

**Subject:** Monthly factsheet for European Opportunities Trust PLC  
**Date:** Tuesday, 7 March 2023 at 16:23:04 Greenwich Mean Time  
**From:** 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 February 2023, has been published to our [website](#).

The MSCI Europe index was up 1.2% in sterling in February; your Company's NAV rose 1.8%. The month end discount to NAV narrowed slightly to 12.2%. Gearing was 6.3% at month end.

The resilience of the US economy contrasts with weaker data from Germany, where industrial production fell in January by 3.9% compared with the corresponding period last year. Output in energy intensive industries fell by 19.6% in December. German GDP contracted by 0.2% in the fourth quarter compared with the third quarter, mainly as a result of weaker household consumption.

The implications of the stronger US economy are important. The Federal Reserve increased interest rates by 25bp in February and indicated further tightening. Analysts forecast a terminal rate in the US above 5.0%. This puts some pressure on the ECB to continue tightening. Indeed, many analysts expect interest rates to rise further, expecting a terminal rate in Europe of 3.5%.

The EU's 'Green Deal Industrial Plan' (Europe's response to the US Inflation Reduction Act), aims to support the net-zero transition, including batteries, solar panels, wind turbines and electrolyzers, among others. But it had little effect on market sentiment. Banks' shares continue to perform well as the combination of widening spreads and confidence in low loan losses bolster profits. This benign scenario is predicated on a 'soft landing', that is to say, a scenario where even with mildly elevated interest rates, the European economy will avoid a recession in 2023. Our strategy does not depend on this narrow macro forecast. Our portfolio companies should continue to increase profits in reasonable economic circumstances, profiting from our companies'

worldwide sales reach.

**Novo Nordisk** shares made a good contribution to our February returns. There was little news of note. However, there is an increasing understanding amongst the press and other commentators of the tremendous benefits of the company's new anti-obesity drug, Wegovy. The signs are that there is huge consumer demand for Wegovy. This is evidenced by rising prescription numbers in the US, and by strong demand in new markets like the UK.

The next most important contributor was **Dassault Systèmes**, which reported excellent results and guided to continuing robust growth. Another long term, major investment, **RELX**, also produced good results and expressed their confidence in maintaining strong growth rates. **Edenred** issued very strong results and, again, guided for good prospects in 2023 and beyond. **Darktrace** shares bounced after the recent short seller attack, contributing to the monthly returns. The company has reassured us that their accounting policies are correct and has appointed an outside auditor to review these policies. **Infineon** was another of our holdings which contributed to returns following good results. As a world leader in power semiconductors, the company is a beneficiary of the energy transition. The company raised its growth expectations, emphasising its confidence in its automotive and industrial markets. We note also good results from **Borregaard**, a small holding, and we note that **Grenke's** shares have risen considerably year-to-date, the company recovering from its travails of 2020. The company has been vindicated and the appointment of a new CEO has increased our confidence.

On the negative side, **Experian's** shares languished despite good results and reaffirming their positive expectations. Its second biggest market, Brazil, is undergoing political and economic turbulence with some analysts expecting the country to slip into recession in the first half of 2023. President Lula da Silva's spending plans are seen as a risk to Brazil's economic stability. This might explain the static share price. **Bayer** shares slipped on the announcement of their results and 2023 guidance. The company's Crop Science division has enjoyed two years of strong growth. It remains very lowly valued, offering, in our view, considerable scope for revaluation. **Grifols** shares gave up all the gains from the appointment of a new Executive Chairman, as that Chairman resigned after four months. We remain convinced that Grifols needs good management to unlock its considerable value.

We sold the last of our shares in **Mowi** prompted by the Norwegian government's proposals for a new 'resource' tax. This tax, if implemented in line with current indications would be a major blow to the sector and Mowi. We also sold a small part of our holding in **RELX** to fund purchases. The principal new purchase was that of **Air Liquide**, the French industrial gases company. We believe that its core business is very resilient and that the energy transition presents new, incremental opportunities which should raise the long term growth rate. We also bought a small number of **Darktrace** shares when they fell significantly after the short seller attack.

The Company's net borrowings stood at £55 million at the month end, slightly higher than the previous month end.

## Outlook

We are greatly encouraged by our investee companies' results. Moreover, they enjoy high demand visibility, with relatively little impact from changing macro conditions. Our portfolio is not a particular beneficiary of the reopening of the Chinese economy after COVID. Equally, we do not have much value at risk in China were the political relationship with the West deteriorate. Our portfolio has more of a US bias, where the economy is flourishing.

We would like to thank you for your continued support.

Yours faithfully

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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.*

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