European Assets Trust

Performance, income and a well-balanced portfolio

Investment trusts
European Smaller Companies

21 September 2021

European Assets Trust (EAT) aims to achieve long-term growth of capital through investments in smaller European companies (excluding the UK). EAT's managers Sam Cosh and Lucy Morris believe such companies are often not well-researched or appreciated. This leads to market inefficiencies, which Cosh and Morris seek to exploit to deliver a superior long-term investment performance. The managers grasped the opportunities created by last year's sharp market sell-off to add new names at attractive prices. These changes are now paying off. The trust has performed particularly strongly in absolute terms over the past year and outperformed the benchmark significantly over one, three and 10 years. The managers are confident that their approach is the best way to keep delivering attractive returns to shareholders, not just for now, but also over the long term. The trust has a high distribution policy that pays a dividend of 6% of NAV as at the end of the preceding financial year – by far the highest yield in its sector.

NAV total return performance relative to benchmark over 10 years

Source: Refinitiv, Edison Investment Research. Note: Total returns in sterling.

Why invest in European equities now?

The European economy is projected to rebound strongly, yet European equities continue to trade at a substantial discount to the world market, as they have for most of the past five years (Exhibit 1, right-hand side). This suggests there may be a chance for investors to access quality, market-leading stocks at attractive valuations below those of their global peers.

The analyst's view

This trust's track record of outperformance may appeal to investors seeking long-term capital growth in the European market, while its sector-leading income, paid quarterly, is likely to attract investors seeking regular, stable high income. The trust's high-quality, balanced portfolio is intended to deliver performance regardless of whether 'growth' or 'value' styles are driving the market.

Discount is tightening thanks to improved returns

The improvement in EAT's performance has seen its share price discount to cum-income NAV narrow significantly in recent months. It is currently trading at a 5.4% discount and there is scope for further narrowing if its performance remains robust.

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Price		**143.5p**
Market cap		**£516.7m**
AUM		**£538.6m**
NAV*		151.8p
Discount to NAV		5.4%
*Including income. As at 10 September 2021.		
Yield		5.6%
Ordinary shares in issue		360.1m
Code		EAT
Primary exchange		LSE
AIC sector		European Smaller Companies
52-week high/low	150.5p	99.7p
NAV* high/low	157.1p	109.5p
*Including income		
Net gearing*		3.5%
*As at 30 July 2021		

Fund objective

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.

Bull points

- Short- and longer-term outperformance from experienced managers with superior stock picking skills.
- Highest dividend yield in the AIC's European smaller companies sector.
- A well-diversified, balanced portfolio offering access to opportunities across the region.

Bear points

- The portfolio's quality and growth bias mean it would lag an aggressive value rally.
- A conservative use of gearing limits upside in a rising market.
- Some holdings have not yet recovered from the effects of the pandemic.

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

Market outlook: European equities offer relative value

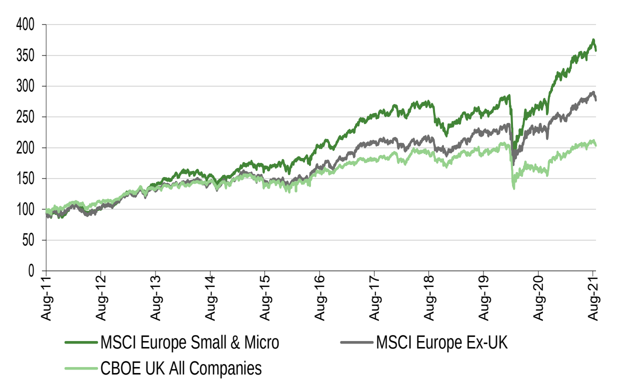
The European economy is pulling out of recession faster than expected. The International Monetary Fund (IMF) recently made significant upward revisions to its European growth projections. Following a fall of 5.6% in GDP in 2020, a lesser contraction than the IMF previously forecast, the Fund now expects euro area activity to rebound, expanding by 4.6% in 2021 (up from 4.4% in the IMF's April 2021 forecasts) and 4.3% in 2022 (compared to a previous forecast of 3.8%). This recovery is being supported by generous and ongoing monetary and fiscal stimulus. Additionally, after a slow start, the European Union's vaccination programmes are now gathering momentum, facilitating a gradual re-opening of economies across the region.

The improving economic outlook in Europe and around the world has raised concerns about inflation and interest rate increases, concerns that have been compounded by sharp rises in the price of commodities and building materials. However, the IMF attributes these price increases to 'transitory' interruptions to supply, caused by the pandemic, and expects global inflation to return to pre-pandemic levels next year. In its latest World Economic Outlook, the IMF advises central banks to look through near-term price increases and to avoid tightening until the longer-term inflation outlook is clearer. The European Central Bank (ECB) seems more than willing to take this advice. The ECB has confirmed that it intends to maintain its bond buying programme and negative interest rates, in an attempt to meet its inflation target, which has recently been revised up slightly, to 2%. The ECB also expressed its willingness to tolerate a 'moderate' and 'transitory' overshoot of its price growth target to ensure that this 2% target is met and maintained over the longer term. This suggests qualitative easing and negative rates will remain in place throughout 2021 and 2022, if not longer.

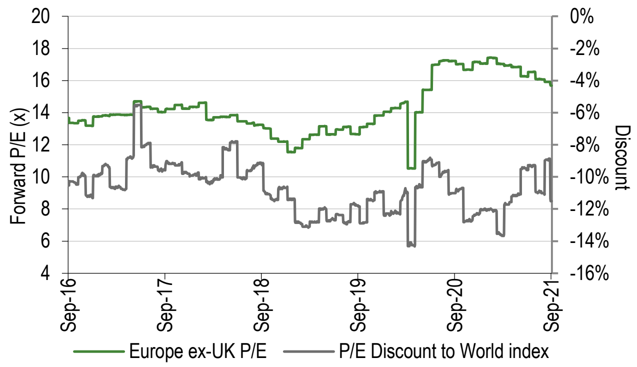
European equity markets, like most other major stock markets, have been boosted by the brightening economic outlook. This, combined with concerns about inflation and higher rates, prompted a marked shift in market drivers in late 2020 and early 2021, away from technology and other high-quality growth stocks, in favour of economically sensitive and reflationary value stocks. However, more recently, it seems markets have now fully discounted the improvement in the economic outlook. In addition, investors have drawn some comfort from central bank expectations that inflation pressures will prove temporary and bond yields have fallen significantly from the highs seen in the first quarter of 2021. These developments seem to have taken the steam out of the so-called value rotation, and quality growth stocks are once again setting the pace for global equity markets.

Exhibit 1: Market performance and valuation

European and UK index total returns over ten years (£)



Europe ex-UK forward P/E and discount to World Index over five years



Source: Refinitiv, Edison Investment Research. Note: Valuation data as at 13 September 2021.

During the depth of the pandemic, European small-cap companies were trading at their widest discount to large-cap stocks in nearly 20 years, but the emergent recovery has seen small caps outpace large caps in recent months and small-cap relative valuations (as measured by forward P/E ratios) are now in line with their historical averages. However, European equity markets in general remain attractively priced relative to the world market. Datastream data show that the European market's forward P/E ratio has been trading at a substantial discount to the world market for most of the past five years and continues to do so (Exhibit 1, right-hand side). This longstanding 'European discount' may provide the opportunity for investors to access high-quality, market-leading stocks at attractive valuations below those of their global peers.

The fund managers: Sam Cosh and Lucy Morris

The managers' view: Balanced portfolio transcending style swings

EAT's managers Sam Cosh and Lucy Morris took full advantage of the sharp equity market sell-off triggered by the pandemic. In the first half of 2020 they added a selection of new, top-quality names to the portfolio at attractive prices. 'Everything we were waiting for was suddenly cheaper' says Cosh. These changes have paid off, and the trust's performance has improved markedly over the past year.

Looking ahead, Cosh and Morris expect the debate on the outlook for economic activity, inflation and interest rates to continue in the second half of 2021, and they see market leadership continuing to swing between growth and value styles accordingly. However, they believe EAT's portfolio is now well-positioned to deliver a good performance regardless of whether growth or cyclical stocks are in favour with investors. Most of the portfolio's holdings are high-conviction technology and other quality, long-term growth businesses, such as semiconductor companies Nordic Semiconductor and ASM International and IT infrastructure supplier Cancom. However, these holdings are augmented and balanced by other kinds of businesses. Some, such as Wizz Air, a budget airline, food companies Marr and Sligo and Coor, a Swedish commercial services company, are what the managers believe to be 'great businesses' yet to recover from the pandemic but with positive long-term growth prospects. Others are high-quality cyclical holdings that are already benefiting from the normalisation of economic activity, such as Sdiptech, a Swedish industrial consolidator (see below); Fluidra, a Spanish swimming pool supplier; Dometic, a Swedish electronics company; and Norma, an industrial components manufacturer. The portfolio also includes companies that will profit if interest rates rise. Holdings in this category include Storebrand, a Norwegian financial services company, Ringkjoebing Landbobank and Sparebank.

With performance improving and positioning well balanced to cope with any style swings and associated fluctuations in market leadership, Cosh and Morris are now satisfied with the portfolio. In Cosh's view, 'it is now time to hold steady and let our winners run', so they do not intend to make further significant changes to EAT's holdings. 'It's back to business as usual' says Morris, which, for her and Cosh means they intend to maintain their efforts to find good businesses at sensible valuations. They believe this is the best way to keep delivering attractive returns to shareholders, not just for now, but even more importantly, over the long term.

Asset allocation

Current portfolio positioning

One recent addition to the portfolio is Sdiptech, a Swedish industrial consolidator that focuses on sustainable urban infrastructure businesses with high digital content, including refrigeration, charging points and safety and security services. This company is similar to Indutrade, an existing portfolio holding, and its board includes Indutrade's former CEO. Cosh was attracted by Sdiptech's healthy margins and positive growth prospects, and the timing of the acquisition was fortuitous. He bought the stock at a low, following disappointing results, and it has subsequently benefited from news of the sale of some low-quality, non-core legacy businesses. The proceeds of these disposals have funded the acquisition of better-quality, growing businesses. Sdiptech has recently been included in the Nasdaq Stockholm index, which has further elevated the company's profile. Another acquisition on the digitalisation theme is Atea, Norway's largest IT hardware and software company, which provides services to the Nordic and Baltic regions in areas such as computer networks, video conferencing and automation. Its market share and margins are rising, and it is enjoying what Cosh calls 'a lovely tailwind' from the tech boom.

Exhibit 2: Top 10 holdings (as at 30 July 2021)

Company	Country	Sector	Portfolio weight %	
			30 July 2021	30 July 2020
Ringkjobing Landbobank	Denmark	Regional bank	3.1	3.0
Lectra	France	Software applications	2.9	2.1
Nordic Semiconductor	Norway	Technology	2.9	1.8
Vidrala	Spain	Glass bottle manufacturer	2.8	3.9
FlatexDEGIRO	Germany	Financial brokerage	2.8	N/A
Stratec	Germany	Healthcare	2.6	N/A
Alten	France	Technology	2.6	N/A
Wizz Air Holdings	Switzerland	Budget airline	2.6	2.8
Norma	Germany	Machinery	2.6	1.6
Cancom	Germany	Technology	2.5	1.7
Top 10 holdings			**27.4**	**31.1**

Source: European Assets Trust. Note: N/A where stock not held in the portfolio in July 2020.

The managers have also opened a position in Verallia, a French glass food and drink packaging business similar to EAT's existing top 10 holding Vidrala (Exhibit 2). They consider both these companies to be 'best in class', in a business that has high barriers to entry, due in part to the difficulty of transporting glass long distances. Cosh likes Verallia's aspirations to emulate Vidrala's success and he took the opportunity to acquire the stock when it was attractively valued.

These purchases have been funded in part by the closure of several profitable positions in companies where the managers see little further upside. Disposals included Avanza, a Swedish stockbroker, CA Immobilien, an Austrian industrial real estate business with exposure to offices, and Cerved, an Italian credit information services company. The managers have also trimmed other profitable positions including EAT's best recent performer, Nordic Semiconductor, and Fluidra, a Spanish supplier of swimming pools and related products that has seen demand soar thanks to the pandemic-induced trend towards home improvements and staycations.

Exhibit 3: EAT's sector exposure and portfolio characteristics (as at 30 July 2021*)

(% unless stated)	End July 2021	End July 2020	Change (pp)	Index	Active weight vs benchmark		EAT	EMIX Smaller European Cos ex-UK
Industrials	23.7	25.4	(1.7)	24.2	(0.5)	Forward P/E (x)	19.8	12.5
Technology	20.8	15.2	5.6	9.9	11.0	Dividend yield (%)	1.4	1.6
Consumer discretionary	18.9	13.3	5.6	10.6	8.3	Weighted avg market cap (£m)	3,345	2,534
Financials	13.9	14.5	(0.6)	11.6	2.4	Return on equity (%)	13.3	7.5
Consumer staples	8.8	13.8	(5.0)	4.7	4.1	Net debt/equity (%)	14	71.8
Healthcare	8.7	10.7	(2.0)	10.5	(1.8)			
Basic materials	3.4	5.0	(1.6)	8.0	(4.6)			
Utilities	1.2	2.1	(0.9)	4.0	(2.8)			
Real estate	0.6	0.0	0.6	9.6	(9.0)			
Telecommunications	0.0	0.0	0.0	5.1	(5.1)			
Energy	0.0	0.0	0.0	1.9	(1.9)			
Total	**100.0**	**100.0**		**100.0**				

Source: European Assets Trust, Edison Investment Research. Note: *Valuation data as at 30 April 2021.

Portfolio turnover reached an unusually high annualised rate of 48% during 2020, due to the high level of portfolio activity in the first half of 2020, but turnover has since normalised at around 20%. The portfolio changes made since the onset of the pandemic have increased the quality characteristics of the portfolio. EAT has a better return on equity and stronger growth and balance sheet characteristics than its benchmark (see Exhibit 3, right-hand side).

Exhibit 4: Portfolio geographic exposure as at 30 July 2021

	Portfolio end-July 2021	Portfolio end-July 2020	Change (pp)
Germany	25.7	22.1	3.6
Sweden	15.0	13.3	1.7
Norway	11.9	8.9	3.0
France	8.3	3.9	4.4
Netherlands	8.3	7.3	1.0
Switzerland	8.3	11.5	(3.2)
Italy	6.6	9.6	(3.0)
Denmark	6.6	9.0	(2.4)
Spain	4.7	5.5	(0.8)
Iceland	1.8	2.4	(0.6)
Portugal	1.5	2.0	(0.5)
Ireland	1.3	2.6	(1.3)
Austria	0.0	1.9	(1.9)
	100.0	**100.0**	

Source: European Assets Trust

Performance: Outperforming over short and long term

Exhibit 5: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	EMIX Smaller European ex-UK (%)	MSCI Europe Ex-UK (%)	CBOE UK All Cos (%)
31/08/17	29.9	25.8	30.4	25.4	14.3
31/08/18	(4.2)	2.5	4.3	1.9	4.3
31/08/19	(7.0)	(6.2)	(3.1)	5.2	0.3
31/08/20	6.1	9.3	6.7	0.6	(13.5)
31/08/21	53.0	49.6	37.1	27.0	27.1

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

The portfolio changes EAT's managers implemented during the early days of the pandemic have had a favourable impact on performance. In recent months, performance has also been supported by the change in market drivers back to quality and growth (as discussed above). In the six months to end August 2021, EAT returned 23.4% on a net asset value (NA) basis and 30.4% on a share price basis, compared to a return of 16.4% on the benchmark, the EMIX Smaller Europe ex-UK Index. The trust has also performed particularly strongly in absolute terms over the past year and outperformed the benchmark significantly over one year and more modestly over longer periods (Exhibit 6). Its performance has also outpaced the MSCI Europe ex-UK and the UK market over all periods shown in Exhibit 7.

In the half-year to end August 2021, EAT's notable overweight to technology stocks were the most significant contributor to relative returns. Its semiconductor stocks performed especially strongly, supported by both the long-term trend towards digitalisation and interconnectivity and by the recovery in activity. Nordic Semiconductor, the top contributor to returns, saw a fivefold increase in orders in H121, and ASM International, a Dutch supplier of semiconductor production equipment, also performed very well. Both announced good results and very positive projections of future development, as countries strive for self-sufficiency in chips. Alten, a French IT consultancy company, was also a key contributor to performance over the period.

The trust's industrial sector exposure was the second largest contributor to returns in the six months to end August, thanks in part to the performance of Interpump, an Italian machinery company, Coor, a commercial services company and Fluidra, a Spanish swimming pool supplier that has benefited from a surge in demand for its pools and maintenance products. Other recent strong performers include IMCD Group, a Dutch chemical producer and the trust's new acquisition Sdiptech, an industrial consolidator (discussed above).

The favourable impact of these and other smaller contributors to returns in the six months to August 2021 was only partially offset by poor performance from some of EAT's other holdings. The largest detractor during this period was Wizz Air, the budget airline, followed by the German online fashion retailer, Global Fashion Group. Exposure to Vidrala, a Spanish glass bottle manufacturer and Fjordkraft, a Norwegian electricity supplier, also hurt performance. Fjordkraft is a young company that set out to disrupt the sector, including via marketing tie-ups with retailers. Its approach established it as a market leader until retailers were forced to close during the pandemic. Criticism from the consumer watchdog over its pricing practices placed the company under additional pressure. It was exonerated by an enquiry but not before the associated bad press damaged its reputation. In addition, rising energy prices have seen customers drift to other suppliers in search of better deals. The managers have now sold the stock.

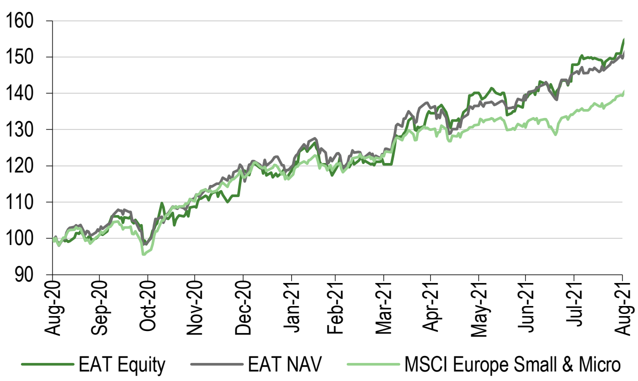
Just Eat Takeaway, an online food delivery company, also detracted, but in this case, the managers retain their confidence in the company's long-term prospects, so they still hold the position. Just Eat has a strong business in Germany and the Netherlands, despite the emergence of some competition, which has hurt the share price. The company has also expanded into the UK and the US, using profits from its core business to fight competition in these markets.

Despite its recent disappointing performance, the managers have also maintained their exposure to FlatexDEGIRO, a German online broking platform, which is ranked among EAT's top 10 holdings. Assisted by its effective platform, this company is providing a better service than traditional brokerage houses to a new generation of tech-savvy investors. It has bought its Dutch competitor, DEGIRO and is winning market share. Results have been outstanding and the managers believe the company has positive long-term growth potential, but the stock was subject to some profit-taking over the summer months.

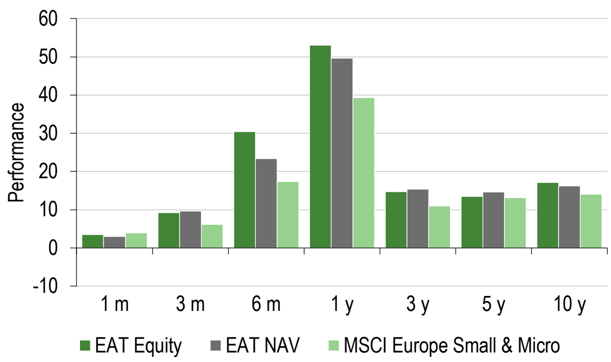
At the sectoral level, EAT's significant underweight to real estate detracted most, while healthcare was the second worst performing sector, mainly due to the fact that the trust's holdings, especially Gerresheimer, lagged sector gains.

Exhibit 6: Investment trust performance to 31 August 2021

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 7: 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 benchmark	0.1	3.6	12.0	11.6	6.5	(2.5)	36.1
NAV relative to benchmark	(0.4)	3.9	6.0	9.1	8.2	2.6	25.7
Price relative to MSCI Europe ex-UK	0.7	2.8	10.5	20.5	12.4	9.5	69.0
NAV relative to MSCI Europe ex-UK	0.2	3.2	4.5	17.8	14.2	15.2	56.0
Price relative to CBOE UK All Cos	1.0	6.0	14.9	20.4	37.0	43.0	131.8
NAV relative to CBOE UK All Cos	0.5	6.4	8.8	17.7	39.2	50.5	114.1

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

Exhibit 8: NAV performance versus benchmark over three years

Source: Refinitiv, Edison Investment Research

Peer group comparison

EAT is a member of the AIC European Smaller Companies sector, which consists of four funds (Exhibit 9). All members of this sector target capital growth. However, EAT is the only trust committed to a high dividend distribution policy. EAT's performance terms ranks third among its peers over one, three and 10 years. The trust's dividend yield is more than three times higher than any of its peers. This, combined with its improved performance, is supporting the trust's discount to cum-fair NAV, which ranks second lowest among its peers. EAT's ongoing charge is in line with the sector average, and it does not pay a performance fee. Its net gearing is close to the sector average.

Exhibit 9: Selected peer group as at 20 September 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
European Assets	516.7	35.2	45.0	88.9	322.7	(5.4)	1.0	No	104	5.6
JPMorgan European Discovery	856.3	31.0	41.5	91.4	309.3	(12.2)	0.9	No	100	1.2
Montanaro European Smaller	370.1	45.6	99.6	195.2	454.4	1.0	1.2	No	100	0.4
TR European Growth	706.5	46.1	59.4	117.5	410.6	(14.8)	0.7	Yes	108	1.6
Simple average (4 funds)	**612.4**	**39.5**	**61.4**	**123.2**	**374.2**	**(7.9)**	**1.0**		**103**	**2.2**
EAT rank in peer group	**3**	**3**	**3**	**4**	**3**	**2**	**2**		**2**	**1**

Source: Morningstar, Edison Investment Research. Note: *Performance as at 17 September 2021 based on ex-par NAV. TR = total return. TER = total expense ratio. Net gearing is total assets less cash and equivalents as a percentage of net assets.

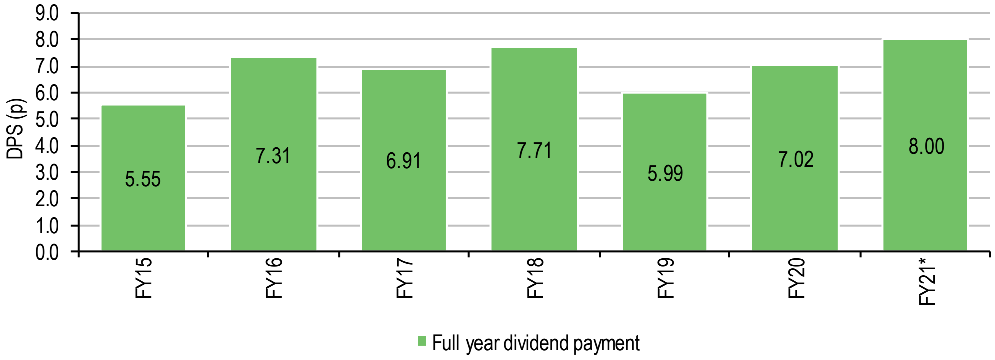
Dividends

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 each year. For FY21, the board announced an 8.00p per share payment, which represents a 14.0% increase on FY20. The first three quarterly instalments of 2.00p per share were paid at the end of January, April and July 2021 and the remaining quarterly instalment of 2.00p per share will be paid in October.

In the recently released half year report, for the period to end June 2021, EAT's chairman noted that while some of the companies held by the trust have reinstated dividend payments, which had been reduced or cancelled as a result of the pandemic, EAT's total dividend income during the half year remained subdued. However, he stated that the board is confident of its ability to continue EAT's 6% dividend policy. The trust will use a combination of current year profits and its distribution reserve to fund its dividends. EAT's distribution reserve stood at £335.8m at end June 2021, sufficient to cover more than 10 years of total annual dividend payments at the current rate.

Beginning in FY20, dividends have been paid in sterling, rather than euros, which had been the previous practice before the trust's migration to the UK (see Fund profile below). At the current share price, EAT's prospective dividend yield for FY21 is 5.6%, more than three times that of any of its peers (Exhibit 9).

Exhibit 10: Dividend history since FY15



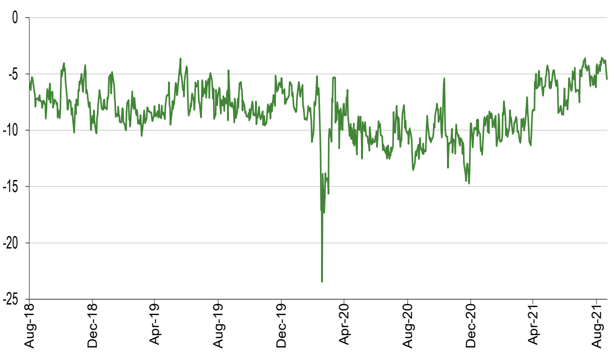
Source: European Assets Trust, Edison Investment Research. Note: *Prospective dividend for FY21.

Discount: Narrowing on improved performance

As was the case for most UK investment trusts, EAT's share price discount to cum-income NAV widened sharply for a brief period in March 2020 (Exhibit 11). It then spent the remainder of 2020 trading in a range around 10%. However, the discount has since narrowed to 5.4%, due to the recent improvement in performance and also, possibly, to more positive investor sentiment now the EU's vaccine rollout is gathering pace and the recovery is strengthening.

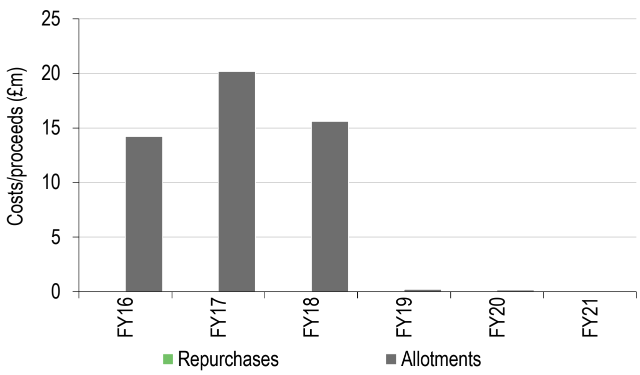
EAT's board is committed to managing the discount and has the authority to influence the demand and supply balance by share issuance and buybacks. However, share issuance has been very modest in recent years and the board has not conducted any buybacks in the past decade. The board believes that the migration of the trust to the UK in March 2019 has broadened its investor base, and this, combined with the high dividend pay-out policy, a fee reduction in April 2020 and its recently improved performance, may help EAT's discount narrow further over time.

Exhibit 11: Discount over three years



Source: Refinitiv, Edison Investment Research

Exhibit 12: Buybacks and issuance



Source: Morningstar, Edison Investment Research

Fund profile: Above-average income

EAT targets capital growth through investment in quoted small and medium-sized European companies. 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. They follow a systematic, bottom-up, patient investment approach, which results in a relatively concentrated yet diversified portfolio typically of 40–50 holdings.

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 2019 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 Fees and charges section on page 11).

Investment process: Quality, but at the right price

There are approximately 4,000 quoted European small and mid-cap companies, a large and diversified universe where companies are not always well-researched, understood and appreciated. This leads to market inefficiencies, which Cosh and Morris seek to exploit to deliver superior long-term investment performance.

More specifically, they seek high-quality smaller companies, which they define as having the following characteristics:

- proven business models that are defended by scale, intellectual property, brand or market positions;
- management teams that have the right balance of entrepreneurial flair and rational capital allocation and who are incentivised appropriately;
- higher growth rates, margins and returns on capital than the market;
- superior cash flow generation and strong balance sheets that provide stability and opportunity for value added deployment; and
- investments fit for the future, with attractive environmental, social and governance (ESG) credentials.

An assessment of the strength of a company's competitive advantages or 'moats' is also essential to the team's selection process, as these are what will allow a business to defend or improve its market position and deliver growing profits to its shareholders.

The managers adopt a well-established, bottom-up, fundamental analysis approach and are supported by BMO Global Asset Management'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 monitor all positions continuously. Their approach is benchmark agnostic and they are happy to adopt a contrarian stance when a business satisfies their investment criteria.

The managers' focus is on quality, and they believe the evolution of a company's profits and cash generation will be the principal determinant of shareholder returns. However, they view valuation as another important driver of long-term performance and 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 watch list of stocks, awaiting a better price entry point. This allows the team to execute quickly when opportunities present themselves.

EAT's approach to ESG

EAT's managers believe that solid ESG credentials are essential if a business is to succeed over the long term. Considerations regarding the sustainability of a company's production process, its carbon footprint and its treatment of its suppliers, employees and customers are thus integral to EAT's investment process. The trust's managers are supported in this regard by input from BMO Global Asset Management's Responsible Investment (RI) team, which is one of the industry's longest established and largest ESG teams. This team uses a scoring system that is developed using input from several external sources, such as MSCI and the Institutional Shareholder Services Group (ISS), but adapted by the RI team to take account of the most relevant factors. The RI team makes continual efforts to improve the depth of its ESG research. Recent refinements include the introduction of measures to identify 'greenwashing' – a practice whereby companies make false or exaggerated claims intended to mislead consumers and investors about the environmental merits of their products.

Where necessary, BMO's RI team engage actively with the management of investee companies, to encourage them to adopt the highest standards of ESG practice. They may join with other major investors to strengthen their efforts to drive change. In the year ended 31 December 2020, BMO's RI team engaged with the managements of EAT's investee companies 13 times, across six countries. Almost 50% of these engagements concerned corporate governance issues, 30% related to labour standards and the remainder involved environmental standards and climate change. BMO Global Asset Management is also a signatory to the United Nations Principles of Responsible Investment (UNPRI) under which signatories contribute to the development of a more sustainable global financial system.

EAT's holdings are not selected from a screened list, but the outcome of the scoring is accounted for both in the investment thesis for each company and in the managers' conservative assessment of the intrinsic value of each company's shares. Cosh and Morris cite several portfolio holdings as examples of their focus on companies with sound ESG practices, including Swiss food and beverage packaging company SIG Combibloc, which is Tetra Pak's main competitor. SIG produces a range of environmentally friendly products, some of which allow food and drinks to be stored without refrigeration. The company's products are 100% recyclable and their manufacturing process has a lower carbon footprint that alternative packaging options. Vidrala, another food packaging company and one of EAT's top holdings, uses recycled glass to replace plastic. While this is a more energy-intensive process, the company is investigating the use of electric furnaces to reduce energy use. Fluidra, a swimming pool parts and maintenance company, designs its products to minimise water use and wastage. EAT's managers believe the efforts of these companies deserve greater recognition and they encourage them to be more vocal about their good environmental credentials, to inspire others to follow suit.

Gearing

EAT has scope to borrow up to 20% of NAV, although historically its use of gearing has been cautious. The managers began increasing gearing modestly in October 2020 to raise the portfolio's exposure to the market's recovery. Gearing peaked at 6% in November 2020, although by end July 2021, net portfolio gearing had fallen to 3.5%. However, the managers have indicated that they may increase gearing in the future, depending on available opportunities and market conditions.

The trust has a €45m loan facility with the Royal Bank of Scotland International, €15m of which was undrawn as at end June 2021.

Fees & charges

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 (AUM), 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 ending December 2021 are 0.87%.

Capital structure

Following the migration of EAT from the Netherlands to the UK in March 2019, the trust now has only one share class. As at 5 August 2021, there were 360.1m shares in issue. Historically, demand for EAT's shares has been solid and the board has issued new shares to meet investor demand, although in the fiscal year ended December 2020, new share issuance amounted to only 0.2m, up only slightly from the previous year. No shares have been issued so far in FY21.

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.

In April 2021, BMO announced its agreement to sell its asset management business in Europe, the Middle East and Africa, which would include the manager of EAT. Subject to completion, this business will become part of Columbia Threadneedle Investments, the global asset management arm of Ameriprise Financial, Inc. Details have not yet been finalised or published but both firms have confirmed the importance of maintaining the stability and continuity of the teams presently supporting EAT. In the trust's recently released half yearly report to end June 2021, EAT's chairman welcomed this assurance of stability and continuity. He said that the board is monitoring this situation closely and will keep shareholders informed of developments.

The board

As part of the board's plan to ensure an orderly succession as directors retire, in January 2021, the board announced that Pui Kei Yuen would be appointed to the board with effect from 26 February 2021. Ms Yuen has more than 20 years' experience in asset management and investment banking. She replaced Laurence Jacquot, who retired at the AGM held in May 2021.

Exhibit 13: EAT's board of directors

Board member	Date of appointment	Fees in FY21*	Shareholdings at end-FY20
Jack Perry (chairman)	April 2014	£44,375	77,168
Stuart Paterson (audit & risk cttee chair)	July 2019	£35,300	95,000
Julia Bond (senior independent director and remuneration & nomination cttee chair)	March 2014	£34,300	91,428
Martin Breuer	November 2015	£30,225	90,000
Pui Kei Yuen	February 2021	£25,541	N/A

Source: European Assets Trust. Note: *Unaudited.

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