Subject: Monthly factsheet for European Opportunities Trust PLC
Date: Monday, 6 February 2023 at 11:19:54 Greenwich Mean Time
From: Devon Equity Management
To: Richard Pavry

View this email in your browser

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 2023, has been published to our website.

The MSCI Europe index was up 6.4% in sterling in January; your Company's NAV was up 2.6%. The month end discount to NAV narrowed slightly to 13.2%. We raised approximately £24 million in cash to reduce net gearing, which stood at 5.4% at month end.

The bounce in markets was due to optimism around the reopening of China; a slight softening in expectations concerning interest rate rises; weaker energy prices; and hopes that Europe would avoid a recession. In the US, there are signs of inflation weakening, analysts predicting 'headline inflation' of 3.2% in 2024. Perhaps acknowledging the slightly more benign conditions, The Federal Reserve recently raised its key rate by only 0.25 percentage points. This plays into moderating expectations for European interest rates, where analysts expect rates to peak at around 3.25% in May. In addition, the EU announced its response to the US Inflation Reduction Act of 2022 (IRA) which aims, amongst other things, to promote clean/green energy. The EU aims to speed up regulation to scale up faster. This will come through two pieces of legislation, a 'Net Zero Industry Act', modelled on the European Chips Act, and a Critical

Raw Materials Act. Underpinning these developments, recent economic activity has been slightly better than expected, prompting upgrades to both US and European growth forecasts with many now expecting Europe's economy to expand this year.

There was encouraging news from our companies in January, as reflected in good stock price performances. Our holding in Bayer was the biggest positive contributor. The company announced that it expects to generate over 12 billion euros in total revenues at peak from its new drugs including the blood thinning drug, Asundexian, prostate cancer drug Nubeqa, and Kerendia, the kidney disease drug. There was also news of activist shareholders calling for the break-up of the company.

Intermediate Capital Group (ICG) was another good performer following the release of strong results and encouraging fund raising guidance. Infineon shares contributed to the month's performance in the wake of raised guidance from a major competitor, underlining the continuing strong demand for semiconductors. Experian's results and solid guidance were well taken by the market. Its business in the US and Brazil is flourishing.

RELX shares also contributed as investors believe the company's Exhibitions business will benefit from China's reopening. Amongst our smaller holdings, we note the good earnings release from Grenke. Their recovery appears well set.

On the negative side, SOITEC shares fell sharply as they warned about a slowdown in demand for smartphones. BioMerieux shares weakened as investors are concerned about the fall off in COVID testing. Darktrace shares detracted from our performance as they noted a slight weakening in growth rates, having raised guidance a number of times since their IPO in April 2021. In the last few days a short seller report has hit the shares hard. We have spoken to management and bought more shares subsequently. Genus shares fell as hog prices in China slumped, confounding expectations that the reopening of the economy would be good for demand.

We made small purchases of shares in Hikma and Genmab, building on existing positions. However, the main activity was the sale of shares in Mowi, Novo Nordisk, Pets at Home and Infineon. The effect was to reduce net borrowings by about £24 million. The sale of Mowi shares reflects our concern about the impending new 'resource tax' on fisheries in Norway. The other sales were all driven by our decision to reduce borrowings. Although the markets are more optimistic about economic activity in Europe and hope that interest rates will not need to rise quite as much as previously expected, we are concerned about the risks that will come from an economic slowdown. The Company's net borrowings stood at £51 million at the month end.

Outlook

The portfolio is underweight the sectors that performed best in January, namely banks, renewables, and utilities. These benefitted from a combination of the higher interest rate environment and the EU's response to the US IRA. Consumer related stocks, generally, have done well recently. However, we are very confident that our companies, which might be described as being more business or government related (healthcare stocks, for instance), will continue to grow profits impressively. Results from our companies last week were good, underscoring our optimism in the portfolio. Of course, we are mindful of the macro conditions, but our focus is on identifying secular growth opportunities. We are convinced that we have a collection of special companies that will continue to grow. Most of our companies operate globally, mitigating the risk that Europe continues its long-term record of below average economic growth. Europe has a structural energy challenge that the US does not to anything like the same extent. This will continue to weigh on Europe's economic prospects. We are pleased with recent newsflow from our investee companies and expect further positive developments this year.

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

Please click here to view a recent interview with Alexander Darwall by Tillit Invest.

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.

be inspected at https://www.devonem.com.

DEVON

Equity Management

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