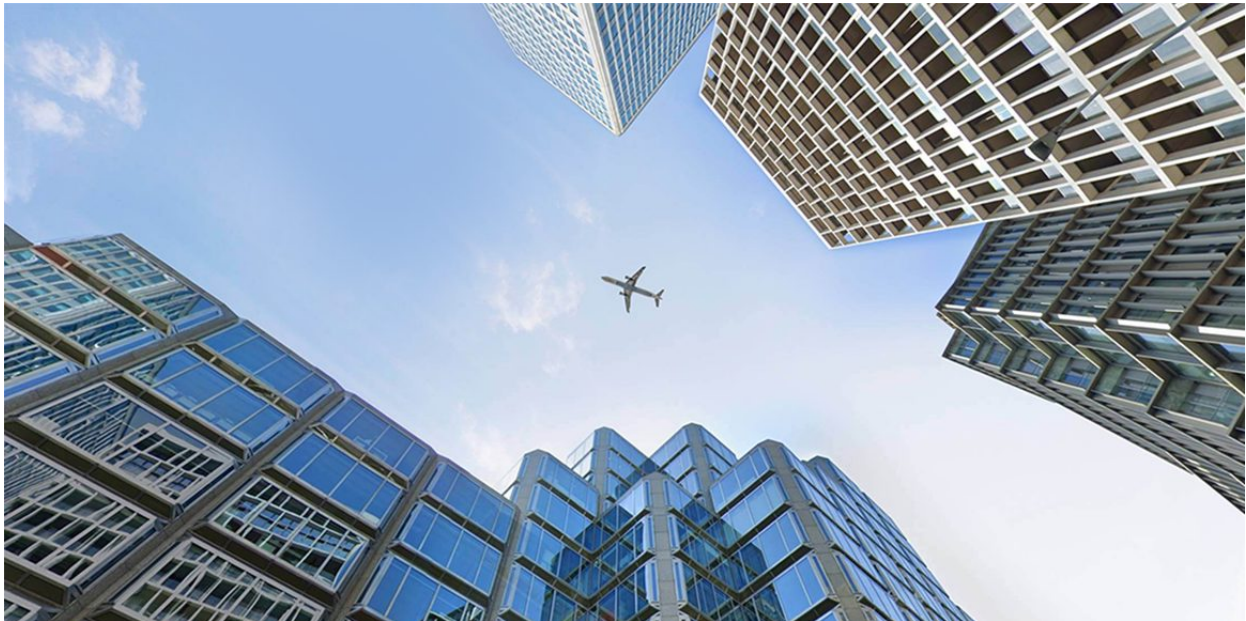


**Subject:** A monthly factsheet and commentary from Alexander Darwall  
**Date:** Monday, 7 February 2022 at 10:02:02 Greenwich Mean Time  
**From:** Alexander Darwall - Devon Equity Management  
**To:** Richard Pavry

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## Newsletter

Dear investor

A new [fact sheet for European Opportunities Trust PLC](#), comprising details of portfolio holdings and past performance statistics as at the end of January 2022 has been published to our [website](#).

The MSCI Europe index was down 3.9% in sterling in January; Your Company was down 11.6%.

Inflation is building and central banks are belatedly reacting. Energy prices are the principal driver of this inflation. The squeeze on corporate profits from inflation and higher interest rates explain the market weakness. The risk of conflict between Russia and Ukraine has heightened concerns about Europe's energy security.

Markets suffered a sharp reversal in January; your Company suffered more. However, virtually all the news from our companies was good. Their current trading performance does not explain (or justify) the weak share prices.

There was a marked rotation out of technology and healthcare companies that affected our portfolio more than most as we have more than most in those two sectors. But, again, results from our companies in January were good and, in almost all cases, their prospects are as good as or better than previously expected. The market hiccup in January was due to building evidence of inflation and, as a consequence, expectations of higher interest rates. It is easy to see why this is good for the banks' shares. It hit highly rated stocks, of which technology and healthcare are good examples. Nevertheless, our companies (mostly) have relatively low debt and have business models that can withstand the macro vicissitudes.

Of the detractors to our performance in January, only Soitec gave any cause for concern. The company reported excellent results and guided to further, satisfactory growth. However, news of management ructions over the CEO's succession has surfaced. As for the other significant detractors in January, Dassault Systèmes, Experian and Novo Nordisk, current trading and prospects appear to us to be hugely encouraging. Novo Nordisk shares have been severely marked down on the back of what we believe is a temporary manufacturing glitch affecting about 1% of sales. We can look through this minor inconvenience although others cannot.

The biggest single contributor was Bayer, which has been a chronic underperformer. We believe there is still a long way to go. Ubisoft (another chronic underperformer) rose sharply following news of Microsoft's bid for Activision Blizzard, a competitor to Ubisoft. We are reviewing our holding in Ubisoft. Finally, Mowi shares performed well. Salmon prices are likely to remain high yet, we think, cost pressures are probably less severe than land-based protein providers. Put another way, with fertilizer, energy and other input costs driving inflation in agriculture, aquaculture appears to be less impacted.

The main trading decision was to reduce the holding in ASML again. We reduced our holding on valuation grounds; we also sold some shares in Ubisoft. The proceeds of these sales were used mainly to fund purchases of shares in existing holdings, Soitec, Mowi and Bayer. We also bought a more shares in Darktrace following a recent visit to their offices in Cambridge. A new product launch expected later this year will, we expect, add further momentum to their strong growth.

The prospect of higher interest rates has hit the ratings of highly rated stocks. However, we remain very confident that our companies have strong business models which will continue to deliver good results despite inflation and higher interest rates. Novo Nordisk is a case in point. Demand for their diabetes and obesity drugs will increase; they enjoy some pricing power with differentiated drugs; and their cash generation and net cash position means that higher interest rates are not a great cause for concern. We look for this pattern of strength across all our investments.

We would like to thank you for your continuing support.

Yours faithfully

**Alexander Darwall**  
Chief Investment Officer  
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