BlackRock Greater Europe Investment Trust

Exposure to niche, attractively valued companies

BlackRock Greater Europe Investment Trust (BRGE) has been co-managed by Stefan Gries since June 2017. Since then, there has been a marked improvement in the trust's investment performance. Gries is constructive on the prospects for the trust, suggesting it provides access to winning franchises in niche, attractively valued companies that 'just happen to be based in Europe'. In aggregate, BRGE's portfolio companies have a meaningfully higher return on capital and greater forecast earnings growth compared with the reference index (FTSE World Europe ex-UK), which the trust has outperformed over one, three, five and 10 years. It also offers exposure to the potentially higher-returning emerging markets in Europe.

Meaningful outperformance versus the FTSE World Europe ex-UK index since Gries became co-manager in June 2017

Source: Refinitiv, Edison Investment Research

The market opportunity

European equities have not kept pace with world markets over the last five years, and in recent quarters, there have been significant outflows of capital from the region. There are signs that European economic data are improving, and commentary from niche growth companies is encouraging, which may lead to better investor sentiment. This should be supportive for European equity markets; however, given average valuations are somewhat stretched, a selective approach may prove to be beneficial.

Why consider investing in BRGE?

- Exposure to high-quality, niche businesses trading at a discount to their estimated intrinsic value, in both developed and emerging European markets.
- Long-term record of outperformance versus the market and peers.
- Two experienced managers following a well-defined investment process, supported by BlackRock's well-resourced investment teams.

Discount in a relatively narrow range

BRGE's share price discount to cum-income NAV is generally in a relatively narrow range of c 2% to 6%. Its current 4.4% discount compares with the 4.3% to 4.8% range of average discounts over the last one, three, five and 10 years. The discount is actively managed via repurchases and discretionary semi-annual tender offers.

Investment trusts

European equities

24 May 2019

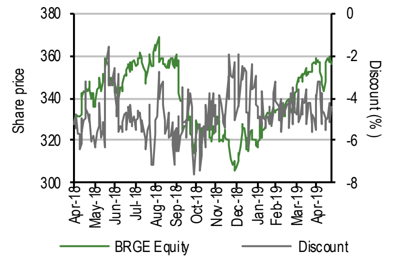
Price	**356.6p**
Market cap	**£303m**
AUM	**£324m**

NAV*	370.4p
Discount to NAV	3.8%
NAV**	372.8p
Discount to NAV	4.4%

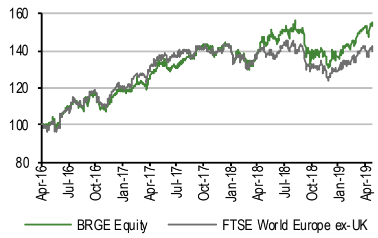
*Excluding income. **Including income. As at 23 May 2019.

Yield	1.6%
Ordinary shares in issue	85.0m
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	369.0p	306.0p
NAV** high/low	389.4p	317.2p

**Including income.

Gearing

Net*	3.1%

*As at 30 April 2019.

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Edison profile page

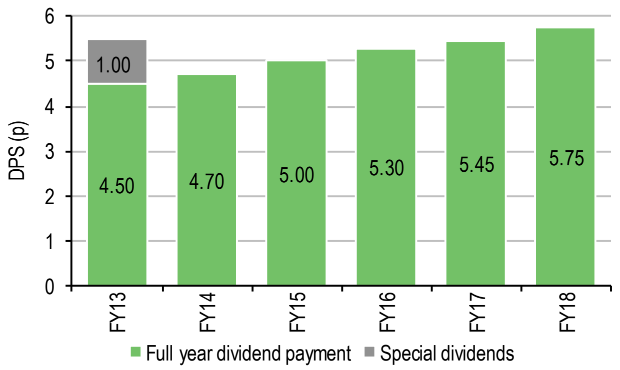
BlackRock Greater Europe Investment Trust is a research client of Edison Investment Research Limited

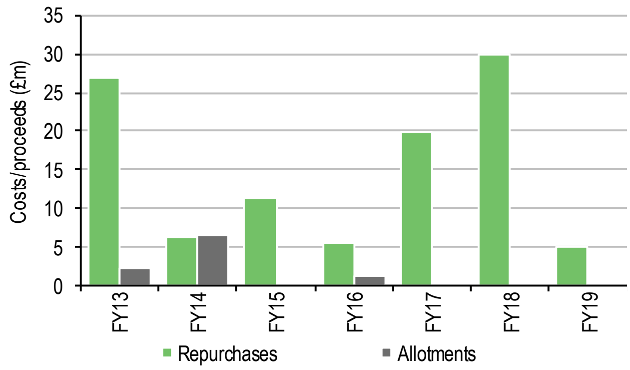
Exhibit 1: Trust at a glance

Investment objective and fund background	Recent developments
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).	■ 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%. ■ 25 March 2019: Board announced its decision not to implement a semi-annual tender in May 2019. ■ 3 December 2018: Results of tender offer – 1.0m ordinary shares (1.2% of shares in issue, excluding treasury shares) tendered at a price of 335.38p. ■ 24 October 2018: Annual results ending 31 August 2018. NAV TR +11.8% versus reference index TR +1.4%. Share price TR +12.5%.

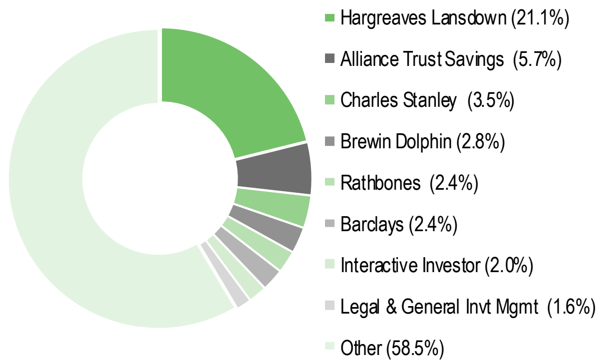
Forthcoming		Capital structure		Fund details	
AGM	November 2019	Ongoing charges	1.09%	Group	BlackRock Investment Mgmt (UK)
Final results	October 2019	Net gearing	3.1%	Managers	Stefan Gries, Sam Vecht
Year end	31 August	Annual mgmt fee	0.85%	Address	12 Throgmorton Avenue, London, EC2N 2DL
Dividend paid	May, December	Performance fee	None		
Launch date	20 September 2004	Trust life	Indefinite	Phone	+44 (0) 20 7743 3000
Continuation vote	None	Loan facilities	£20m overdraft facility	Website	blackrock.co.uk/brge

Dividend policy and history (financial years)	Share buyback policy and history (financial years)
BRGE pays two dividends a year in May and December. Ordinary dividends have increased every year since trust launch.	To help manage the discount, the board has the authority (alongside normal buyback powers) to implement a twice-yearly tender for up to 20% of shares outstanding, renewed annually.

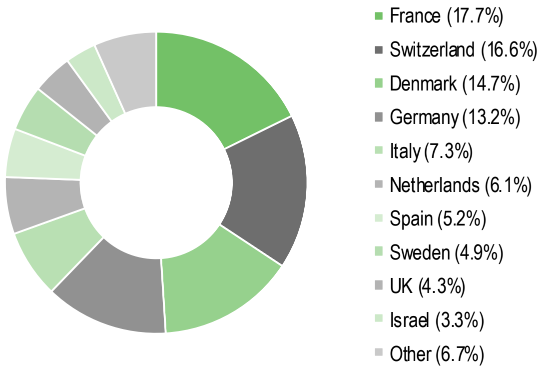




Shareholder base (as at 30 April 2019)



Portfolio exposure by geography (as at 30 April 2019)



Top 10 holdings (as at 30 April 2019)

			Portfolio weight %	
Company	**Country**	**Sector**	**30 April 2019**	**30 April 2018***
Safran	France	Aerospace & defence	6.4	4.6
SAP	Germany	Software & computer services	6.2	3.2
Novo Nordisk	Denmark	Pharmaceuticals & biotechnology	5.5	3.1
Sika	Switzerland	Construction & materials	5.4	N/A
DSV	Denmark	Industrial transportation	4.3	N/A
RELX	UK	Media	4.3	N/A
Lonza Group	Switzerland	Pharmaceuticals & biotechnology	4.1	4.4
ASML	Netherlands	Technology hardware & equipment	3.8	N/A
Kering	France	General retailers	3.5	N/A
Adidas	Germany	Personal goods	3.4	N/A
Top 10 (% of holdings)			**46.9**	**35.7**

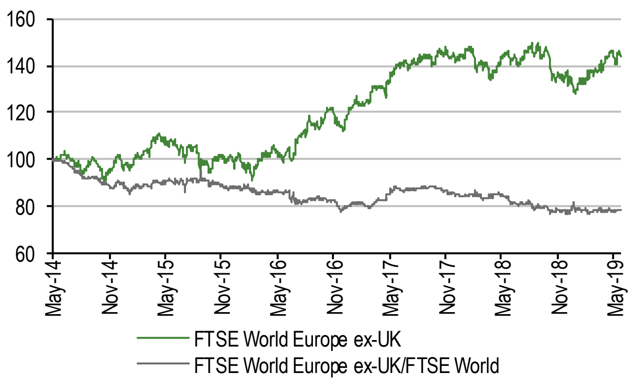
Source: BlackRock Greater Europe Investment Trust, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in end-April 2018 top 10.

Market outlook: Selectivity required after Q119 rally

European equities have trailed the performance of the FTSE World index over the last five years (Exhibit 2, left-hand side), which has been led by the dominant US market. So far this year, global equities (including in Europe) have rallied sharply, recovering from the Q418 sell-off, due to increased confidence in a resolution to the US-China trade dispute, and a more dovish stance by the US Federal Reserve. As a result, average equity valuations are once again looking somewhat stretched. On a forward P/E multiple basis, both European and global equities are trading at a c 5% premium to their 10-year average (Exhibit 2, right-hand side). This valuation backdrop, coupled with slowing corporate earnings growth, suggests that investors considering European exposure may be rewarded by focusing on companies with sustainable growth potential and which are trading on reasonable valuations.

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	12.8	15.5	7.3	12.2	105
UK	12.3	15.7	8.5	12.6	98
US	16.9	19.0	11.3	15.3	110
World	14.4	16.3	9.8	13.6	106
Dividend yield (%)					
Europe ex-UK	3.5	4.5	2.7	3.2	109
UK	4.2	4.8	2.7	3.4	122
US	2.0	2.4	1.7	2.0	100
World	2.6	3.4	2.2	2.6	103

Source: Refinitiv, Edison Investment Research. Note: Valuation data as at 23 May 2019.

Fund profile: Developed/emerging European exposure

BRGE was launched in September 2004. The trust has two co-managers: Stefan Gries (since June 2017), who focuses on developed European markets, and Sam Vecht (since launch), who focuses on emerging markets. The managers aim to generate long-term capital growth from a relatively concentrated portfolio of 35–45 European equities. They employ a bottom-up stock selection approach and invest across the market cap spectrum (although the majority of holdings are above €10bn). BRGE is not benchmarked against a particular index, but the FTSE World Europe ex-UK index is used as a reference. Up to 25% of the portfolio risk allocation may be held in emerging European markets (currently three holdings making up less than 5% of the portfolio), 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 (none currently held), and derivatives are permitted for efficient portfolio management. Gearing of up to 15% of NAV at the time of drawdown is permitted; at end-April 2019, net gearing was 3.1%.

The fund managers: Stefan Gries and Sam Vecht

The manager's view: Potential for improved investor sentiment

Gries comments that 2018 was an interesting year for investors; in Q118, there was optimism based on synchronised global economic growth – leading indicators were hitting new highs, including in Europe. The manager was not convinced by this rosy outlook and his view was borne out by the significant sell-off in world markets in Q418, when investors interpreted economic data as pointing to significant economic weakness. Gries stresses that he invests in companies on a stock-by-stock basis based on their earnings and cash flow potential, where these are not fully represented in a firm's current share price. He does not look to change the shape of BRGE's portfolio in order to anticipate stock market trends – for example, he did not buy in to the Q118 enthusiasm when financials were one of the outperforming sectors and he avoided the Q418 flight to safety, when there was wholesale buying of large-cap defensive companies such as Nestlé, Novartis and Roche.

The manager explains that the message he is receiving when meeting companies is that it is 'business as usual'. In late November/early December 2018, freight forwarder DSV noted business was slowing, but not significantly, while speciality chemical distributor IMCD has reported that its business is on track. Gries believes that European economic growth will be lower this year than last, but he does not expect a recession. He says this view has been confirmed by recent economic data, which having weakened, are now starting to improve. There is evidence that Chinese stimulus is working and European chemical companies are reporting that Q219 volumes are picking up. The manager believes that a stabilisation in the macro environment would be good news for Europe, which has been meaningfully out of favour with investors. He notes that in 2018, Europe experienced significant outflows of capital, which have continued in 2019, so a change in investor sentiment would be very supportive for the European stock market.

Asset allocation

Investment process: Diligent, bottom-up stock selection

Co-managers Gries and Vecht are able to draw on the broad resources of BlackRock's European and emerging markets investment teams, aiming to generate long-term capital growth from a relatively concentrated portfolio of 35–45 European equities selected from an investible universe of c 2,000 companies. Valuation is considered on a stock-by-stock basis with a three- to five-year view. The managers consider the trajectory of a company's earnings and cash flow, and look for situations where improving returns are not being reflected in the current stock price.

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. Companies considered for investment undergo thorough fundamental analysis, which includes financial modelling and the compilation of a standard template. This provides a pipeline of potential investments. Meeting company management is a key element of the research process; the teams conduct c 1,000 meetings each year. Positions may be sold if the original buy thesis no longer holds true, if the investment case has played out (meaning a lack of further upside), or if a superior investment opportunity is identified.

Investment performance has improved since Gries became co-manager in June 2017. He has tightened up the investment process by strengthening the investment philosophy, moving to higher-conviction positions, delivering alpha (excess returns) more effectively, and opportunistic use of the investment trust toolkit, which includes the use of gearing.

Current portfolio positioning

As shown in Exhibit 1, the trust's top 10 concentration has increased over the last 12 months from 35.7% at end-April 2018 to 46.9% at end- April 2019; four positions were common to both periods. Exhibit 3 shows BRGE's breakdown by sector, compared with the FTSE World Europe ex-UK index. Its largest overweight is to industrials which includes the trust's largest position, Safran, the market leader in narrow-body aircraft engines. The company has a very large installed base for its high-margin maintenance, repair and overhaul operations. Safran has provided earnings guidance as far out as 2025, which Gries believes is not being fully valued in the company's current stock price. BRGE also has overweight exposure to the technology, healthcare (mainly medtech rather than pharma) and consumer services sectors. The trust has no exposure to the oil & gas and utility sectors, which together make up c 10% of the reference index. Over the last 12 months to end-April 2019, the largest changes in sector exposure are technology (+9.1pp), financials (-4.2pp) and industrials (-2.6pp).

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

	Portfolio end-April 2019	Portfolio end-April 2018	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Industrials	30.4	33.0	(2.6)	15.6	14.9	2.0
Healthcare	19.6	17.5	2.1	14.4	5.2	1.4
Technology	17.5	8.4	9.1	6.5	11.0	2.7
Consumer goods	10.7	11.7	(0.9)	19.9	(9.1)	0.5
Financials	8.3	12.5	(4.2)	21.0	(12.8)	0.4
Consumer services	7.9	9.8	(1.9)	4.4	3.5	1.8
Basic materials	4.0	3.5	0.5	5.4	(1.4)	0.7
Telecommunications	1.7	1.9	(0.2)	3.2	(1.5)	0.5
Oil & gas	0.0	1.8	(1.8)	5.1	(5.1)	0.0
Utilities	0.0	0.0	0.0	4.5	(4.5)	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.

The manager highlights one of BRGE's relatively new positions. DiaSorin is one of the most profitable diagnostic/medtech companies in the world, producing and marketing in-vitro diagnostics (IVD) reagent kits used in immunodiagnostics and molecular diagnostics. The company operates in an oligopolistic market with a razor/razorblade model (selling modestly priced machinery and high-margin consumable products). Gries says that DiaSorin is rolling out a range of new IVD testing machines that have the potential to be game-changing, with smaller units allowing cheaper tests to be undertaken within a hospital rather than a laboratory environment. The company also has a joint venture with US-based QIAGEN, which the manager thinks has good growth potential. He is looking for a reacceleration in DiaSorin's sales growth, which he believes can be sustained for at least the next three to five years. The manager says that the company ticks the four key boxes: a quality management team, operating in a growing market, generating a high return on capital and robust levels of free cash flow, allowing investment in future growth. Gries argues that DiaSorin is under-researched and is an example of how BlackRock's well-resourced investment team can unearth undervalued stocks that have good investment potential.

Recent complete disposals include Eiffage, Inditex and Volvo. Gries holds a position in French construction firm Vinci, which is favoured over peer company Eiffage; the manager says that there is always competition for capital in the fund, and each holding must warrant its place. He explains that the research template is just the start of the investment process; Gries and his team 'keep the plates spinning' by continuing to add to their knowledge of investee companies.

While acknowledging that Inditex is the best operator in the fast fashion sector, Gries says the industry is changing and has become more competitive, with a lack of pricing power. The company's like-for-like sales have been disappointing and the shift to online operations has brought into question the future of its bricks and mortar assets. Gries also notes that the global nature of Inditex's operations leads to earnings and cash flow volatility due to currency moves, making it more problematic to forecast the company's results.

Volvo was sold for cyclical reasons. While the manager thinks that the company's management team has executed well, he says the truck industry, particularly in the key US market, has peaked.

Performance: Building on positive record

Exhibit 4: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	FTSE World Europe ex-UK (%)	FTSE All-Share (%)	FTSE World (%)
30/04/15	6.5	8.1	7.0	7.5	18.0
30/04/16	(1.6)	0.2	(3.9)	(5.7)	0.5
30/04/17	25.1	25.2	28.8	20.1	31.0
30/04/18	10.8	11.2	7.4	8.2	7.5
30/04/19	11.0	9.3	2.5	2.6	11.7

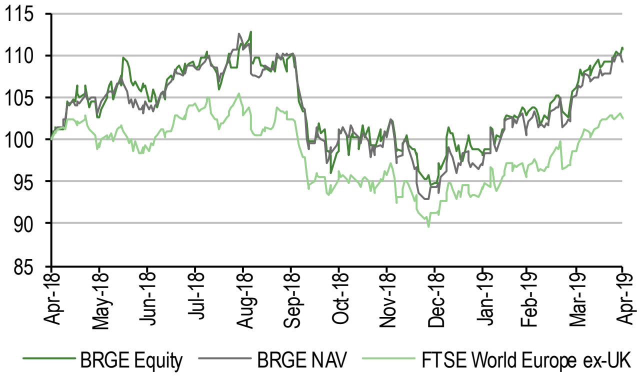
Source: Refinitiv. Note: All % on a total return basis in pounds sterling.

BRGE has had a strong period of performance over the last 12 months. Its NAV and share price total returns of 9.3% and 11.0% respectively are well ahead of the FTSE Europe ex-UK's index total return of 2.5%. Gries comments that the majority of this outperformance is due to stock selection rather than geographic and sector allocation. He is encouraged that a "diversified stream of alpha" has been generated across a range of countries and industries by following an investment process that focuses on companies that can over-deliver on earnings and cash flow, and where the business strength is not fully reflected in current consensus estimates.

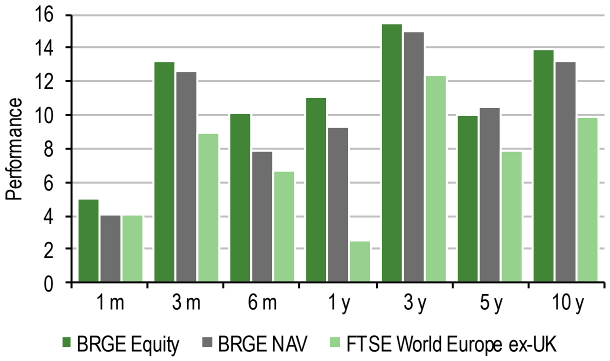
Top contributors to performance over the past year include French aircraft engine manufacturer Safran, Swiss chemical and biotechnology firm Lonza, and Danish pharma company Novo Nordisk. Gries comments that BRGE underperformed in Q418 when there was a flight to safety; the trust has no holdings in some of the large defensive index names including Nestlé, Novartis and Roche. The manager believes that these companies have not over-delivered, but instead have become more expensive and therefore do not offer a compelling investment case. He comments that you "need to own businesses for the right reasons." There were also a few positions that detracted from performance over the last year, such as Danish financial company Danske Bank, which was caught up in a money laundering case in Estonia and is facing a fine from US regulators. The manager and his team remain close to the situation and will continue to evaluate the potential for Danske Bank's shares in light of new information.

Exhibit 5: Investment trust performance to 30 April 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.

Exhibit 6 shows BRGE's relative returns. Its NAV and share price total returns are above those of the reference index over one, three, five and 10 years. The trust has also outperformed the FTSE All-Share index over these periods. BRGE has broadly kept pace with the performance of the FTSE World index over the last decade, although it has lagged in NAV and share price terms over one, three and five years, which have been characterised by the strong performance of the US stock market (the US makes up c 60% of the world index).

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	0.9	4.0	3.3	8.3	8.5	10.6	42.3
NAV relative to FTSE World Europe ex-UK	0.0	3.5	1.2	6.6	7.2	12.9	33.6
Price relative to FTSE All-Share	2.2	5.0	3.5	8.2	15.4	19.4	36.8
NAV relative to FTSE All-Share	1.3	4.5	1.4	6.5	14.1	21.9	28.4
Price relative to FTSE World	1.4	4.3	3.1	(0.6)	(2.1)	(13.4)	5.5
NAV relative to FTSE World	0.6	3.7	1.0	(2.1)	(3.3)	(11.7)	(1.0)

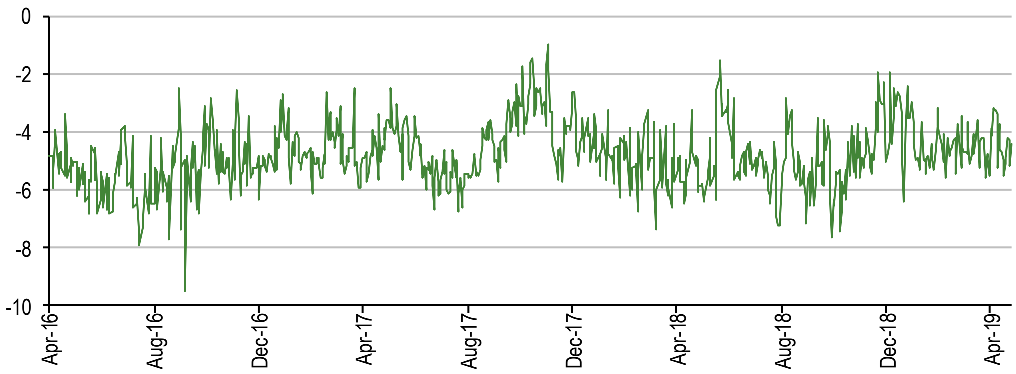
Source: Refinitiv, Edison Investment Research. Note: Data to end-April 2019. Geometric calculation.

Discount: Trades within a narrow range

BRGE's shares generally trade within a fairly narrow range relative to its NAV (Exhibit 7). Its current 4.4% share price discount to cum-income NAV compares with the 1.5% to 7.6% range of discounts over the last 12 months. It is broadly in line with the 4.3% to 4.8% range of average discounts over the last one, three, five and 10 years.

The board actively manages the discount via periodic repurchases and discretionary semi-annual tender offers for up to 20% of shares outstanding. So far in FY19, 1.4m shares (1.7% of the end-FY18 share base) have been repurchased at a cost of £4.9m. On 25 March 2019, the board announced its decision not to implement a semi-annual tender in May 2019.

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



Source: Refinitiv, Edison Investment Research

Capital structure and fees

Following the final conversion of subscription shares in FY16, BRGE is a conventional investment trust with one class of share – 85.0m ordinary shares in issue, with a further 25.4m 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-April 2019 was 3.1% (broad range since inception of c 15% gearing to c 10% net cash). BlackRock is paid an annual management fee of 0.85% of NAV and no performance fee is payable. In FY18, ongoing charges were 1.09%, which was a modest 1bp lower compared to 1.10% in FY17.

Dividend policy and record

BRGE has a progressive dividend policy, with annual distributions increasing every year since the trust was launched in 2004. Since 2014, dividends have been paid twice a year in May and December, rather than a single annual payment. The 5.75p (1.0x covered) FY18 total distribution was up 5.5% year-on-year, which is greater than the 5.0% compound annual growth rate over the last five years. At end-FY18, BRGE had distributable reserves of £10.9m, which is c 2.2x the last annual dividend. The trust currently offers a 1.6% dividend yield.

Peer group comparison

In Exhibit 8, we show the eight constituents of the AIC Europe sector. BRGE's investment performance is above average over all periods shown, ranking third over one year (4.9pp higher than average), third over three years (+7.0pp), third over five years (+7.5pp) and second over 10 years (+9.6pp). The trust has the second-narrowest discount in the group, where none of the funds trade at a premium. BRGE has the highest ongoing charge in the sector, but in common with the majority of its peers does not charge a performance fee. Its level of gearing is broadly average, and befitting its focus on capital growth, BRGE has a below-average dividend yield.

Exhibit 8: AIC Europe peer group as at 22 May 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	305.9	4.7	53.4	65.6	243.0	(4.8)	1.1	No	103	1.6
European Investment Trust	320.3	(11.3)	33.7	20.3	120.9	(13.0)	0.6	No	100	3.4
Fidelity European Values	979.3	5.7	56.3	70.0	198.3	(8.6)	0.9	No	106	2.6
Henderson European Focus Trust	256.9	(0.7)	40.7	52.6	223.4	(9.8)	0.8	No	101	2.6
Henderson EuroTrust	231.5	(0.4)	45.3	59.7	216.9	(9.8)	0.8	No	103	2.8
JPMorgan European Growth Pool	200.3	(3.9)	39.1	46.9	177.7	(13.8)	1.0	No	105	3.2
JPMorgan European Income Pool	149.9	(2.3)	46.9	55.6	222.1	(12.5)	1.0	No	106	4.2
Jupiter European Opportunities	945.3	6.6	55.8	94.1	464.7	(0.9)	0.9	Yes	106	0.8
Average	**423.7**	**(0.2)**	**46.4**	**58.1**	**233.4**	**(9.2)**	**0.9**		**104**	**2.6**
BRGE rank in sector (8 trusts)	**4**	**3**	**3**	**3**	**2**	**2**	**1**		**5**	**7**

Source: Morningstar, Edison Investment Research. Note: *Performance to 21 May 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 has a relatively small board with four directors, all of whom are non-executive and independent of the manager. The chairman is Eric Sanderson, who joined the board in April 2013 and assumed his current role following the November 2016 AGM. The three other directors and their dates of appointment are: Davina Curling (December 2011), Peter Baxter (April 2015) and Paola Subacchi (July 2017).

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