

BlackRock Greater Europe Investment Trust

Improved performance under new co-manager

BlackRock Greater Europe Investment Trust (BRGE) is co-managed by Stefan Gries (appointed on 20 June 2017), who focuses on developed European markets, and Sam Vecht, who focuses on emerging Europe. They aim to generate long-term capital growth from a relatively concentrated portfolio of 35-40 European equities, mostly from developed markets. BRGE's investment performance has improved following Gries' appointment, since when the trust has outperformed the FTSE World Europe ex-UK reference index by c 5pp. As well as positive contributions from portfolio companies, both in developed and emerging Europe, BRGE has benefited from not holding some of the larger European companies that have underperformed the broader market.

12 months ending	Share price (%)	NAV (%)	FTSE World Europe ex-UK (%)	FTSE All-Share (%)	FTSE World (%)
31/03/14	16.7	15.1	17.3	8.8	7.6
31/03/15	6.4	4.9	7.5	6.6	18.8
31/03/16	(3.3)	1.8	(4.2)	(3.9)	0.0
31/03/17	22.6	21.0	27.9	22.0	32.9
31/03/18	8.9	9.6	4.3	1.2	2.6

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

Investment strategy: Bottom-up stock selection

Since Gries became co-manager in June 2017, BRGE has tightened up its research process, while adhering to the aim of seeking companies whose underlying earnings power is not fully reflected in their current share prices. The investment team undertakes thorough fundamental research, focusing on companies with quality management teams, a unique offering (such as a product or brand), the ability to invest in future growth, and which are generating high returns and free cash flow conversion. Meeting companies is a key part of the research process and the 21-strong investment team conducts c 1,000 meetings a year. Gearing of up to 15% of NAV is permitted; at end-February 2018, net gearing was 5.0%.

Market outlook: Favourable European backdrop

There is potential for continued robust earnings growth at European companies, which in aggregate are highly geared to the improving global economy. In addition, European equities are trading on lower forward P/E multiples than US equities, which, coupled with a more benign political environment in the region, suggests that the European stock market could enjoy a period of relative outperformance.

Valuation: Discount broadly in line with averages

BRGE's current 5.7% share price discount to cum-income NAV is modestly wider than the averages of the last one, three, five and 10 years (range of 4.0% to 4.5%). The trust's board actively manages the discount via share repurchases and discretionary semi-annual tender offers. The next opportunity for investors to tender their shares is on 31 May 2018, at 98% of the prevailing NAV. BRGE has a progressive dividend policy; annual distributions have increased every year since the trust was launched in 2004. Its current dividend yield is 1.7%.

Investment trusts

11 April 2018

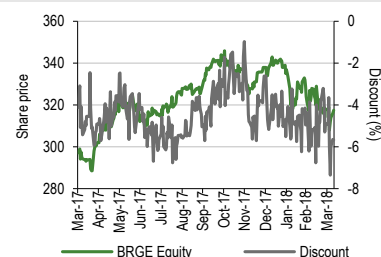
Price 317.5p
Market cap £282m
AUM £301m

NAV* 334.3p
Discount to NAV 5.0%
NAV** 336.6p
Discount to NAV 5.7%

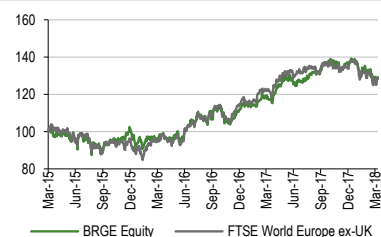
*Excluding income. **Including income. As at 10 April 2018.

Yield 1.7%
Ordinary shares in issue 88.8m
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 346.0p 288.5p
NAV** high/low 359.0p 301.4p

**Including income.

Gearing

Gross* 4.3%
Net* 5.0%

*As at 28 February 2018.

Analysts

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

Exhibit 1: Trust at a glance

Investment objective and fund background

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

Recent developments

- 26 March 2018: Announcement of tender offer for up to 20% of ordinary shares in issue (excluding treasury shares).
- 1 December 2017: Results of tender offer – 6.5m ordinary shares (6.8% of shares in issue, excluding treasury shares) tendered at a price of 333.76p.
- 23 October 2017: 12-month results ending 31 August 2017. NAV TR +23.0% versus reference index TR +26.0%. Share price TR +22.9%.

Forthcoming

AGM	November 2018
Interim results	April 2018
Year end	31 August
Dividend paid	May, December
Launch date	20 September 2004
Continuation vote	None

Capital structure

Ongoing charges	1.10% (as at 31 August 2017)
Net gearing	5.0%
Annual mgmt fee	0.85%
Performance fee	None
Trust life	Indefinite
Loan facilities	£20m overdraft facility

Fund details

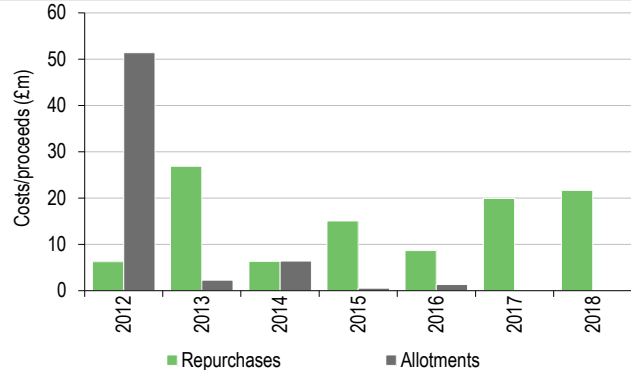
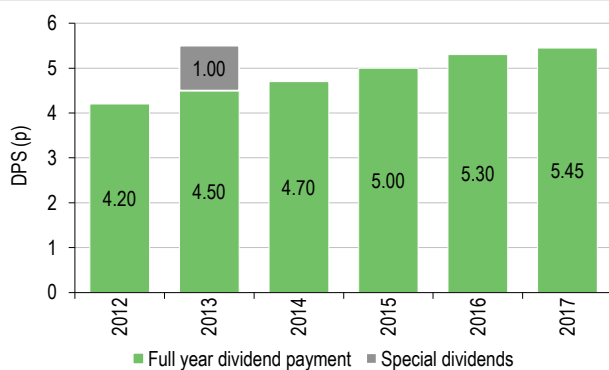
Group	BlackRock Investment Mgmt (UK)
Managers	Stefan Gries, Sam Vecht
Address	12 Throgmorton Avenue, London, EC2N 2DL
Phone	+44 (0) 20 7743 3000
Website	blackrock.co.uk/brge

Dividend policy and history (financial years)

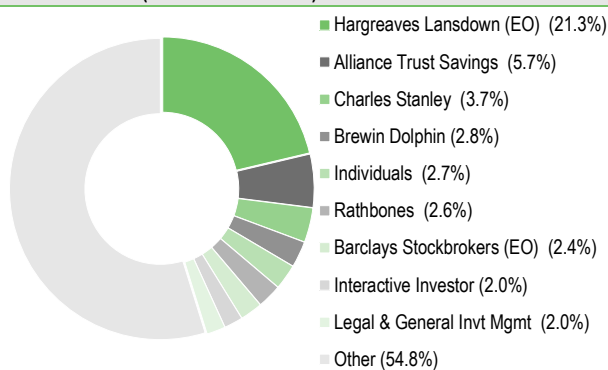
BRGE pays two dividends a year in May and December. Ordinary dividends have increased every year since trust launch.

Share buyback policy and history (financial years)

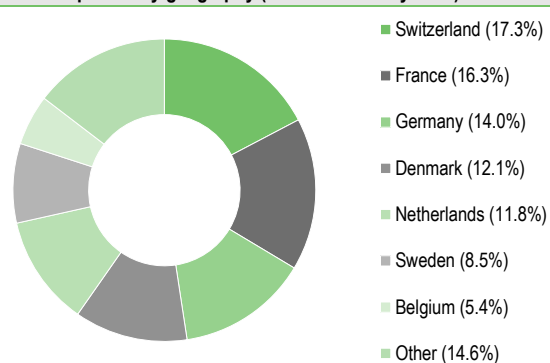
To help manage the discount, the board has the authority (alongside normal buyback powers) to implement a twice-annual tender for up to 20% of shares outstanding, renewed annually. The 2012 allotments include the acquisition of Charter European Trust.



Shareholder base (as at 31 March 2018)



Portfolio exposure by geography (as at 28 February 2018)



Top 10 holdings (as at 28 February 2018)

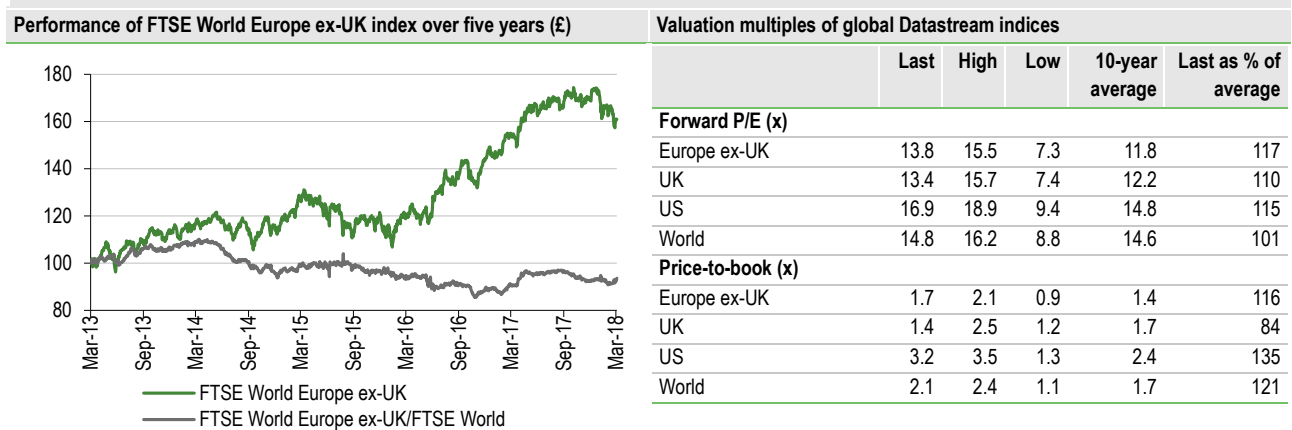
Company	Country	Sector	Portfolio weight %	
			28 February 2018	28 February 2017*
Unilever	Netherlands	Personal goods	4.3	N/A
Safran	France	Aerospace & defence	4.3	N/A
Lonza Group	Switzerland	Pharmaceuticals & biotechnology	4.2	N/A
Fresenius Medical Care	Germany	Healthcare equipment & services	4.1	N/A
Danske Bank	Denmark	Banks	4.0	N/A
Wärtsilä	Finland	Industrial machinery	3.6	2.6
Novo Nordisk	Denmark	Pharmaceuticals & biotechnology	3.5	N/A
Richemont	Switzerland	Personal goods	3.4	N/A
SAP	Germany	Software & computer services	3.3	N/A
Adidas	Germany	Personal goods	3.2	N/A
Top 10			37.9	30.3

Source: BlackRock Greater Europe Investment Trust, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in February 2017 top 10.

Market outlook: Potential better relative performance

As shown in Exhibit 2 (left-hand side), over the last five years European stocks have underperformed global equities. However, absolute returns have been solid, and there is the potential for better relative performance. Europe is geared to the global economic recovery as c 60% of European company revenues are generated outside of the region. While equity valuations have expanded across the board, Europe looks more attractively valued versus the US on both forward earnings and price-to-book bases (right-hand table). In addition, the European political environment is more benign than going into 2017. For investors seeking exposure to Europe, a fund with a strong investment process and a long-term positive and improving track record may be of some interest.

Exhibit 2: Market performance and valuation



Source: Thomson Datastream, Edison Investment Research. Note: Valuation data as at 10 April 2018.

Fund profile: Concentrated European equity exposure

Launched in September 2004, BRGE is co-managed by Stefan Gries (since June 2017; he focuses on developed European markets) and Sam Vecht (since launch; he focuses on emerging markets). The investment team adopts a bottom-up stock selection strategy, aiming to generate long-term capital growth from a portfolio of 35-45 companies. BRGE invests across the capitalisation spectrum, with the majority of the portfolio comprising companies above €10bn. At end FY17 the market cap breakdown was: 24.4% >€50bn; 32.7% €20-50bn; 25.0% €10-20bn; 16.7% €1-10bn; and 1.2% <€1bn. Up to 25% of the risk allocation in the portfolio may be invested in emerging Europe (currently in the low double-digit range) and a maximum 5% may be held in unquoted investments. Investment in developing Europe may be made directly or via funds (up to a maximum 15% of the portfolio), and exposure to Russia is limited to 10%. BRGE may invest in debt securities, but none were held at end FY17. Derivatives are permitted for efficient portfolio management. Gearing of up to 15% of NAV at the time of drawdown is permitted; at end February 2018, net gearing was 5.0%.

The fund managers: Stefan Gries and Sam Vecht

The managers' view: Constructive outlook for European stocks

Gries says that going into 2018, some of the European macro leading indicators were at multi-year or record highs. They have since softened somewhat, but the manager considers that a period of consolidation is a healthy process, and he expects the economic environment to remain robust. He points out that 60% of the revenues of European companies are generated outside of the region,

meaning that Europe is very geared to the health of the global economy. He notes that economic growth is widespread; US data is showing an accelerating economy, the outlook for China is constructive and emerging markets are experiencing an improvement, such as in Brazil and Russia. Meeting company management is a key part of the investment process and Gries says the commentary from these meetings remains constructive. In a recent meeting with staffing company Randstad, the CFO was upbeat about a broad-based economic recovery in Europe in both domestic and export-led industries.

Gries says that 2017 was the best year for European corporate earnings growth since 2010, with a low double-digit increase. Consensus expectations are for 7-8% earnings growth for 2018, which Gries considers to be relatively conservative, and he is confident on the potential for continued upward earnings revisions for BRGE's portfolio companies. In addition, European equities have underperformed both US and UK equities, leading to relatively attractive P/E valuations for European companies, which in aggregate offer an attractive c 3.5% dividend yield.

Commenting on the political environment, Gries says there were three major elections in 2017, in the Netherlands, France and Germany, all of which had broadly stock market-friendly outcomes. He is particularly excited about the changing political environment in France, as President Macron was elected on a platform of change and reform, on which the manager believes he will follow through. Gries believes the potential for reforms in France is not fully appreciated by investors, and the effects could have positive multi-year implications.

Asset allocation

Investment process: Diligent fundamental analysis

The investment process is bottom up, with the managers and their teams seeking to identify companies whose underlying earnings power is not fully reflected in their share prices, leading to the potential for positive earnings estimate revisions. The four primary investment criteria are: quality management teams; a unique aspect such as a product, brand or contract structure; the ability to invest in future growth; and a high and predictable return on capital with high free cash flow conversion. Meeting company management is a key element of the research process; the teams conduct c 1,000 meetings each year. Companies considered for investment undergo thorough fundamental analysis, which includes financial modelling and the compilation of a standard template, to create a pipeline of potential investments. BRGE's portfolio of 35 to 45 companies compares with an investible universe of c 2,000 stocks.

Since Gries became co-manager of BRGE, the strategy has stayed fundamentally the same; however, he has sought to tighten up the investment process by:

- strengthening the investment philosophy;
- moving to higher-conviction positions and increasing the portfolio's active share (a measure of how a portfolio deviates from an index, with 0% representing full index replication and 100% representing no commonality);
- delivering alpha (excess returns) from the European investment team more effectively; and
- opportunistic use of the investment trust toolkit, which includes the use of gearing.

These changes have been effective in driving better relative investment performance (see page 6).

Current portfolio positioning

At end February 2018, BRGE's top 10 positions made up 37.9% of the portfolio, which was an increase in concentration from 30.3% a year earlier; just one position, Finnish power equipment company Wärtsilä, was common to the top 10 in both periods. The higher concentration has been a conscious decision by Gries to reduce the number of holdings to concentrate on his highest-

conviction investment ideas. There were 37 positions in the portfolio at end 2017, compared to a historical range of 45-65. Comparing the relative positioning to our last published note in [August 2017](#), versus the reference index BRGE has moved from an under- to an overweight position in healthcare, from an over- to an underweight position in the much smaller oil and gas sector, and has initiated a modest exposure to the utilities sector. The trust retains a large overweight exposure to industrials (+17.3pp) and a large underweight position in financials (-13.8pp).

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

	Portfolio end-February 2018	Portfolio end-February 2017	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/index weight (x)
Industrials	33.0	29.3	3.8	15.7	17.3	2.1
Healthcare	16.5	7.2	9.3	13.0	3.5	1.3
Consumer goods	12.9	18.0	(5.2)	19.1	(6.2)	0.7
Consumer services	10.3	7.4	2.9	4.7	5.6	2.2
Financials	10.3	20.5	(10.3)	24.1	(13.8)	0.4
Technology	8.9	7.8	1.1	5.2	3.7	1.7
Basic materials	3.7	5.8	(2.1)	6.7	(3.0)	0.5
Oil and gas	3.4	1.5	1.9	4.4	(1.0)	0.8
Utilities	1.1	0.0	1.1	3.9	(2.8)	0.3
Telecommunications	0.0	2.6	(2.6)	3.4	(3.4)	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.

Gries highlights a series of investment themes in BRGE's portfolio: pricing power of luxury brands; medtech; defensive companies; and structural growth opportunities. One of BRGE's luxury brand holdings is Rémy Cointreau, a high-end cognac producer. In total, 90% of this global market is dominated by four key players, which leads to very high barriers to entry. The company has supply agreements with the highest-quality grape suppliers. Older bottles of cognac tend to sell for premium prices and there is currently a shortage of older vintages, plus demand is robust, which means the pricing environment is attractive. Rémy has a large inventory, which cannot be replicated, giving the company an enviable competitive position. The firm has a relatively new CEO who is investing in branding, which should generate higher revenues and margins in the future.

Within the healthcare sector, BRGE has a preference for medtech rather than large-cap pharma. The team believes that portfolio companies Fresenius Medical Care and Straumann can continue to deliver strong earnings growth over multiple years.

The manager believes it is prudent to have a percentage of the portfolio (generally 5-10%) invested in defensive companies, noting that there has been an equity bull market for close to a decade following the end of the global financial crisis. Defensive positions held include information and analytics company RELX (formerly Reed Elsevier) and consumer products company Unilever, which is generating higher margins and earnings growth. Unfortunately, Unilever's stock price, along with those of its peers, has been negatively affected by rising bond yields. However, the manager is confident in the firm's long-term prospects and is sticking with the position.

Within the theme of structural growth opportunities, one of BRGE's holdings is Sika, which is a Switzerland-based global niche player in construction chemicals. Its products include concrete adhesives, which are used to make buildings more durable. Overall, 80% of the company's revenues are generated from important construction projects such as infrastructure. Sika is growing organically at 6-8% pa, which is supplemented by bolt-on acquisitions. The company's addressable market is multiple times its current revenues, providing a long runway for future growth. It has a high return on capital and free cash conversion of more than 90%, which the manager views as very attractive.

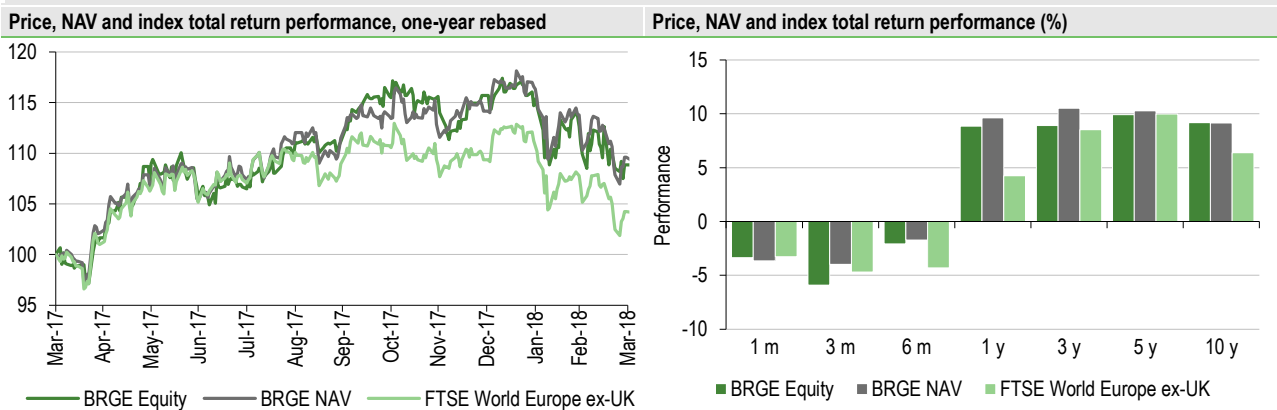
Gries highlights BRGE's position in Inditex. It has been underperforming the market, but the manager believes investors are underestimating the clothing company's potential earnings power. The consensus view is that as Inditex's online revenues become a larger percentage of the total,

margins are likely to come under pressure. However, Gries believes its online operations can deliver the same or better margins than the physical stores. The company is rationalising its store base and the remaining larger units can be used as fulfilment centres as customers buy online and pick-up in stores. This lowers capex requirements and offers the potential for impulse purchases. The manager believes Inditex can report improved margins and returns in the second half of 2018.

Performance: Improving investment track record

In the last 12 months, BRGE's NAV and share price total returns of 9.6% and 8.9% respectively are meaningfully ahead of the reference index's 4.3% total return (Exhibit 4).

Exhibit 4: Investment trust performance to 31 March 2018



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

Exhibit 5 shows BRGE's relative returns. Due to an improvement in investment performance following the appointment of Gries as co-manager, the trust's NAV total return is now outperforming the reference index over all periods shown (with the exception of the last month). Of interest to UK shareholders, BRGE has meaningfully outperformed the FTSE All-Share index over one, three, five and 10 years in both NAV and share price terms.

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

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to FTSE World Europe ex-UK	(0.1)	(1.3)	2.3	4.4	1.1	(0.4)	29.8
NAV relative to FTSE World Europe ex-UK	(0.4)	0.7	2.7	5.1	5.7	1.3	29.5
Price relative to FTSE All-Share	(1.5)	1.0	0.2	7.5	8.9	16.6	26.4
NAV relative to FTSE All-Share	(1.9)	3.1	0.6	8.3	13.8	18.6	26.1
Price relative to FTSE World	0.4	(1.6)	(2.4)	6.2	(5.2)	(8.0)	(8.0)
NAV relative to FTSE World	0.1	0.5	(2.0)	6.9	(0.9)	(6.4)	(8.2)

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-March 2018. Geometric calculation.

Exhibit 6: NAV total return performance relative to reference index over three years



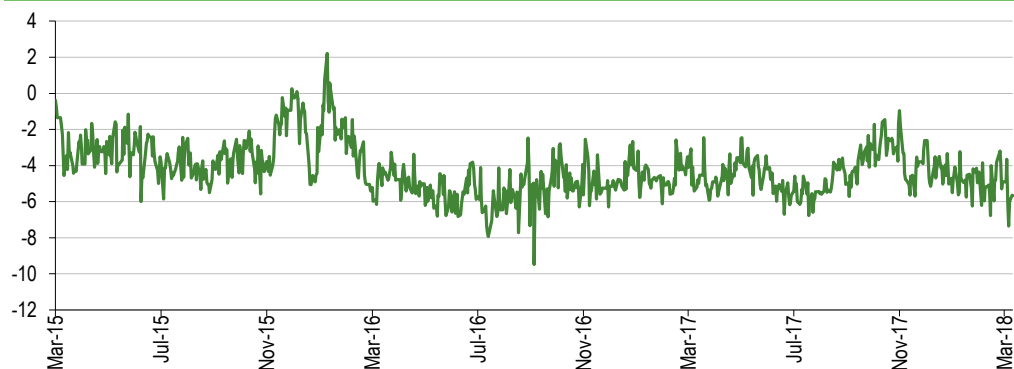
Source: Thomson Datastream, Edison Investment Research

As shown in Exhibit 6, there has been a significant improvement in BRGE's relative performance since mid-June 2017. The manager says this is attributable to successful stock picking, and notes that the trust has benefited both from portfolio companies such as Dutch semiconductor equipment company ASML and French luxury goods company Kering, and from not owning large reference index stocks such as Nestlé and Roche. Holdings in emerging European companies have also added to performance, including Russian bank Sberbank and Israeli generic drug manufacturer Teva Pharmaceutical Industries. Having experienced poor returns for a decade, emerging European stocks performed very strongly in 2017. However, valuations remain relatively attractive compared with the rest of Europe, dividend yields are higher and emerging companies offer the potential for higher growth than more mature European companies.

Discount: Shares trade within a narrow band

As shown in Exhibit 7, over the last three years there have been periods when BRGE has traded at a modest premium to NAV. However, the shares generally trade in a narrow band of a 2% to 6% discount. The current 5.7% share price discount to cum-income NAV is wider than the averages of the last one, three, five and 10 years of 4.5%, 4.2%, 4.0% and 4.5% respectively. On 1 December 2017, BRGE announced the results of its latest tender offer for up to 20% of its ordinary shares in issue. The offer was undersubscribed; only 6.81% of shares were tendered at a price of 333.76p. On 26 March 2018 there was an announcement of another tender offer for up to 20% of ordinary shares in issue (excluding treasury shares), to be held on 31 May 2018.

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



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

BRGE has 88.8m ordinary shares in issue, with a further 21.5m held in treasury. The trust is permitted to gear up to 15% of NAV at the time of drawdown and has a £20m overdraft facility. Net gearing at end-February 2018 was 5.0%, which compares to a broad range since inception of c 15% gearing to c 10% net cash. Since 1 September 2015, BlackRock is paid an annual management fee of 0.85% of NAV and no performance fee is payable. In FY17, ongoing charges were 1.10%, which was a modest increase compared to 1.07% in FY16.

Dividend policy and record

BRGE's board adopts a progressive dividend policy; annual distributions have increased every year since the trust was launched in 2004. Historically, dividends were paid once a year, but since 2014,

they are paid twice a year in May and December. Over the last five years, ordinary dividends have compounded at a rate of 3.9% pa. In FY17, the 5.45p annual dividend was c 3% higher than in FY16 and was 98% covered by income. At end FY17, BRGE had distributable reserves of £10.6m, which is c 2.2x the last annual dividend. The trust is currently yielding 1.7%.

Peer group comparison

Exhibit 8 shows the eight members of the AIC Europe sector. BRGE has the second highest NAV total return over one year, is also above average over three years, and is broadly in line over 10 years, while trailing over five years. The trust has the joint-highest ongoing charge, an average level of gearing and, reflecting its objective for capital growth, it has a lower-than-average dividend yield. BRGE's discount to NAV is narrower than the peer group average and is within its typical range of a 2-6% discount.

Exhibit 8: AIC Europe peer group as at 11 April 2018*

% unless stated	Market cap (£m)	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (ex-par)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
BlackRock Greater Europe	281.9	9.2	31.4	65.6	131.7	(5.1)	1.1	No	105	1.7
European Investment	376.6	4.9	17.6	62.7	50.3	(9.9)	0.6	No	100	2.4
Fidelity European Values	871.9	7.3	26.1	63.6	104.0	(10.3)	0.9	No	113	2.1
Henderson European Focus Trust	267.7	2.4	24.2	77.5	150.7	(2.8)	0.9	Yes	100	2.4
Henderson EuroTrust	234.1	6.8	32.7	83.0	155.0	(5.9)	0.9	Yes	104	2.4
JPMorgan European Growth Pool	217.5	6.2	29.5	77.8	86.0	(11.7)	1.1	No	107	2.3
JPMorgan European Income Pool	158.2	6.2	30.7	89.6	140.5	(10.6)	1.1	No	107	3.7
Jupiter European Opportunities	799.2	10.8	35.2	90.3	237.6	(1.0)	1.0	Yes	100	0.9
Average	400.9	6.7	28.4	76.3	132.0	(7.2)	0.9		105	2.2
BRGE rank in sector (8 trusts)	4	2	3	6	5	3	1		4	7

Source: Morningstar, Edison Investment Research. Note: *Performance to 9 April 2018. TR=total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

The board

Following the retirement of Carol Ferguson at the December 2017 AGM, there are now four directors on the board of BRGE; all are non-executive and independent of the manager. Chairman Eric Sanderson was appointed in April 2013 and assumed his role following the November 2016 AGM. The other three directors and their dates of appointment are: Davina Curling (December 2011), Peter Baxter (April 2015), and Paola Subacchi (July 2017).

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