

**Subject:** A monthly factsheet and commentary from Alexander Darwall  
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**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 October 2022, has been published to our [website](#).

The MSCI Europe index was up 4.1% in sterling in September; your Company's net asset value per share was up 3.5% and its share price increased by 5.8%.

Inflation and higher interest rates continue to dominate the news. 'Headline' inflation in Europe increased again, running at 10.7%. In response, the ECB raised interest rates by a further 75bp in October, taking the deposit rate to 1.5%, and saying that it "expects to raise interest rates further". European banks are earning money on these cash reserves, representing a "sizeable risk-free income to the banking system". It is likely that the authorities will introduce measures to clip these returns.

The impact of cost inflation on businesses is being clearly seen, with many companies in retail and energy intensive manufacturing businesses warning on profits. The combination of lower volumes and higher costs is squeezing margins.

This situation might be exacerbated by strikes across Europe. The IG Metall union in Germany has begun 'warning strikes'.

Optimism comes in two ways: One is the hope that the Chinese will now start to reopen after their protracted lockdowns. However, Sino-Western relations are increasingly strained. This is manifest, for instance, in additional export controls being imposed by the US Department of Commerce's Bureau of Industry and Security (BIS), with the aim of restricting China's ability to purchase and manufacture certain high-end chips. This has implications for the wafer fab equipment manufacturers and digital enablers. A second source of optimism is that unemployment in Europe remains low and, in some consumer facing sectors, notably travel, demand remains very resilient.

Our companies' results were good in October, following an equally positive slew of announcements in September. Yet our portfolio did not perform well. We believe that the derating of relatively highly valued companies (which form the bulk of the portfolio) is largely behind us. Earnings resilience and growth should provide an opportunity for a rerating.

Dassault Systemes, the biggest 'negative' last month, reported results which we considered to be strong, with profits on track for a record year. This remains an outstanding company and a compelling investment. Deutsche Boerse, which also detracted from returns last month, reported strong profits and raised guidance. Yet the share price fell. There was little new, substantive news from the other poor performers, Grifols, Genus and Merck. On the other hand, Novo Nordisk shares rose after reporting third quarter profits and raising its profits guidance for this year. RELX, too, released good numbers and affirmed its confidence. BioMerieux, another positive contributor to returns also reported good numbers. Edenred, Borregaard, Grenke, Darktrace and Oxford Instruments all reported satisfactory results or positive trading updates. The only obvious disappointment was Neste where its renewable fuels division failed to match expectations. We think this is a temporary issue; the company expects a strong fourth quarter. Last month Mowi was assailed by a proposal for a new punitive tax by the Norwegian government. There are signs that the Norwegian government might moderate its proposals. We will wait and see the outcome before deciding what to do.

We sold almost nothing in October, only a tiny holding in SGL Carbon as we did not intend to build it into a substantial position. We reinforced a number of existing positions where we thought the share prices had fallen too far. Weakening share prices presented good opportunities in Deutsche Boerse, Edenred, ICG, Bayer, Genus and Darktrace. In aggregate this amounted to approximately £8 million of investment taking net gearing of the portfolio to 9.0% at month end.

## **Outlook**

Relatively highly valued stocks have been derated. We believe that this phase is largely behind us and that those companies which prove to be resilient and capable of growing earnings in a recession will be properly recognised. A prolonged recession can also favour strong companies which will be well placed to make acquisitions. We expect our companies to be stronger through a recession. Most of our companies are not unduly volume dependent, being high valued added businesses. Moreover, we expect them to retain pricing discipline. Third quarter results from our companies have increased our confidence and we expect these companies to flourish even in harsher economic climates.

We would like to thank you for your continued support.

Yours faithfully

**Alexander Darwall**  
Chief Investment Officer  
**Devon Equity Management Limited**

123 Victoria Street, London SW1E 6DE  
[enquiries@Devonem.com](mailto:enquiries@Devonem.com)

*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 to view a recent ShareSoc webinar with Alexander Darwall, recorded on 5 October, on YouTube.*  
*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.*

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Devon Equity Management Limited  
123 Victoria Street  
London, LONDON SW1E 6DE  
United Kingdom

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