

Subject: Monthly factsheet for European Opportunities Trust PLC
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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 March 2023, has been published to our [website](#).

The MSCI Europe index was up 0.5% in sterling in March; your Company's NAV rose 1.7%. Net gearing was 6.6% at month end.

The demise of Credit Suisse and its takeover by UBS is the salient event in March. Rising interest rates are exposing those banks with vulnerable balance sheets. The pressure for higher interest rates remains. The so-called 'headline' inflation in Europe in February was 8.5%. The ECB raised interest rates by 50bp in March and signalled a tougher stance. Analysts expect Europe's deposit rate to peak at 4% in the summer. At this level of interest rates, there is likely to be an impact on Europe's GDP. Analysts are trimming their estimates; we can expect more downgrades. In the US, too, the pressure for higher interest rates remains. Announcing a 25bp rise in interest rates, the chairman of the US Federal Reserve noted that the terminal Fed funds rate "is likely to be higher than previously anticipated" and that the FOMC would be "prepared to increase the pace of rate hikes" if the data suggest a faster pace is warranted. Current estimates indicate a peak rate of 5.5-5.75% in 2023. We note that the oil price is relatively benign despite recent OPEC production cuts. However, with oil consumption higher than ever, underpinned by non-OECD demand rising significantly, the next energy crisis could be just a winter away. We reiterate that our strategy is not predicated on these economic forecasts. Our portfolio companies should continue to increase profits in reasonable economic circumstances, profiting from our companies' worldwide sales reach.

Our largest investment, **Novo Nordisk**, was also the biggest contributor in March. Soaring demand for the new anti-obesity drugs accounts for much of the optimism. In addition, the company announced good clinical results for a high dose oral version of its existing drugs. This paves the way for their successful anti-obesity drug to be administered in pill form. This will intensify the 'retail' phenomenon which underpins the extraordinary demand for Novo's GLP-1 class of drugs. **Deutsche Boerse** was another strong contributor. Turmoil in financial markets is good for Deutsche Boerse, both directly with more index futures trading and indirectly as higher interest rates boosts their income from customer deposits. Since announcing excellent results, **Infineon** raised its short and mid-term guidance again. As the world leader in power semi-conductors, Infineon is benefitting from increasing use of its semiconductors in cars. This process will accelerate with the transition to electric vehicles.

The next most important contributor was **RELX**, buoyed by its latest earnings release. Likewise, **Dassault Systèmes'** shares continued to benefit from its recent, confident earnings guidance. At time of writing, the year-to-date performance of **Bayer** and **Grenke** have been good. The appointment of a new CEO at Bayer explains investors' confidence; they hope that the new CEO will reform the group, crystallizing value. Grenke's strong share price follows a protracted period of poor performance. Recent newsflow confirms our view that the company is enjoying much better demand and favourable trading conditions.

On the negative side, **Grifols** was a significant detractor. Our recent meeting with the company's management underscored our view that poor execution has been the major problem at the company. Earnings should now increase significantly, underscoring our view that the shares are cheap, notwithstanding our concerns about the quality of management. **Experian's** shares also disappointed. Concerns about the US banks are thought to affect Experian also. We, however, believe that the company's positive guidance is justified; Experian's 'direct to consumer' platform is a significant factor which strengthens the company's position even if credit demand falters. **ICG** shares also weakened following the banks' turmoil. This is understandable. Nevertheless, the secular demand drivers for private equity and private debt markets remain; we think that ICG's risk profile is markedly better than some private equity businesses.

We sold some shares in Novo Nordisk as its weighting in the portfolio became too big; we also sold a very small amount of shares in Infineon following a surge in the share price. The principal new purchase was that of **Bachem**, the Swiss peptide manufacturer. We took advantage of share price weakness to invest in a company we know well. We also took a small position in German-listed **SUSE**, a multinational open-source software company that develops and sells Linux products to business customers.

The Company's net borrowings stood at £59 million at the month end, slightly higher than the previous month end.

Outlook

By having minimal direct exposure to the financials sector we have sidestepped recent concerns around the banks. Our companies have relatively strong balance sheets, with lower debt levels than the average company in the index. Moreover, our companies are less concerned by higher energy costs than the average company in the index. Whilst this is not aiding short term performance, we can envisage the circumstances in which this is a vital factor. Our companies continue to report good results and positive guidance. We remain confident that our portfolio, with its broad range of activities and global exposure, is well placed to succeed.

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.

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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