

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

The MSCI Europe index was down 1.1% in sterling in December; your Company's NAV was down 1.2%. We raised approximately £6 million from portfolio sales to reduce net gearing, which stood at 8.2% at month end.

Even though 'headline' inflation in Europe has dipped to just below 10%, the ECB has continued to raise interest rates, increasing deposit rates by 50bp to 2.0%. Its robust commentary suggests further increases soon which could take the terminal rate to 3.5%. The US Federal Reserve is tougher, though arguably with less of an inflation problem, also raising its interest rates by 50bp in December bringing the target terminal rate to 5.0-5.25%. The weakening of energy prices is one important reason why the inflation rate has dipped. However, energy remains a fraught policy area. The EU tied itself in knots with EU countries to win an agreement on a gas price cap in an ill-

conceived attempt to restrict energy prices. European countries also see the US IRA (Inflation Reduction Act) as a challenge in that it might divert clean energy capital away from Europe. The EU is likely to respond with similar legislation of its own. Against this backdrop, we note that the Chinese economy has not recovered fully from its lockdowns. Germany is especially affected by slower growth in China as reflected in their industrial production performance in November which fell by 0.4% on a yearly basis.

There was relatively little news from our companies in December, most having reported results in October and November. Novo Nordisk shares continued to perform well, albeit on little news. Investors expect the company to resume full production of Wegovy, the ground-breaking obesity drug, early in the new year. BioMérieux reported good results and raised its guidance. Covid-related demand is, as expected, now weakening. However, its other diagnostic products, notably non-respiratory testing, are performing well. Shares in Grifols rose as investors believe that new management, specifically the newly appointed executive chairman, can readily improve the company's operating performance. We agree. Genus shares bounced in December because investors see the company as a beneficiary of the re-opening of the Chinese economy. More important, we believe, is the completion of the company's gene editing trials later this year. Finally, we note the good performance of Mowi's shares. Notwithstanding the significant concerns about the government's proposed new tax, salmon prices have improved, pointing to higher pre-tax profits for Mowi.

On the negative side, news flow from Bayer was slightly disappointing with profits' forecasts for this year under pressure from higher costs. Darktrace shares were weak on the back of US peers reducing their guidance. It is not necessarily the case that Darktrace suffers from the same factors which caused the US companies' weaker outlook. GTT shares were weaker in anticipation of threats to their Russian business; indeed, in early January the company announced that it was ceasing to sell its services to Russian customers. Neste shares were weaker on the back of slightly lower energy prices. This might prove to be a temporary factor.

There were no purchases in December. On the other hand, we raised about £6 million through sales of shares in Borregaard, Merck KGaA and Novo Nordisk in order to reduce the Company's net borrowings (which stood at £69 million / 8.2% at the month end).

Outlook

We are optimistic about the prospects for our portfolio. We have a collection of 'special' companies. Inflation and interest rate worries are well understood. Where our companies can demonstrate pricing power and deliver value adding innovations, we expect good share performance. We expect plenty of positive news flow from our investee companies this year which gives us scope for good performance.

We would like to thank you for your continued support.

Yours faithfully

Alexander Darwall
Chief Investment Officer

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[Please click here to view a recent ShareSoc webinar with Alexander Darwall, recorded on 5 October, on YouTube.](#)

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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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