

BlackRock Greater Europe Investment Trust

Evidence of a successful investment process

Investment trusts
European equities

BlackRock Greater Europe Investment Trust (BRGE) has two co-managers: Stefan Gries (since June 2017, developed Europe – c 90% of the fund) and Sam Vecht (since launch in September 2004, emerging Europe – c 10% of the fund). This note focuses on a recent webinar with Gries where he discussed BRGE's investment strategy, the fund's 2020 performance and his outlook for Europe and the trust's prospects. For more information about BRGE please see our latest [review](#), published on 19 November 2020.

Navigating a volatile market – NAV ahead of the benchmark (last 12 months)



Source: Refinitiv, Edison Investment Research

Why consider BRGE now?

As the COVID-19 vaccine rollout gains momentum, there could be a significant rebound in the global economy. European companies also should benefit from this as around 60% of their revenues are generated outside of the area. Gries is bullish on the outlook for European equities given the unprecedented fiscal and monetary support in the region, his view is that Europe is at the beginning of a new economic cycle, and there is increased solidarity and political stability. BRGE's managers have demonstrated that the trust's investment philosophy and process can deliver above-average returns for investors, helped by the active use of gearing (ranging from a c 10% net gearing to a c 9% net cash position over the last 12 months).

The analyst's view

- BRGE offers a diversified portfolio of high-quality European equities across both developed and emerging markets for investors wishing to gain exposure to the region.
- Investment performance has been strong. BRGE has delivered annualised NAV and share price total returns of 11.7% and 12.4% respectively over the last decade (benchmark total return of 6.9% pa). Over the 12 months to end-February 2021, the trust's NAV and share price total returns of 40.9% and 34.5% respectively were considerably ahead of the benchmark's 13.4% total return. BRGE's NAV performance ranks first versus its seven peers in the AIC Europe sector over the last three and five years.
- BRGE now regularly trades at a premium and there were no share repurchases in 2020, illustrating underlying demand for the trust.

16 March 2021

Price	539.0p
Market cap	£462m
AUM	£455m
NAV*	526.4p
Premium to NAV	2.4%
NAV**	526.9p
Premium to NAV	2.3%

*Excluding income. **Including income. As at 12 March 2021.

Yield	1.1%
Shares in issue	85.8m
Code	BRGE
Primary exchange	LSE
AIC sector	Europe
52-week high/low	566.0p / 280.0p
NAV* high/low	550.0p / 307.3p

*Including income.

Gearing

Net*	8.0%
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As at 31 January 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

- Investment in businesses, not trading in shares.
- Long-term NAV and share price outperformance versus the benchmark.
- Experienced manager and well-resourced investment team.

Bear points

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

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The manager's view: A successful investment process

Gries reminds us that the strategy for BRGE is to achieve long-term capital growth in excess of the European stock market. Selected from an investible universe of more than 2,000 companies, the trust's portfolio is made up of 35–40 'compelling investment opportunities.' BRGE's relatively concentrated fund is high conviction with a high active share. The manager focuses on companies' end market and income streams, to determine 'whether we can own this asset for the next three to five years, and if so, why?' He seeks to understand how a firm will generate value and what its return profile will be, and has four primary investment criteria:

- quality management – a team with a clearly defined strategy and a track record in value creation;
- predictability – businesses with a high and predictable return on capital and strong free cash flow conversion;
- investment in growth – an option to deploy cash in areas of high and sustainable returns; and
- a unique aspect – a product, brand or contract that shield a business and allows for sustainable returns.

Given the market volatility in 2020, Gries comments that 'an investor could have made many mistakes unless they were clear in their own mind what they were trying to achieve.' He notes that many portfolio companies have excelled during the global healthcare pandemic by cutting costs and winning additional business. The manager focuses on long-duration income streams in areas including life sciences, electric vehicle components, increased digitisation and higher demand in emerging markets. Gries says that when the coronavirus-led market sell-off occurred in March and April 2020, he assessed the impact that COVID-19 was likely to have on portfolio companies and whether their original investment theses had changed. He was not distracted by negative headlines and continued to focus on the long-term fundamentals of businesses invested in. The manager comments that the trust's holdings could be classified in one of three ways: those operations that were resilient; companies that were direct beneficiaries of the pandemic; and those that were directly negatively affected by lockdowns and travel restrictions. BRGE outperformed the market and its peers in 2020, which he says shows the importance of an active approach when investing in European equities, by employing a long-term approach of 'investing in businesses rather than trading in shares', and illustrates that its philosophy and process is working.

Gries's view of the world is formed by bottom-up analysis and he reports that 2020 was a record in terms of company meetings (the manager and his team undertook c 2,000). He suggests that now is an opportune time to invest in European equities as there is unprecedented fiscal and monetary support; the manager believes that Europe is at the beginning of a new economic cycle. As examples of a cyclical recovery: there is a shortage of semiconductors leading to higher pricing and the demand outlook is strong; freight rates are increasing and there is a shortage of shipping containers, which Gries says 'is unheard of'; and there is high demand for luxury goods. The manager notes that European companies generate c 60% of their revenues outside of the region, so they are geared to a global economic recovery and he believes that the €750bn EU recovery fund is a game changer. Hence his positive view on Europe is predicated on cyclical tailwinds, a global economic recovery and structural change due to the solidarity and political stability in the region. Gries suggests that this backdrop provides the potential for the European economy to become more competitive over time. The manager highlights that the majority (80%) of the EU recovery fund will be channelled towards climate initiatives and digital transition. He says that Q420 subsidies for electric vehicles have been increased and extended, and the market penetration of these vehicles is already at levels previously anticipated for the middle of this decade.

'There are plenty of parts of the market that are not generating long-term value' suggests Gries. As an example, he does not have any exposure to the major energy companies as they are dependent on commodity prices and are capital intensive, leading to volatility in their earnings and cash flows. The manager suggests that these firms are moving into renewable energy businesses, which could lead to a misallocation of capital if they overbid for renewables assets. Gries says that once winning franchises with positive long-term fundamentals have been identified it is important to size the portfolio position correctly and invest for the long term to allow value to be created. The manager is confident in the medium- and long-term potential of BRGE's portfolio and opines that the outlook for the fund is very strong from an earnings and cash flow perspective.

Gries' unconstrained bottom-up investment approach is shown in Exhibit 1 as some of BRGE's sector weightings are meaningfully different to those of the reference index. The biggest overweight is technology (+15.5pp) and this sector saw the largest increase in exposure in the 12 months to end-January 2021 (+6.2pp). There are two sectors where the fund has no exposure (utilities – 5.1pp of the index and telecoms – 2.8pp of the index), while the largest underweight positions are financials (-11.1pp) and consumer goods (-7.8pp).

Exhibit 1: Portfolio sector exposure vs reference index (% unless stated)

	Portfolio end-January 2021	Portfolio end-January 2020	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/index weight (x)
Technology	25.0	18.8	6.2	9.5	15.5	2.6
Industrials	23.6	19.7	3.9	17.5	6.0	1.3
Healthcare	17.0	19.4	(2.4)	15.9	1.1	1.1
Consumer goods	10.1	15.3	(5.2)	17.9	(7.8)	0.6
Consumer services	10.0	9.8	0.2	4.6	5.4	2.2
Financials	6.0	9.3	(3.3)	17.1	(11.1)	0.4
Oil & gas	4.5	1.6	2.9	4.1	0.4	1.1
Basic materials	3.9	3.1	0.8	5.6	(1.7)	0.7
Telecommunications	0.0	3.1	(3.1)	2.8	(2.8)	0.0
Utilities	0.0	0.0	0.0	5.1	(5.1)	0.0
Total	100.0	100.0		100.0		

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

Performance: Long-term outperformance

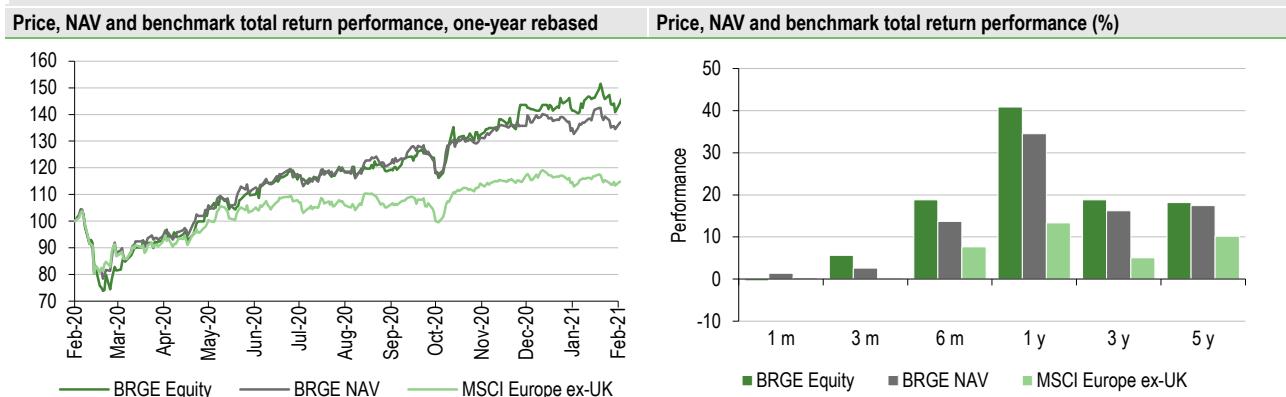
Exhibit 2: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	MSCI Europe ex-UK (%)	CBOE UK All Companies (%)	MSCI World (%)
28/02/17	16.8	21.6	26.3	23.7	36.6
28/02/18	17.6	17.1	10.9	4.4	6.6
28/02/19	3.0	1.7	(3.3)	1.6	4.6
29/02/20	15.6	14.9	5.9	(2.1)	9.6
28/02/21	40.9	34.5	13.4	2.8	18.8

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

Gries highlights that BRGE's investments are across a wide range of sectors. He reports that 85% of the fund's meaningful outperformance in 2020 was driven by strong stock selection, with alpha generated across very different end markets. The largest positive contributor to performance was chemicals and biotechnology firm Lonza Group, helped by its 10-year agreement with COVID-19 vaccine developer Moderna. DSV Panalpina was another top 10 contributor whose business showed great resilience last year. It is a leading freight forwarder whose revenues are linked to global trade volumes; while Q220 was the worst quarter for global trade since World War II, DSV's operating profits grew by more than 60% year-on-year helped by cost cutting. This is an example of a company with a strong culture and management team executing a well-defined strategy, which holds true for BRGE's other top contributors to the fund's positive performance in 2020.

The largest negative contributors to the trust's performance in 2020 were those companies that were heavily negatively affected by travel restrictions and lockdowns such as Safran, which is a manufacturer of narrow-body aircraft engines. Another top 10 detractor was Grifols, whose plasma collection business was negatively affected by stay-at-home measures due to COVID-19; however, its management team has aggressively cut costs and Gries expects its business to emerge with a stronger market position.

Exhibit 3: Investment trust performance to 28 February 2021


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

Exhibit 4: 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	(0.7)	5.3	10.4	24.3	44.5	41.6	64.5
NAV relative to MSCI Europe ex-UK	1.1	2.3	5.6	18.6	35.3	37.5	54.6
Price relative to CBOE UK All Companies	(2.5)	0.8	6.1	37.1	64.1	74.5	88.9
NAV relative to CBOE UK All Companies	(0.7)	(2.0)	1.5	30.9	53.6	69.4	77.6
Price relative to MSCI World	(1.1)	4.4	10.9	18.6	23.2	16.2	6.3
NAV relative to MSCI World	0.6	1.4	6.1	13.2	15.4	12.8	(0.1)

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

Exhibit 5: NAV total return performance relative to MSCI Europe ex-UK over five years – Gries became co-manager of BRGE in June 2017


Peer group comparison

BRGE is a member of the AIC Europe sector. Its performance has improved meaningfully since the appointment of Gries as co-manager in June 2017; the trust's net asset value (NAV) total returns (net of fees) rank first or second over all periods shown in Exhibit 6. BRGE's performance over three years is 20.5% higher than its closest peer. Over the last 12 months Baillie Gifford European Growth is the top performing fund and has benefited from its exposure to highly valued technology

stocks but may fare less well with a change in market leadership. BRGE is currently one of two peers trading at a premium, illustrating high demand for the company's shares, and it has the third-highest ongoing charge and the fourth-highest level of gearing. With its focus on capital growth, unsurprisingly the trust has a dividend yield that is below the mean.

Exhibit 6: AIC Europe peer group as at 15 March 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	462.2	69.9	60.3	124.0	213.2	2.0	1.0	No	108	1.1
Baillie Gifford European Growth	503.1	85.0	39.7	103.0	150.3	2.0	0.4	No	107	2.5
European Opportunities Trust	750.7	19.5	8.5	49.3	188.8	(11.5)	1.0	No	111	0.5
Fidelity European Trust	1,135.6	39.1	30.4	85.5	166.8	(7.1)	0.9	No	114	2.3
Henderson European Focus Trust	307.4	54.6	28.4	79.8	204.0	(10.2)	0.8	No	100	2.2
Henderson EuroTrust	304.0	58.3	39.8	99.4	220.3	(8.7)	0.8	No	103	1.7
JPMorgan European Growth Pool	234.5	49.3	12.5	60.5	123.0	(10.6)	1.0	No	108	1.4
JPMorgan European Income Pool	121.0	35.7	2.7	46.8	128.1	(10.4)	1.0	No	112	4.8
Average	477.3	51.4	27.8	81.0	174.3	(6.8)	0.9		108	2.1
BRGE rank in sector (8 trusts)	4	2	1	1	2	2	3		4	7

Source: Morningstar, Edison Investment Research. Note: *Performance to 12 March 2021 based on ex-par NAV. TR: total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

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