Subject: A monthly factsheet and commentary from Alexander Darwall
Date: Monday, 10 October 2022 at 11:03:48 British Summer Time
From: Alexander Darwall - Devon Equity Management
To: Richard Pavry

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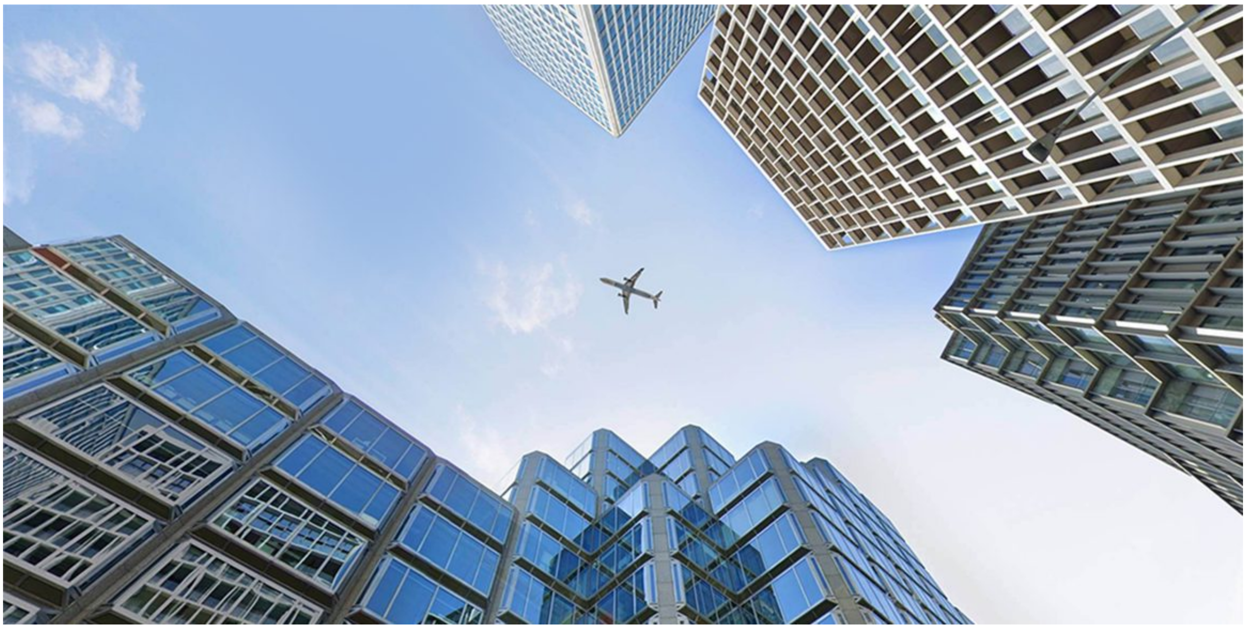

Newsletter

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 September 2022, has been published to our website.

The MSCI Europe index was down 4.7% in sterling in September; your company was down 7.8%.

A deterioration in the energy outlook in Europe (with Russia suspected of vandalising the Nord Stream 2 pipeline) and more hawkish signals from Central Banks explain the market's weakness. Energy costs are likely to remain elevated for a long time. OPEC has announced a 2 million barrels-per-day production cut in an attempt to keep oil prices high; and in Asia it is likely that demand for gas increases in future, further pushing up prices in Europe. China has responded to higher gas prices by burning more coal. Any weakness in gas prices is likely to prove temporary as China would buy more gas. Orders for LNG tankers (which serve Asia) are strong and point to Asia's long-term commitment to gas, which is likely to drive demand and keep prices high.

Inflation is gripping Europe. History shows that to get inflation down again takes a long time. The ECB delivered a 75bp interest rate hike in September and signalled that it would raise rates further at the “next several” meetings. Another 75bp rise is likely in October. Interest rates will need to remain higher for longer if inflation is to be tamed.

We must separate substantive news about our portfolio from short-term, unfounded shifts in sentiment. Of the detractors to performance in September, Mowi was hit hard by significant bad news. The Norwegian government is proposing to introduce an additional, new, punitive tax on the salmon farming industry. We had not expected this. It is devastating for the industry and is likely to severely restrict the growth of this successful business. It is of no comfort to note that the Norwegian government is proposing new taxes across many other domestic industries, including energy and utilities. We are considering our position and await to see exactly what is put before the Norwegian parliament: amendments to the current proposal are expected.

The biggest detractor from performance in September, Darktrace, was hit more by a shift in sentiment inasmuch as the private equity company that had earlier signalled an interest in making an offer decided not to proceed. In our view, they could not agree a price with the Darktrace board. The market took this news badly, with the share price falling sharply. It could just as easily have been taken well. Indeed, we are pleased that we can continue investing in Darktrace and hope to see it continue its record of success.

There were two other notable underperformers, ICG and Grifols. In both cases concerns about debt are likely to be the reasons. For ICG the concerns are not specific, in that there are general concerns about levels of debt in the private equity and debt markets. Moreover, fund raising, which has been strong, is likely to become much more difficult. We believe that past fundraising success by ICG will, however, sustain the company for years to come. Grifols insists that trading is improving significantly and that it will reduce its debt burden. Moreover, it has signalled a change in management.

Positive contributors to performance included Genus and Network International. Shares in Genus recovered slightly on news that pig prices in China (a key market for Genus) are rising. Network International shares rose on the publication of good results and a recognition that its Middle Eastern home markets are likely to weather the recession much better than European economies. Deutsche Boerse’s shares continued their good performance with investors realising that it benefits from volatile financial markets, higher interest rates and more activity on its energy and power derivatives trading platform. Experian also made a positive contribution to returns. There is no sign yet of a slowdown in their business and we believe that the company’s mix of activities means that it is much better positioned to withstand a recession this time.

Our trading activity was all but neutral in terms of borrowings. We sold the position in Barry Callebaut, the Swiss chocolate and cocoa company, only because we saw better opportunities elsewhere. The entire proceeds of that sale were reinvested across a range of our existing holdings and a small new position in SGL Carbon. SGL Carbon is a German manufacturer of carbon and graphite products. It enjoys increasing demand for its products from manufacturers of wind turbines, and from the semiconductor industry. We bought more shares in the German Merck KGaA, more shares in Bayer, Darktrace and Deutsche Boerse. Net borrowings remained at about £64 million at the end of September.

Outlook

The frequency of profits warnings is picking up. Logistics (freight companies), paints and chemicals companies, and retailers are amongst those which have recently announced downgrades to expectations. Of course our portfolio will not be immune to the effects of a recession in Europe. However, we are confident that our companies are relatively well placed: profitable companies, selling products and services that customers need, and to customers who can pay for these products and services. Put another way, we believe that our B2B (business-to-business) companies are more resilient that consumer or retail dependent ones. Some of our investments should benefit from higher interest rates and most of our investments are, we think, relatively less vulnerable to energy and materials inflation. Our IP (intellectual property) intensive companies are less vulnerable to inflation than capital and energy intensive companies. Moreover, importantly, we think that in many cases our companies will strengthen their businesses through a recession and come out stronger.

We would like to thank you for your continued support.

Yours faithfully

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European Opportunities Trust PLC published its annual report for the year ended 31 May 2022 at the end of September, a copy of which may be downloaded here.
Please click here if you would like to be added to the subscriber list for these monthly updates.

As a reminder, all of our investments are into companies listed on European stock exchanges. The portfolio has no exposure to Ukrainian or Russian securities and we are compliant with all applicable sanctions regulations.

The ordinary shares of European Opportunities Trust PLC are traded on the London Stock Exchange with the following investor codes: ticker: EOT.LN, ISIN: GB0000197722 and SEDOL: 0019772. Market and exchange rate movements can cause the value of an investment to fall as well as rise. You may get back less than originally invested.

Conduct Authority, whose address is 12 Endeavour Square, London E20 1JN. Devon's registration number is FRN 841960. Personal information provided to us or collected by us is processed in accordance with our Privacy Policy which can be inspected at https://www.devonem.com.

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