EDISON

European Assets Trust

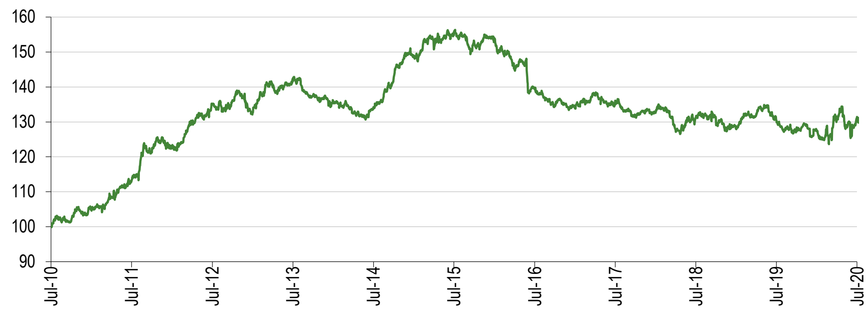
High-yielding outperformer focused on growth

Investment trusts
European smaller companies

28 August 2020

European Assets Trust (EAT) aims to generate long-term capital growth by investing in a concentrated but diversified portfolio of small- and medium-sized European companies. Managers Sam Cosh and Lucy Morris have seized the opportunity created by the Q1 market sell-off to enhance the quality and growth characteristics of the portfolio. Recent performance shows that their actions are already paying off and they are confident that EAT has the ability to keep delivering solid returns to investors not just short-term, but also over the long-term. EAT's high payout policy and a recent fee reduction have the potential to enhance its investor appeal.

NAV total return performance relative to benchmark over 10 years



Source: Refinitiv, Edison Investment Research

The market opportunity

Investors seem confident that the European economy will continue to gather momentum after the Q1 sell-off, although persistent health, economic and political risks have the potential to spark renewed financial market volatility in coming months. However, European stock valuations appear attractive on several measures, suggesting that investors seeking exposure to European equities and diversification away from the UK may find value at current market levels.

Why consider investing in European Assets Trust?

- Solid absolute returns over most periods shown on page 8 and long-term performance ahead of the benchmark and the UK market.
- Board commitment to a high dividend payout policy.
- A recently reduced management fee.

Historically wide discount has scope to narrow

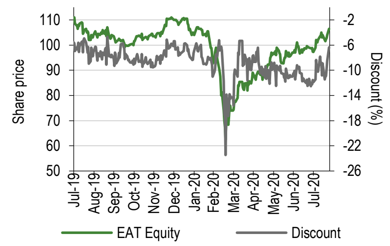
EAT's shares are currently trading at a 6.3% discount to cum-income NAV. This compares to an average of 8.7% over the past year, and averages of 5.3%, 3.9% and 4.8% over three, five and 10 years respectively. The board is committed to managing the volatility of the discount. It believes that the migration of the trust to the UK in March 2019 will broaden its investor base and combined with the high dividend payout policy and a recent fee reduction, may help EAT's discount return to its narrower historical levels over time.

Price	**106.5p**
Market cap	**£383.5m**
AUM	**£415.8m**
NAV*	115.5p
Discount to NAV	6.3%

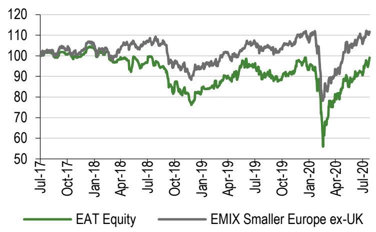
*Including income. As at 24 August 2020.

Yield	6.8%
Ordinary shares in issue	360.0m
Code	EAT
Primary exchange	LSE
AIC sector	European Smaller Companies
Benchmark	EMIX Smaller Europe ex-UK

Share price/discount performance



Three-year performance vs index



52-week high/low	111.0p	62.4p
NAV** high/low	119.0p	81.3p

**Including income.

Gearing

Gross*	2.1%
Net*	2.1%

*As at 31 July 2020.

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Edison profile page

European Assets Trust is a research client of Edison Investment Research Limited

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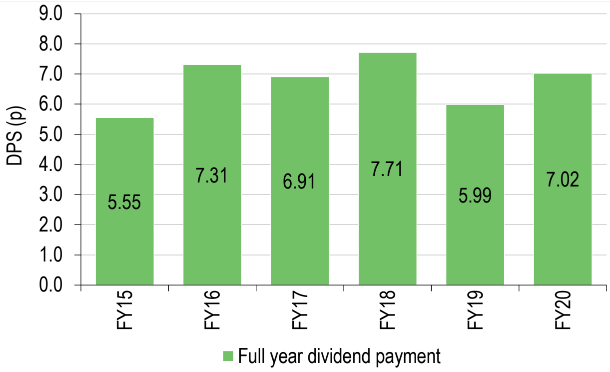
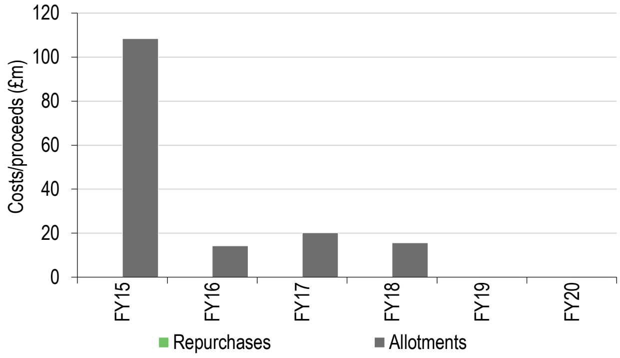
Exhibit 1: Trust at a glance

Investment objective and fund background	Recent developments
European Assets Trust was launched as a Dutch company in 1972 and was previously dual listed on the LSE and Euronext Amsterdam exchanges. The trust formally migrated from the Netherlands to the UK on 16 March 2019. It targets capital growth through investment in quoted small- and medium-sized companies in Europe (ex-UK), using the EMIX Smaller Europe ex-UK Index as a benchmark	■ 10 August 2020: H120 report confirms that a dividend of 1.755p will be paid in October 2020, taking total annual dividend payments for 2020 to 7.020p (6% of NAV as at end December 2019). ■ 10 August 2020: H120 results show NAV and share price TR of 3.5% and -8.6% respectively for the same period ended 30 June 2020, versus an index return of -3.5%.

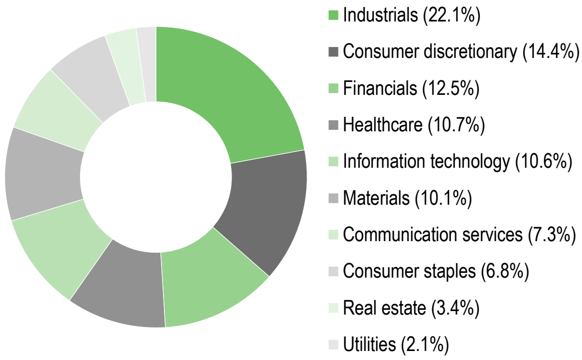
Forthcoming		Capital structure		Fund details	
AGM	May 2021	Ongoing charges	0.98%, estimated for 2020	Group	BMO Global Asset Mgt (formerly F&C)
Annual results	March 2021	Net gearing	2.1%	Manager	Sam Cosh
Year end	31 December	Annual mgmt fee	See page 9	Address	Exchange House, Primrose Street,
Dividend paid	Quarterly	Performance fee	None		London, EC2A 2NY
Launch date	1972	Trust life	Indefinite	Phone	+44 (0)800 136420
Continuation vote	None	Loan facilities	€45m with RBSI	Website	bmogam.com/european-assets-trust

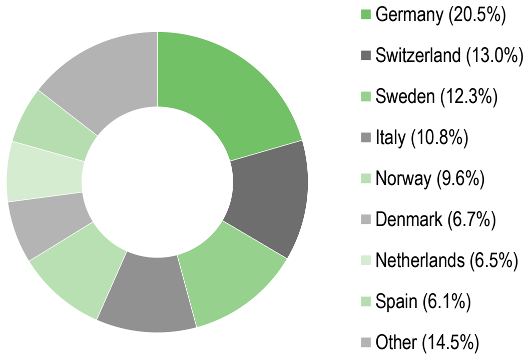
Dividend policy and history	Share buyback policy and history
The board targets a distribution of 6% of NAV as at the end of the preceding year, normally payable in January, April, July and October. With effect from 1 January 2020, the trust declares its dividend in sterling. Previously, it was declared in euros.	EAT is authorised to both repurchase and allot its ordinary shares. The chart of buybacks and issuance excludes shares issued as scrip dividends.





Portfolio exposure by sector (as at 31 July 2020)	Portfolio exposure by geography (as at 31 July 2020)





Top 10 holdings (as at 31 July 2020)

			Portfolio weight %	
Company	**Country**	**Sector**	**31 July 2020**	**31 July 2019***
Vidrala	Spain	Glass bottle manufacturer	3.9	3.7
Gerresheimer	Germany	Pharmaceutical packaging	3.9	4.3
Scout24	Germany	Online marketplace	3.2	N/A
SimCorp	Denmark	Financial software	3.0	N/A
Ringkøbing Landbobank	Denmark	Regional bank	3.0	3.9
Royal Unibrew	Denmark	Consumer goods	2.9	N/A
Tecan Group	Switzerland	Healthcare laboratory instruments	2.9	3.8
IMCD	Netherlands	Chemicals	2.9	4.6
Wizz Air	UK	Low-cost airline	2.8	3.6
Just Eat Takeaway.com	Netherlands	Online food service provider	2.6	N/A
Top 10 (% of portfolio)			**31.1**	**32.2**

Source: EAT, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in end-31 July 2019 top 10. Figures subject to rounding.

Market outlook: Long-term valuations are supportive

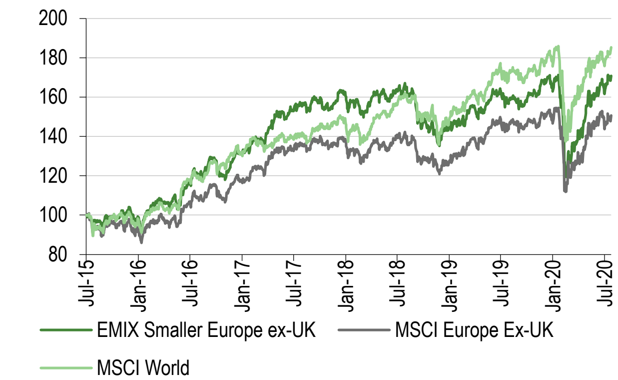
The European economy has begun to recover from the devastating blow struck by the coronavirus lockdown earlier the year. Government support programs are assisting the bounce back and investors have welcomed the EU's recent agreement on a €750bn recovery fund, which was heralded as a significant step towards closer fiscal integration across the region. Lockdown conditions have eased, regional travel and tourism have partially resumed and the latest economic survey data are registering improvement in forward activity indicators.

European equity investors seem confident that the recovery will continue to gather momentum and markets have made a rapid recovery from March's sharp correction (Exhibit 2 LHS). However, risks remain. On the health front, no vaccine is yet available, the virus is not contained in the US and several emerging market countries, including India and Brazil, and even in continental Europe, where infections are low, there are concerns of a second wave during the winter. An upsurge in infections carries significant economic risk, as even localised lockdowns undermine recovery momentum. Furthermore, some government support programs are being wound down even though job losses and business closures are still rising. Political tensions are also high, especially between the US and China, and rhetoric is likely to escalate further ahead of the US presidential election. Closer to home, negotiations continue between Britain and the EU over the terms of Britain's departure from the Union at the end of the year and there is yet no guarantee of an orderly Brexit. Any of these health, economic or political factors could trigger further bouts of financial market volatility.

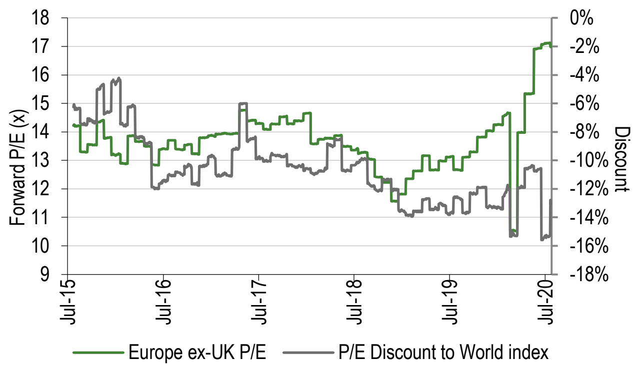
On a more positive note, European stock valuations appear attractive against both historical measures and compared to the world market (Exhibit 2 RHS). The MSCI Europe index's normalised price to earnings ratio was 13.2x May 2020, its lowest level since 2013, and below its long-term median of around 16.0x. In addition, on a price-to-book basis, Europe has reached lows versus the US not seen in 45 years. European small-cap companies presently look attractive relative to large-caps on a price-to-book basis, and the European small-cap 12-month forward P/E ratio relative to large-caps is below the median over the past 20 years. These valuation metrics suggest investors considering acquiring or augmenting an exposure to European equities, especially in smaller-cap companies, may find particular value at current market levels.

Exhibit 2: Market performance and valuation

European and world index total returns over five years



Europe ex-UK forward P/E and and discount to world index over five years



Source: Refinitiv, Edison Investment Research. Note: Valuation data at 20 August 2020.

Fund profile: Long-term growth with high income

EAT targets capital growth through investment in quoted small- and medium-sized companies in Europe. Its benchmark is the EMIX European Smaller Companies ex-UK index. The fund is managed by Sam Cosh (lead manager) and Lucy Morris, who believe that smaller companies are often under-researched and thus possibly also undervalued, with scope for potentially significant outperformance over time. Cosh follows a systematic, bottom-up, patient investment approach, which results in a relatively concentrated yet diversified portfolio typically of 40–50 holdings. These positions represent the managers' highest conviction investment ideas. EAT's board has a commitment to paying a high dividend (see Dividend Section on pages 9 and 10) and the prospective dividend yield of 6.8% is more than double that of any of its peers within the AIC European Smaller Companies sector (see page 10).

The trust was launched in 1972 as a Dutch company and until March 2019, its shares were dual-listed on the Amsterdam and London stock exchanges. In March last year the board completed a migration of the fund to the UK. EAT now has a premium listing on the London Stock Exchange. This move to the UK was motivated by many considerations, including the fact that a large majority of the trust's shareholders are UK residents and that it would also create the potential, recently realised, to reduce ongoing charges (see Capital charges and fees section on page 9).

The fund managers: Sam Cosh and Lucy Morris

The managers' view: Using crisis productively to raise quality

EAT's managers, Sam Cosh and Lucy Morris believe that this year has provided a rare and highly-valuable opportunity to find 'great businesses at exceptionally attractive prices' and they have striven to take full advantage of the Q120 market sell-off to improve the quality of the portfolio. Recent performance shows that their actions are already paying off.

Cosh and Morris's approach has always been to seek quality and growth, but only at the right price – they view valuation as an important driver of returns. For some time before the healthcare crisis they held the view that quality was too expensive. 'The influence of low interest rates and abundant liquidity on good-quality growth stocks have, in recent years, led to challenging valuations and we shied away from some stocks which would naturally fit our philosophy' Cosh says. When the crisis struck, EAT was ungeared, with cash in the portfolio, patiently waiting for valuations to improve.

The severe market sell-off during late February and March provided Cosh and Morris with the chance they were waiting for. Many of the high-quality companies on their watchlist were suddenly trading at attractive valuations and during March and April they were very quick to deploy cash into the market. The managers also drew down part of the trust's loan facility to fund further purchases.

Cosh believes these transactions strike a balance between great companies 'in the eye of the crisis' – names such as the budget airline Wizz Air, the Italian food company Marr, Swedish commercial services company Coor and CTS, an information technology company – and high-quality cyclical companies such as Interpump, a world leader in the production of pumps and hydraulic components, and Norma, a manufacturer of components in the field of connecting technology. Cosh and Morris have also bought several interest rate sensitive companies such as Avanza, a Swedish online broker, Sparebank and Ringkøbing Landbobank, which should benefit from the extremely low interest rate environment.

The managers stress that as the trust's dividend is paid out of a combination of income and capital, dividend cuts by portfolio companies do not have an impact on the yield of the trust. Although the managers like companies with the discipline of paying a dividend, in an extraordinary situation such as the Covid-19 crisis, they accept that cuts, if required, are a sensible precaution in order to preserve cash and protect balance sheets. The trust's holdings did see some cuts in H120 but the managers believe the high-quality nature of these holdings means these cuts were less than for the market as a whole and that these businesses should have the ability to resume dividend payments as the recovery takes hold.

Cosh and Morris are also sanguine about the impact of Brexit. 'EAT is a continental European fund' Cosh says. The portfolio holds only one UK-listed share, Wizz Air, which derives most of its earnings from Eastern Europe. The trust's holding of Irish Continental, a ferry company which services routes between Ireland and the UK, may be perceived as potentially vulnerable to a disorderly Brexit, but Cosh stresses that it is a small holding, which was acquired at a good price that already discounted a potentially negative impact from Brexit. Cosh also observes that if sterling weakens further after Brexit, EAT's shareholders will benefit, as the trust now reports in sterling and does not hedge its currency exposures.

In sum, Cosh says, 'we have a portfolio that we like and we are confident in its ability to keep delivering solid returns for investors, not just over the short-term, but also into the longer-term'. And the possibility of further market volatility does not detract from Cosh and Morris's confidence in the future. On the contrary, they insist that they would embrace it, and take the chance to add more high-class companies that have so far been too richly valued, further strengthening the quality and growth characteristics of the portfolio.

Asset allocation

Investment process: Patiently seeking quality, at the right price

Cosh and Morris aim to build a relatively concentrated, but diversified portfolio, typically between 40-50 stocks. They seek high-quality companies which they define as those with sound business models, high margins and returns and very strong balance sheets, with scope to deliver strong cash flows and superior returns over many years, even in difficult environments. The managers adopt a well-established, bottom-up, fundamental analysis approach and are supported by BMO's well-resourced small cap and global equities teams. They produce detailed analysis of each potential investment, including valuation targets and sell triggers. Cosh and Morris's approach is benchmark agnostic and they are happy to adopt a contrarian stance when a business satisfies their investment criteria.

Holdings are allocated to one of four broad buckets:

- **Durable franchise** – the core of the portfolio, representing companies with quality characteristics, disciplined management, robust business models and sustainable earnings growth potential. Stocks in this bucket currently comprise 37% of the portfolio.
- **Wide moat growth** – faster-growing companies with an ability to defend market share and support capital growth due to sustainable competitive advantages thanks to economies of scale or intellectual property. Stocks in this bucket presently represent 31% of the portfolio.
- **Transformation/recovery** – these companies, which comprise 22% of the portfolio, are undervalued but have a catalyst for change, such as a re-allocation of capital or new management.
- **Deep value** – companies in this bucket (now 10% of the portfolio) are often out of favour, but the manager believes that their challenges are surmountable and they possess recovery potential that is under-appreciated by the market. Stocks in this bucket have very attractive risk-reward potential.

Although Cosh and Morris's focus is on quality, they believe that valuation is an important driver of returns. They are disciplined about adopting or adding to positions only at the right price. They look for companies that trade at a substantial discount to their intrinsic value. Companies that meet EAT's investment criteria but are not trading at acceptable valuations are placed on a 'patient fisherman' watchlist of stocks, awaiting a better price entry point. EAT's watch list is shorter than usual after recent acquisitions (discussed below) but continues to evolve with the addition of new companies. At present the list has 26 names including a healthcare stock and German technology stock. Of these, Cosh and Morris are ready to buy four to six companies at the right price. The remainder need more research before the decision to purchase may be made.

Company meetings are a key component of the investment process and the managers report that company access, while always good, has improved since the onset of the coronavirus crisis. Companies are reaching out to investors and being especially responsive to requests for meetings and information, while brokers are offering virtual 'fireside chats' and other channels of communication.

Current portfolio positioning

Before the onset of the global pandemic, equity markets had made strong gains in early 2020 and in February, Cosh began reducing risk by trimming profitable holdings of leveraged cyclicals and financial stocks, such as banks and economically-sensitive stocks that carried balance sheet risk such as Komax, a Swiss wire processing company and Takkt, a German office products specialist. As mentioned above, EAT entered the crisis with cash. As the crisis began to unfold, Cosh and Morris made further defensive sales, including poor-performing stocks such as TGS-NOPEC Geophysical and Lenzing.

In March and April, once the market bottomed out, they began to purchase a number of stocks on their watchlist. In addition to names mentioned in The manager's view section above, they also bought Rémy Cointreau, a producer of premium wines and spirits, which had been under pressure due to unrest in Hong Kong and the Chinese lockdown, but which the managers view as a particularly high quality asset, in part because its inventory increases in value even if unsold. They also bought Nordic Semiconductor, a Bluetooth chip maker and. HelloFresh, a food delivery company that saw a surge in demand during lockdown and grasped the associated marketing opportunity to increase its customer retention rates. Cosh sees this company as a 'long-term winner' with significant growth prospects. He and Morris also bought two online broking companies, Flatex, a German company expanding into Austria and the Netherlands, and Avanza, a Swedish broker. The managers believe online broking companies such as these, with user-friendly trading platforms offering quick dealing at a good price, with post trade support, provide a much better service than traditional brokers and banks and have business models which are very scalable.

At the end of May, and the beginning of June, as markets continued to rise, the managers took some profits, including on healthcare stocks which had performed especially well. They trimmed positions in DiaSorin, a medical equipment company which has developed a Covid-19 serology test, Tecan and Gerresheimer, a global leader in pharmaceutical packaging, which should benefit from an increase in demand as and when a vaccine becomes available.

The portfolio activity initiated so far this year has seen some notable shifts in EAT's sectoral exposures (Exhibit 3). It has reduced its exposure to industrials, (22.1% of the portfolio at end-July from 26.9% at end-December 2019) and to financials (12.5% at end-July from 15.7% at the end of 2019). Recent profit-taking on healthcare names has seen exposure to this sector decline to 10.7% at end-July from 12.8% at end-December 2019). Exposure to information technology has increased the most (to 10.6% of the portfolio at end-July, from 5.5% at end 2019). Increases in consumer staples, real estate and utilities have been more modest.

Unsurprisingly, portfolio turnover has increased markedly since the onset of the pandemic and stood at 27% for H120 (54% annualised), more than double the usual level of around 20-25%. However, the managers expect turnover to decline to more normal levels going forward.

Exhibit 3: EAT's industry exposure and portfolio characteristics (as at 31 July 2020*)

(% unless stated)	End July 2020	End Dec 2019	Change (pp)	Index	Active weight vs benchmark
Industrials	22.1	26.9	(4.8)	24.0	(1.9)
Consumer discretionary	14.4	14.2	0.2	9.7	4.7
Financials	12.5	15.7	(3.2)	13.2	(0.7)
Healthcare	10.7	12.8	(2.1)	10.2	0.5
Information technology	10.6	5.5	5.1	9.4	1.2
Materials	10.1	10.0	0.1	7.5	2.6
Communication services	7.3	7.0	0.3	5.3	1.9
Consumer staples	6.8	5.4	1.4	5.8	1.0
Real estate	3.4	0.0	3.4	9.6	(6.2)
Utilities	2.1	0.0	2.1	3.4	(1.3)
Energy	0.0	2.5	(2.5)	1.8	(1.8)
Total	**100.0**	**100.0**		**100.0**	

	EAT	EMIX Smaller European Cos ex-UK
Forward P/E (x)	25.4	18.9
Dividend yield (%)	1.8	2.8
Weighted avg market cap (£m)	2,921	2,160
Return on equity (%)	15.7	12.4
Net debt/equity (%)	13.7	70.3

Source: European Assets Trust, Edison Investment Research. *Valuation data as at 31 May 2020.

Performance: Recent improvement as actions pay off

Exhibit 4: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	EMIX Smaller European ex-UK (%)	MSCI Europe ex-UK (%)	CBOE UK All Cos (%)
31/07/16	(0.4)	5.4	17.6	6.8	4.1
31/07/17	36.0	26.8	30.0	24.2	15.0
31/07/18	(3.1)	3.5	7.3	6.1	9.1
31/07/19	(0.8)	(1.8)	(1.2)	5.0	1.1
31/07/20	(5.8)	0.5	(0.3)	(2.8)	(18.5)

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

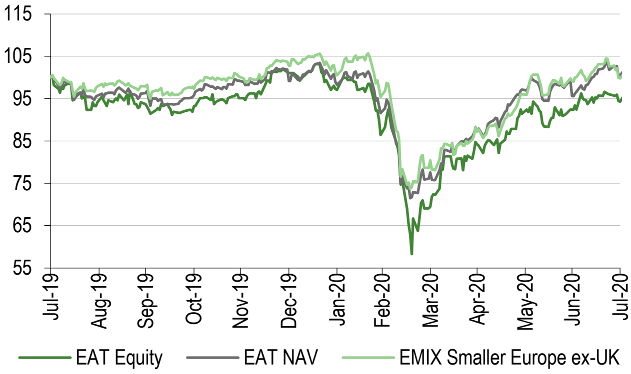
In the three months to end-July 2020, EAT has made very solid absolute total returns, rising 11.9% in price terms and 15.1% in NAV terms (Exhibit 5, RHS). Its NAV performance outstripped the benchmark, which rose 14.5%. EAT's performance over longer periods has also been creditable. It has delivered positive NAV returns over all periods shown in Exhibit 5 and outperformed its benchmark and the MSCI Europe ex-UK over 10 years (Exhibit 6). It has also outperformed the UK market consistently - a reminder to UK investors of the potential benefits of diversification away from the UK market.

Stock selection has been the main contributor to performance year-to-date, with asset allocation having a neutral impact. The best contributor in terms of sectors was healthcare. This has been the best performing sector in the index year-to-date and the trust's overweight position has proved beneficial. The main three healthcare holdings, DiaSorin (+53.8%), Tecan (+52.8%) and Gerresheimer (+52.2%) have all performed ahead of both the benchmark and sector, resulting in a strong stock selection effect. Although being overweight communications services, one of the worst performing sectors, has detracted in terms of asset allocation, stock selection here has also been robust. A relatively new holding in Scout24, a German online home sales portal now focused solely on property transactions (having sold its used car marketplace), has risen by 4.2% so far this year and legal information provider Karnov's shares have risen by.5%. The biggest detractor was due to an underweight position in utilities. This sector has faced minimal disruption as a result of the pandemic and associated lockdowns. Poor stock performance also detracted in financials, where a low interest rate environment continues to hamper returns.

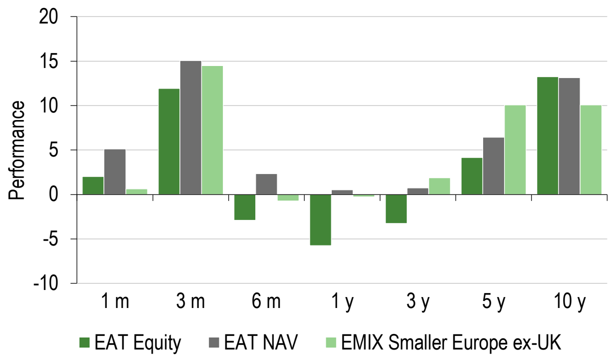
The managers have been particularly disappointed by the poor performance of stocks in the consumer staples sector, as these would normally be expected to hold their ground in periods of economic and market instability. This is typified by the performance of Marr, an Italian food distributor whose main clients are in the hospitality sector. The company is several times larger than its main competitors and it has continued to gain market share and generate stable and rising returns. Its revenues all but disappeared in March and April as hospitality businesses closed their doors, but Marr's price has so far failed to recover as lockdown conditions have eased. The managers view this as an opportunity and have added to EAT's holding in the belief that Marr will eventually emerge from the crisis in a stronger position that its much smaller competitors. Other stocks which have detracted from performance year to date include TGS-NOPEC Geophysical, now sold and CTS Eventim, which the managers continue to hold as its strong cash position should allow it to ride out the crisis.

Exhibit 5: Investment trust performance to 31 July 2020

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



Price, NAV and benchmark total return performance (%)



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

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 EMIX Smaller Europe ex-UK	1.4	(2.2)	(2.2)	(5.5)	(14.4)	(24.2)	32.8
NAV relative to EMIX Smaller Europe ex-UK	4.5	0.5	3.1	20.1	17.5	(0.5)	31.4
Price relative to MSCI Europe Ex-UK	3.6	0.3	(0.9)	(3.1)	(16.4)	(14.7)	55.9
NAV relative to MSCI Europe Ex-UK	6.7	3.1	4.4	23.2	14.7	11.9	54.3
Price relative to CBOE UK All Companies	6.0	10.7	18.7	15.6	0.6	13.8	100.4
NAV relative to CBOE UK All Companies	9.2	13.8	25.1	46.9	38.0	49.3	98.4

Source: Refinitiv, Edison Investment Research. Note: Data to 31 July 2020. Geometric calculation.

Exhibit 7: NAV total return performance relative to benchmark over five years

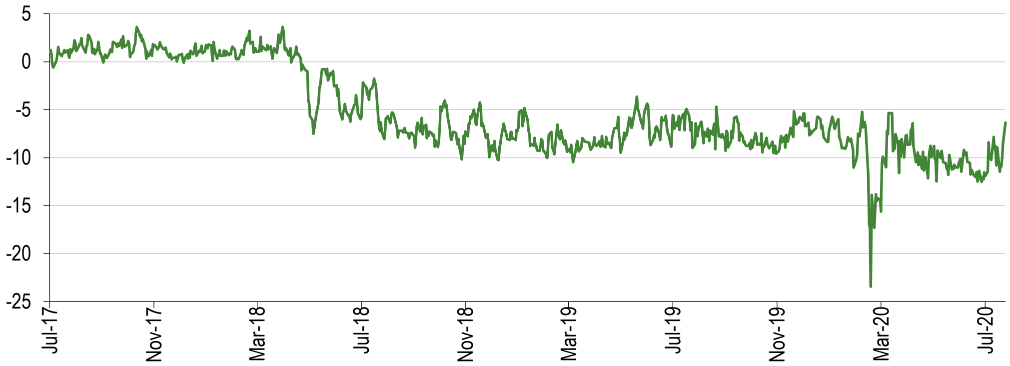
Source: Refinitiv, Edison Investment Research

Discount: Reasons share demand may increase

As shown in Exhibit 8, EAT has often traded at or near to a premium. March was a particularly volatile month for the trust's share price, which briefly traded at a discount of 23.5% to NAV. EAT's share price is currently trading at discount of 6.3% to cum-income NAV. This compares to an average discount of 8.7% over one year, and averages of 5.3%, 3.9% and 4.8% over three, five and 10 years respectively.

The board is committed to managing the discount and has the authority to influence the demand and supply balance by share issuance and buybacks. The board believes that the migration of the trust to the UK in March 2019 has broadened its investor base, and combined with the high dividend payout policy and recent fee reduction, may help EAT's discount return to its narrower historical levels over time.

Exhibit 8: Share price premium/discount to NAV (including income) over three years (%)



Source: Refinitiv, Edison Investment Research

Capital structure and fees

Following the migration of EAT from the Netherlands to the UK in March 2019, the trust now has only one share class. As at 24 August 2020, there were 360.0m shares in issue. Historically, demand for EAT's shares has been solid and the board has issued new shares to meet investor demand. The trust has a €45m loan facility with the Royal Bank of Scotland International. As at end-July 2020, the trust had net gearing of 2.1%.

On 1 April 2020, the annual management fee received by BMO Global Asset Management was reduced to 0.75%, up to €400m of assets under management and 0.60% on assets above this level. Previously, the manager received a fee equal to 0.80% of AUM, falling to 0.65% for funds in excess of €500m. Estimated ongoing charges for the year ended December 2020 are 0.98%.

In March 2020 the board announced that with effect from the reporting period starting 1 January 2020, the reporting currency would change from euro to sterling and that all future financial statements would be presented in sterling. The board anticipates that this change will improve the clarity of the trust's financial statements for its shareholders, the overwhelming majority of whom are located in the UK.

Dividend policy and record

EAT's board is committed to a high dividend distribution policy, paying an annual dividend of 6% of NAV as at the end of the preceding financial year. This can be funded from both income and distributable reserves. The annual total dividend is declared in January of each year. For FY20, the board announced a 7.02p per share payment, which represents a 17.2% increase on FY20. This will be paid in quarterly instalments of 1.755p per share, in January, April, July and October. Beginning in FY20, dividends will be paid in sterling, rather than euros, which had been the previous practice before the trust's migration to the UK. At the current share price, EAT's dividend yield is 6.8%, comfortably more than double the average of its peers.

In the H120 report published on 10 August 2020, the chairman noted a reduction in dividend income received in the first half of the year but reiterated the board's commitment to pay a fourth interim dividend of 1.755p in October. This payment will fulfil its commitment to pay 6% of NAV calculated on the basis of NAV at end December 2019. It will be funded from a combination of current year profits and distributable reserves which stood at £368.6m at end-June 2020.

Peer group comparison

Exhibit 9: AIC European Smaller Companies peer group at 21 August 2020*

% 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
European Assets Trust	374.4	8.2	4.2	48.3	258.2	(6.3)	1.0**	No	102	6.8
JPMorgan European Smaller Cos	620.3	10.2	11.9	85.9	231.0	(14.3)	1.1	No	100	1.7
Montanaro European Smaller	225.9	27.8	57.4	164.1	287.9	(2.6)	1.2	No	100	0.7
TR European Growth	477.0	19.0	0.4	87.4	232.0	(15.0)	0.7	Yes	107	2.3
Simple average in sector	**424.4**	**16.3**	**18.5**	**96.4**	**252.3**	**(10.1)**	**1.0**		**102**	**2.9**
EAT rank in sector	**3**	**4**	**3**	**4**	**2**	**2**	**2**		**2**	**1**

Source: Morningstar, Edison Investment Research. Note: *Performance to 20 August 2020 based on ex-par NAV. **Estimated for year ended December 2020. TR=total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

EAT is a member of the AIC European Smaller Companies sector, which consists of four funds, shown in Exhibit 9. Its performance has ranked fourth over one year, third over three years, fourth over five years and over 10 years it ranked second. As discussed above, the trust's dividend yield is much higher than any of its peers, which helps support its discount to cum-fair NAV, where it presently ranks second among its peers, although it is relatively wide compared to historical levels, as the trust has typically traded close to NAV. EAT's estimated ongoing charge for 2020 is the second lowest and like most of its peers, it does not pay a performance fee. Its gearing is in line the average.

The board

EAT's board comprises five independent non-executive directors. It is chaired by Jack Perry, who has held the position since 2014. Julia Bond, also appointed in 2014, is senior independent director. Laurence Jacquot joined the board in 2011 and Martin Breuer in 2016. Stuart Paterson joined the board in July 2019 as part of an orderly succession process, in anticipation of the retirement of deputy chairman Professor Robert van der Meer, who left the board at the May 2020 AGM after 13 years' service. Between them, board members have extensive experience in accounting and business management, financial services, investment management and technology.

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