 | 177.4 | (7.5) | 0.9 | No | 107 | 2.5 |
| Henderson European Focus Trust | 274.1 | 17.2 | 35.2 | 70.3 | 192.0 | (10.3) | 0.8 | No | 105 | 2.4 |
| Henderson EuroTrust | 246.8 | 16.6 | 37.1 | 84.0 | 206.4 | (9.3) | 0.8 | No | 107 | 2.6 |
| JPMorgan European Growth Pool | 198.1 | 10.0 | 28.1 | 61.5 | 134.2 | (12.5) | 1.0 | No | 109 | 3.1 |
| JPMorgan European Income Pool | 154.3 | 10.9 | 31.4 | 67.7 | 167.9 | (11.6) | 1.1 | No | 106 | 4.1 |
| Jupiter European Opportunities | 873.7 | 11.5 | 52.1 | 96.7 | 341.8 | (7.6) | 0.9 | Yes | 107 | 0.7 |
| **Average** | **431.8** | **13.7** | **37.6** | **73.7** | **187.7** | **(9.2)** | **0.9** | | **105** | **2.5** |
| **BRGE rank in sector (8 trusts)** | **4** | **1** | **2** | **2** | **4** | **1** | **1=** | | **7** | **7** |

Source: Morningstar, Edison Investment Research. Note: *Performance to 5 November 2019 based on ex-par NAV. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

## The board

BRGE's board has four independent, non-executive directors: Eric Sanderson (appointed in April 2013 and chairman since November 2016); Davina Curling (appointed in December 2011); Peter Baxter (appointed in April 2015); and Paola Subacchi (appointed in July 2017). There is a succession plan in place, although all directors have been in office for less than nine years and are therefore considered independent under the AIC's 2019 Code of Corporate Governance.

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