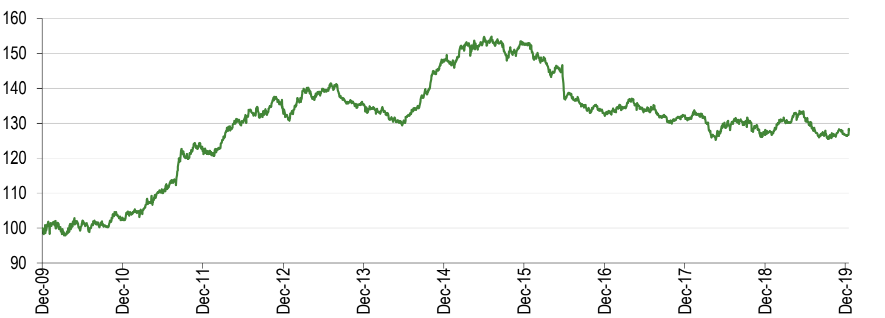
European Assets Trust

Long-term capital growth and income

Investment trusts
European smaller companies

European Assets Trust (EAT) aims to generate long-term capital growth through investing in quoted small- to medium-sized companies in Europe, excluding the UK. Over the past 10 years, EAT's NAV total return (TR) has generated an annualised return of 12.9%. The board has a high payout policy and a 17.2% increase in the declared FY20 dividend results in a forward yield of 6.6%. Previously dual-listed in Amsterdam and London, EAT completed its legal migration to the UK in March 2019. The board believes a premium listing on the London Stock Exchange and becoming a constituent of the FTSE SmallCap and FTSE All-Share indices could broaden EAT's appeal and help close the trust's NAV discount over time.

NAV total return performance relative to benchmark over 10 years



Source: Refinitiv, Edison Investment Research

The market opportunity

Europe's economy has proven to be more resilient than often perceived and despite a sharp contraction in international trade and manufacturing, the eurozone has avoided recession with the pick-up in the domestically focused services sector. European equity valuations do not appear overstretched and there is a very wide dispersion within the universe. In this environment, a fundamental approach to investing in mid- and small-cap stocks may offer more interesting longer-term opportunities.

Why consider investing in European Assets Trust?

- Long-established rigorous bottom-up investment process seeking high quality, well-managed companies that trade at a discount to intrinsic value.
- High-conviction, well-diversified portfolio of around 40 stocks.
- The manager is benchmark agnostic, has a long-term investment horizon and is comfortable with being contrarian.

Wider than average discount has scope to narrow

EAT's shares are currently trading at an 8.4% discount to cum-income NAV, which is wider than the 2.7% five-year average. The board is committed to managing the volatility of the discount and improving returns for shareholders. It believes the trust's recent legal migration to the UK should broaden its shareholder base and, combined with the continued high dividend payout policy, may help EAT's discount return to its historically tighter levels over time.

24 January 2020

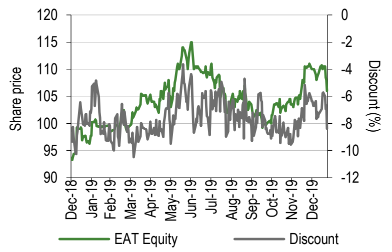
Price	**106.0p**
Market cap	**£381.5m**
AUM	**£411.4m**

NAV*	115.7p
Discount to NAV	8.4%

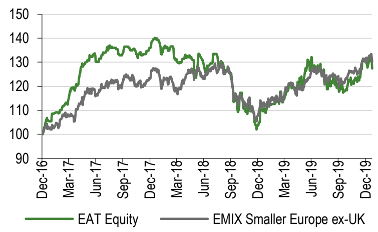
*Including income. As at 22 January 2020.

Yield%	6.6%
Ordinary shares in issue	359.9m
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	115.0p	96.3p
NAV** high/low	121.2p	104.4p

**Including income.

Gearing

Gross*	0.0%
Net cash*	3.3%

*As at 31 December 2019.

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Edison profile page

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

Exhibit 1: Trust at a glance

Investment objective and fund background

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.

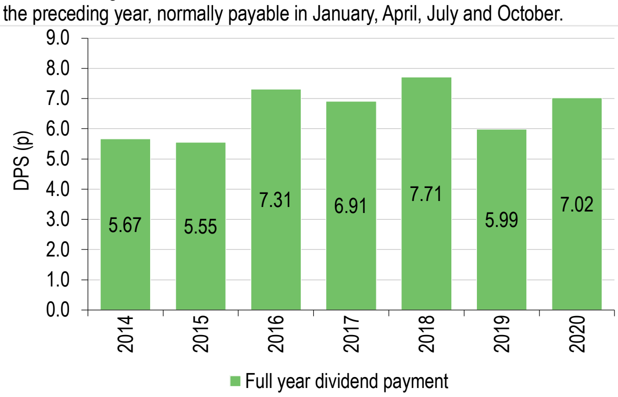
Recent developments

- 7 January 2020: Declared total dividends for 2020 of 7.02p per share.
- 22 July 2019: Appointment of Stuart Paterson as independent non-executive director with immediate effect.
- 23 July 2019: Interim results announced. Sterling NAV TR +19.6% vs benchmark TR +16.0%. Sterling share price TR +25.5%.

Forthcoming		Capital structure		Fund details	
AGM	May 2020	Ongoing charges	1.1%	Group	BMO Global Asset Mgt (formerly F&C)
Annual results	March 2020	Net cash	3.3%	Manager	Sam Cosh
Year end	31 December	Annual mgmt fee 0.80%	0.8% of gross assets reducing to 0.65% above €500m	Address	Exchange House, Primrose Street, London, EC2A 2NY
Dividend paid	Quarterly	Performance fee	None		
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

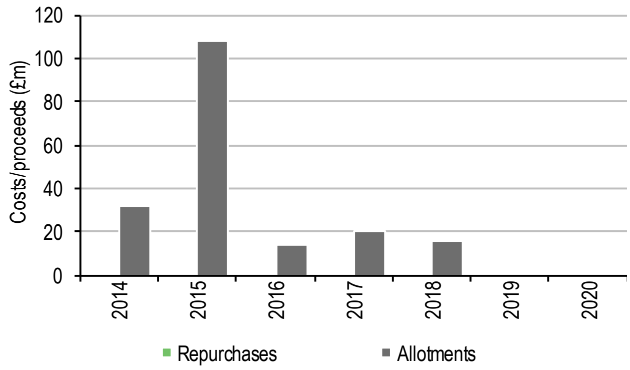
Dividend policy and history

The board targets a distribution of 6% of euro-denominated NAV as at the end of the preceding year, normally payable in January, April, July and October.

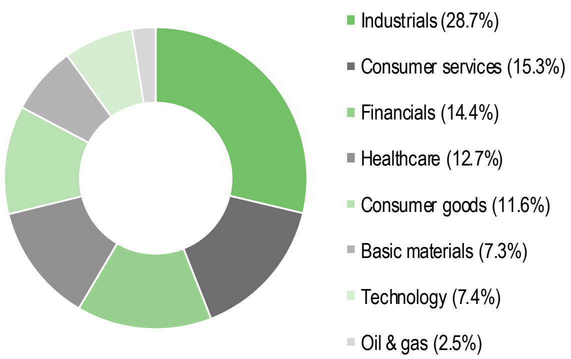


Share buyback policy and history

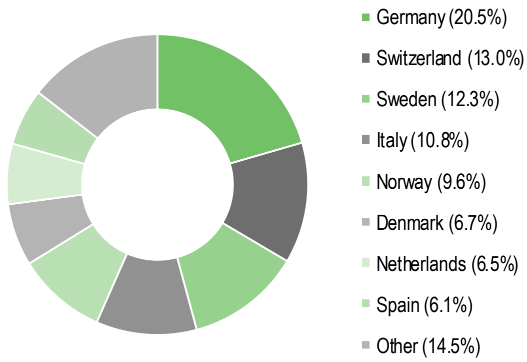
EAT is authorised to both repurchase and allot its ordinary shares. The chart of buybacks and issuance excludes shares issued as scrip dividends.



Portfolio exposure by sector (as at 31 December 2019)



Portfolio exposure by geography (as at 31 December 2019)



Top 10 holdings (as at 31 December 2019)

			Portfolio weight %	
Company	**Country**	**Main area of business**	**31 December 2019**	**31 December 2018***
Vidrala	Spain	Glass bottle manufacturer	3.9	3.6
Coor Service Management	Sweden	Facilities management	3.7	N/A
Forbo Holding	Switzerland	Flooring, adhesives and conveyor belts	3.7	3.6
Tecan Group	Switzerland	Healthcare laboratory instruments	3.6	N/A
Gerresheimer	Germany	Glass and plastic containers	3.6	4.0
Cerved Information Solutions	Italy	Data management	3.5	3.5
Ringkøbing Landbobank	Denmark	Banking	3.4	3.7
CTS Eventim	Germany	Concert and ticketing	3.4	4.0
Wizz Air	UK	Low cost airline	3.4	3.6
DiaSorin	Italy	Healthcare diagnostics	3.4	N/A
Top 10 (% of holdings)			**35.6**	**36.9**

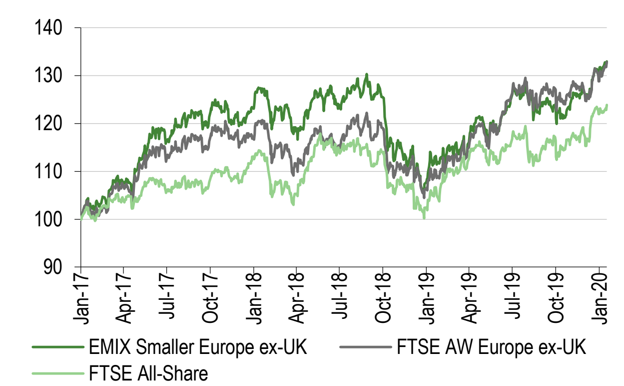
Source: EAT, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in December 2018 top 10. Figures subject to rounding.

Market outlook: Geopolitical risks have receded

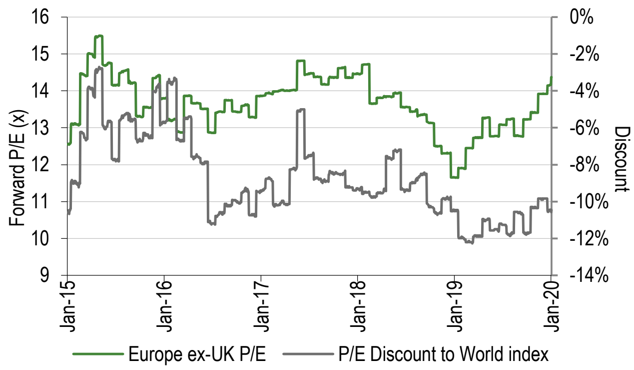
As shown in Exhibit 2 (LHS), European equities made good gains in 2019 and the EMIX Smaller European companies (ex-UK) Index produced a total return of 20.6% in sterling terms. Market sentiment was extremely poor at the start of 2019 following a very weak quarter for global equities in Q418, which reflected prospects of a slowdown and possible recession in major economies. At that time, investors were expecting central banks to normalise interest rates and withdraw liquidity, which could have compounded the damage being dealt to global trade from an escalating US-China trade dispute. Instead, central banks were, once again, a significant source of support for equity markets; the US Federal Reserve cut interest rates three times, while the European Central Bank also undertook monetary stimulus. Recession risks have receded and some of the major geopolitical risks that heavily influenced the direction of equities in 2019 appear to have de-escalated, including steps towards the resolution of the US-China trade dispute and a reduced chance of a chaotic Brexit. As shown in Exhibit 2 (RHS), valuations of European equities in aggregate do not appear overstretched, and continue to present relative value, trading at a considerable discount to global equities.

Exhibit 2: Market performance and valuation

European and world index total returns over three years (£)



Valuation metrics for European small-cap, large-cap and world equities*



Source: Refinitiv, Edison Investment Research, MSCI. Note: *Valuation data as at 15 January 2020.

Fund profile: Capital growth and income objectives

EAT aims to generate attractive long-term capital growth through investment in quoted small and medium-sized companies in Europe, excluding the UK. The fund is managed by Sam Cosh (lead manager) and Lucy Morris. Cosh believes that smaller companies, defined as those with market capitalisations below that of the largest company in the EMIX Smaller European Companies (ex-UK) index are under-researched and offer potential for significant outperformance from good stock-picking. He follows a rigorous bottom-up and patient approach to selecting a relatively concentrated, yet well-diversified portfolio of around 40 companies, representing his highest-conviction investment ideas. The board adopts a high dividend payout policy and EAT's prospective dividend yield of 6.6% is significantly higher than that of its peers.

The trust was launched in 1972 as a Dutch company and EAT's shares were previously dual listed in London and Amsterdam. The board assessed that a migration of legal seat and structure to the UK should be beneficial to shareholders for multiple reasons including a simplification of the corporate structure and potential to reduce ongoing charges. It would also reflect the fact that the vast majority of EAT's shareholders are UK residents, while the investment management and marketing activities are conducted out of the UK. The migration was completed on 16 March 2019 and EAT has a premium listing on the London Stock Exchange and is a member of the FTSE SmallCap and FTSE All-Share indices.

The fund manager: Sam Cosh

The manager's view: Stay focused on fundamentals

Cosh believes Europe's economy is more resilient than often perceived. Germany has suffered an acute economic downturn, particularly hit by a sharp contraction in international trade and the autos sector. However, an improvement in the domestically focused services sector has helped it to avoid recession. This is mirrored elsewhere in the region and recent economic leading indicators for the eurozone's services sector have risen, with all nations surveyed recording higher activity, led by Spain and Ireland. Meanwhile, the manager observes that market sentiment for equities has improved as there appears to be progress in resolving the US-China trade dispute and the UK election result has removed some uncertainties. If trade tensions can indeed be resolved, and Middle-East risks recede, the backdrop for equities should be benign, as valuations, in Cosh's view, are not over-stretched. He cautions, however, that there remains a wide dispersion in valuation with stocks that have bond-like qualities trading at lofty levels, which may be vulnerable to correction if interest rates start to rise, or growth disappoints. The manager does not focus on macroeconomic or geopolitical predictions, but instead concentrates on finding companies with resilient businesses and strong balance sheets that can generate earnings growth through economic cycles. In his view, the portfolio is in good shape for the coming year, in aggregate, containing shares in businesses that are high quality, have modest leverage and trade at reasonable valuations.

Asset allocation

Investment process: Proprietary research, patient approach

The investment process is well-established, disciplined and bottom-up, and Cosh and Morris are able to draw on the deep resources of BMO's European and global small-cap specialists. The fundamental approach, which generates detailed, proprietary research, has three main components: quality, valuation and management. The manager looks for companies with attractive, understandable business models, competitive advantages, low leverage and are cash generative. Criteria for company managements include evidence of good capital allocation, with interests aligned to that of shareholders, including appropriate incentives. Valuation is critical and Cosh and Morris seek companies that trade at a substantial discount to their assessed intrinsic value, that have the potential to generate superior returns over multiple years. Many companies meet the manager's quality criteria, but in their view, are not attractively valued. These are added to a 'patient fishermen' list of stocks, which is monitored regularly, awaiting a better entry point.

There are four broad investment themes in the portfolio:

- Durable franchises account for around 40–50% of the fund and are companies that are recognised for quality characteristics, with good returns, and scope for at least modest earnings growth.
- Wide moat growth companies make up around 25–30% of EAT. These have sustainable competitive advantages; for example, due to economies of scale, intellectual property or entrenched relationships, that allow them to defend their market position and support higher capital growth.
- Transformation/recovery companies are firms that can unlock value, perhaps due to new management or an improvement in capital allocation. These stocks make up around 15–20% of the portfolio.

- Deep value companies are out of favour but, in the manager's view, have surmountable challenges to improving performance, which is not reflected in their share prices. These stocks have very attractive risk-reward potential and account for around 10–15% of the portfolio.

Current portfolio positioning

Following a quiet H119, the manager was more active in H219, taking advantage of the market rally to pare back more expensive cyclical exposures, and raising the quality characteristics of the portfolio. As shown in Exhibit 3 (RHS), EAT's aggregate return on equity is significantly higher than that of its benchmark index and the net debt to equity ratio is much lower. The portfolio is more expensive in forward P/E multiple terms; however, the manager believes the valuations of investee companies are reasonable relative to their quality and prospects.

Exhibit 3: EAT's industry exposure and portfolio characteristics (as at end December 2019)

(% unless stated)	End December 2019	End December 2018	Change (pp)	Benchmark	Active weight vs benchmark
Industrials	28.7	27.0	1.7	24.3	4.4
Consumer services	15.3	16.1	(0.8)	11.2	4.1
Financials	14.4	15.2	(0.8)	25.2	(10.8)
Healthcare	12.7	9.5	3.2	8.7	4.0
Consumer goods	11.6	18.4	(6.8)	9.9	1.7
Basic materials	7.3	8.2	(0.9)	5.1	2.2
Technology	7.4	3.9	3.5	7.9	(0.5)
Oil & gas	2.5	1.7	0.8	2.6	(0.1)
Telecommunications	0.0	0.0	0.0	1.5	(1.5)
Utilities	0.0	0.0	0.0	3.5	(3.5)
Total	**100.0**	**100.0**		**100.0**	

	EAT	EMIX Smaller European Companies ex-UK
Forward P/E (x)	18.7	16.8
Dividend yield (%)	2.1	2.5
Weighted avg market cap (£m)	2,603	2,388
Return on equity (%)	16.0	12.5
Net debt/equity (%)	27.4	71.6

Source: European Assets Trust, Edison Investment Research. Note: Figures subject to rounding.

Exhibit 3 (LHS) shows the portfolio's industry exposure as at end-December 2019 and changes over the past 12 months. The most significant increase is a 3.5pp addition to the technology sector, partly reflecting new purchases in Scout 24 and SimCorp. German company Scout24 is the country's leading operator of digital marketplaces for real estate and automobiles (the equivalent to Rightmove and Autotrader in the UK). The manager believes their business model is well-proven in more mature markets, generating gains from economies of scale, which supports pricing power and presenting a barrier to new entrants. Cosh observes that the German market is much less mature compared to the UK and considers Scout24's duration and trajectory of growth as very attractive. In December, the company agreed the sale of the auto business at very favourable valuation. Cosh also initiated a new position in Copenhagen-listed SimCorp. The company provides software for financial institutions – in particular, solutions for asset management firms' back offices. The manager believes this business can sustain attractive rates of growth as reporting requirements for asset managers become increasingly onerous and complex to meet ever more demanding requirements from regulators and clients.

EAT's exposure to the healthcare sector has also increased over the past year (+3.2pp), partly reflecting the purchase of Swedish company, Elekta. Elekta is a global leader in precision radiation medicine, facilitating precise and personalised radiotherapy treatment. The company has demonstrated high levels of innovation and its new product Unity, used in conjunction with real-time magnetic resonance imaging, improves the accuracy and potential effectiveness of treatment. The technology is gaining regulatory approvals and the manager believes the company has excellent long-term growth potential.

Recent purchases also include the beverage company, Royal Unibrew. Based in Denmark, the company manufactures and distributes alcoholic and non-alcoholic brands, primarily in the Nordic and Baltic countries where it has dominant market share. Morris believes the company's strong management and competitive advantage should help it sustain around 3% sales growth over the medium term. She also identified the entry point for Lisbon-listed Amorim, a long-standing candidate on their 'patient fisherman list'. The company is the world's leading producer of cork products with around 35% market share of cork stoppers, which is meaningfully ahead of the second largest producer at around 10%. This gives the firm significant scale advantages, and combined with its strong relationships with suppliers and customers nurtured over its 150-year history, the manager believes Amorim has a significant economic 'moat'.

The manager recently sold EAT's holding in Dutch food services company Sligro as it struggles to implement the operational changes agreed with strategic partner Heineken. In addition, the firm has been losing market share and these factors have contributed to pressure on profit margins. Cosh believes Sligro's business has attractive longer-term potential; however, he suggests the pain from the integration process with Heineken could get worse before it gets better. He will continue to monitor this company, which may present a more opportune re-entry point in the future. Another source of funds for the portfolio's recent purchases was trimming Swedish mobile vehicle accessories company Dometic following strong performance share price performance.

Performance: Strong long-term track record

As shown in Exhibits 5 and 6, EAT has delivered strong long-term performance; the trust's 10-year NAV total return has significantly outperformed the EMIX Smaller Europe ex-UK, FTSE AW Europe ex-UK and FTSE All-Share indices. Over one year, its share price return of 25.1% has outperformed the benchmark; however, the NAV total return has lagged marginally. The NAV total return over three and five years is relatively weak reflecting significant underperformance in the period immediately following the UK's EU referendum in June 2016. EAT was poorly positioned for the outcome with sizeable exposure to Ireland-listed companies, which were heavily exposed to sterling and the UK domestic economy. Many of these investments subsequently recovered and contributed positively to the portfolio.

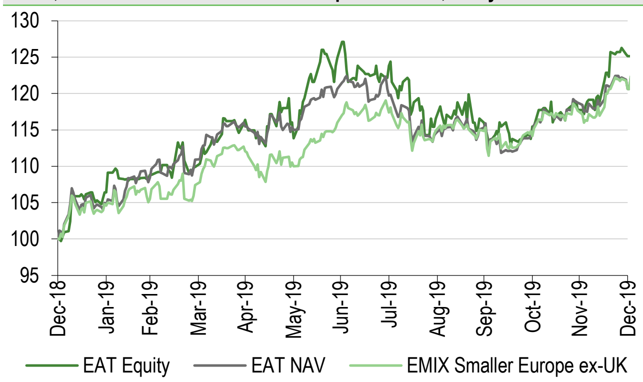
Exhibit 4: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	EMIX Smaller European ex-UK (%)	FTSE AW Europe ex-UK (%)	FTSE All-Share (%)
31/12/15	20.4	20.5	17.2	5.5	1.0
31/12/16	(2.7)	7.4	23.3	21.2	16.8
31/12/17	35.9	22.6	23.3	16.9	13.1
31/12/18	(23.5)	(15.4)	(12.7)	(9.1)	(9.5)
31/12/19	25.1	19.8	20.6	21.2	19.2

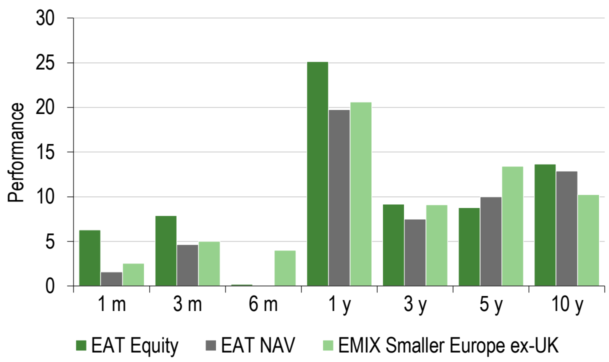
Source: Refinitiv. Note: All % on a total return basis in pounds sterling.

Exhibit 5: Investment trust performance to 31 December 2019

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



Price, NAV and benchmark total return performance (%)



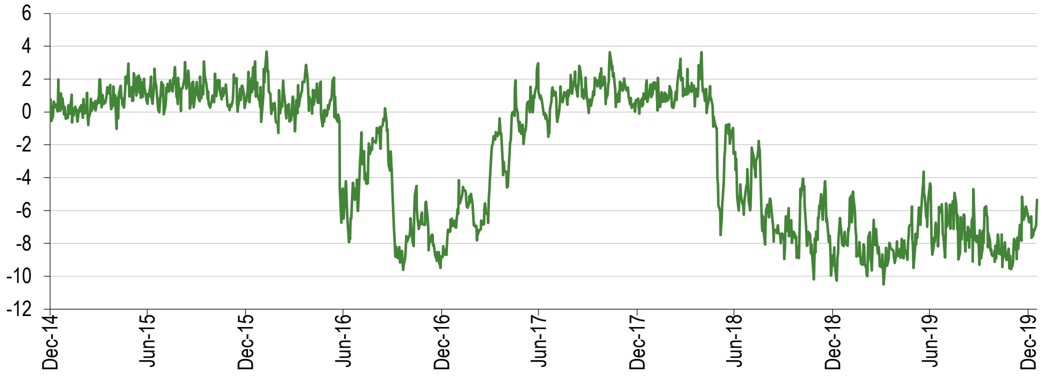
Source: Refinitiv, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised.

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	3.6	2.7	(3.7)	3.7	0.1	(18.8)	35.7
NAV relative to EMIX Smaller Europe ex-UK	(0.9)	(0.4)	(3.8)	(0.7)	(4.4)	(14.3)	26.6
Price relative to FTSE AW Europe ex-UK	5.0	6.6	(2.6)	3.2	0.9	(7.5)	67.8
NAV relative to FTSE AW Europe ex-UK	0.4	3.4	(2.8)	(1.2)	(3.6)	(2.3)	56.6
Price relative to FTSE All-Share	2.9	3.6	(5.0)	5.0	6.6	5.9	64.6
NAV relative to FTSE All-Share	(1.7)	0.4	(5.2)	0.5	1.8	11.8	53.7

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

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

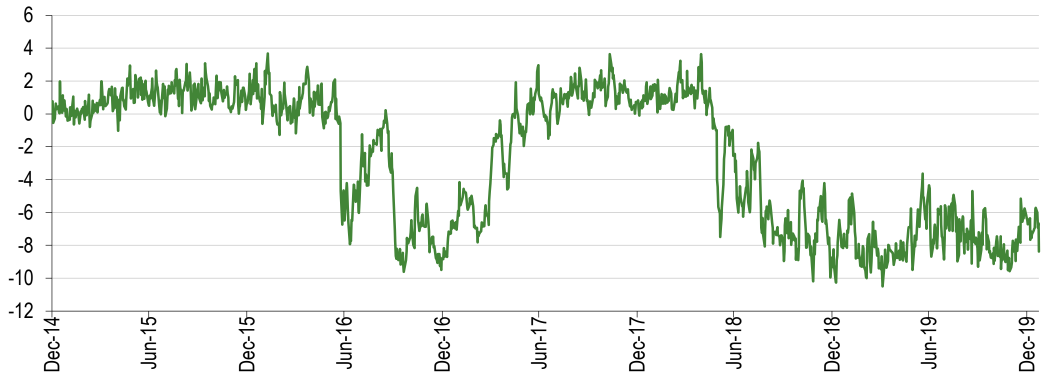


Source: Refinitiv, Edison Investment Research

Discount: Wider than average, scope to narrow

EAT is currently trading on an 8.4% discount to cum-income NAV, which is significantly greater than its five-year average of 2.7%. As shown in Exhibit 8, the trust has often traded near to, or at a premium to, its NAV and suffered setbacks at times of heightened uncertainty, including after the UK's EU referendum result in June 2016 and President Trump's election in November that year. The board actively monitors the trust's share price volatility relative to its NAV and has the authority to manage the demand and supply balance for EAT's shares through share issuance and repurchases. It believes that the trust's migration to the UK as a premium listing on the LSE, and inclusion in the FTSE indices, should improve demand for EAT's shares, and help the NAV discount to narrow or trade at a small premium over time.

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



Source: Refinitiv, Edison Investment Research

Capital structure and fees

Following the migration of EAT from the Netherlands to the UK on 16 March 2019 there is just one class of share; there are currently 359.9m shares in issue. In May 2018, the trust had a 10-for-one stock split. Historically, demand for EAT's shares has been robust and the board issued new shares to meet investors' demand. During FY19, the board was focused on the migration exercise and issuance was de minimis. EAT has a €45m loan facility with Royal Bank of Scotland International, which was unused as at end-December 2019, and the trust held net cash of 3.3%. BMO Global Asset Management is paid an annual management fee of 0.80% on the value of funds below €500m, reducing to 0.65% on funds above €500m.

Dividend policy and record

The board has a high distribution policy, paying an annual dividend equivalent to 6% of the trust's NAV as at the preceding year end, funded from both income and distributable reserves. The annual total dividend is declared in January and the board has announced a 7.02p per share for FY20, representing an increase of 17.2% from FY19, payable in four equal instalments of 1.755p in January, April, July and October 2020. Starting from FY20, dividends are declared in sterling (previously in euros). At the current share price, EAT's dividend yield is 6.6%, which is meaningfully higher than its peers.

Peer group comparison

EAT is a member of the AIC European Smaller Companies sector, which consists of four funds. As shown in Exhibit 9, EAT's 10-year NAV total return has been strong, and although it ranks second, its performance is just marginally below the top-ranked trust. EAT's performance ranks third over one and three years, and fourth over five years. The trust's dividend yield ranks first and is significantly higher than that of its three peers, which helps support the shares' discount to cum-fair NAV, where it ranks second.

Exhibit 9: AIC European Smaller Companies peer group as at 17 January 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	388.7	17.5	23.7	61.5	242.2	(8.4)	1.1	No	100.0	6.6
JPMorgan European Smaller Cos	629.9	16.1	30.7	98.5	207.0	(12.1)	1.1	No	100	1.7
Montanaro European Smaller	200.8	30.5	64.8	143.7	253.2	(1.5)	1.2	No	100	0.8
TR European Growth	486.6	19.7	23.0	99.2	195.5	(11.5)	0.7	Yes	109	2.3
Simple average in sector	**426.5**	**20.9**	**35.6**	**100.7**	**224.5**	**(8.0)**	**1.0**		**102**	**2.8**
EAT rank in sector	**3**	**3**	**3**	**4**	**2**	**2**	**2**		**2**	**1**

Source: Morningstar, Edison Investment Research. Note: *Performance data to 16 January 2020. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets

The board

Following the appointment of Stuart Paterson (with effect from 22 July 2019), the EAT board consists of six independent non-executive directors. Paterson's appointment is part of an orderly succession process in anticipation of the retirement of deputy chairman, Professor Robert van der Meer, at the May 2020 AGM. He has served on the board since 2007. Paterson is a co-founder and partner of Scottish Equity Partners and has over 20 years' experience of investing in technology companies and private European companies. The board continues to be chaired by Jack Perry, appointed in 2014. Senior independent director, Julia Bond, was appointed in 2014. The other directors and the dates of appointment are Laurence Jacquot (2011) and Martin Breuer (2016).