Subject: Monthly factsheet for European Opportunities Trust PLC
Date: Wednesday, 10 May 2023 at 17:21:51 British Summer 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 April 2023, has been published to our website.

The MSCI Europe index was up 2.3% in sterling in February; your Company's NAV rose 1.3%. Gearing was 4.9% at month end.

Confidence in the banking sector remains fragile despite the fact that UBS and JP Morgan rescued the two high profile failures, Credit Suisse and First Republic, respectively. Higher interest rates and relatively low loan losses have helped to stabilise sentiment about the banks. Because inflation remains persistent on both sides of the Atlantic, analysts expect more interest rate rises, a development that would undoubtedly dampen economic growth.

The Eurozone’s April inflation figure of 7% reflects declining energy costs and lower goods inflation, itself a sign that supply bottlenecks are improving. The oil price has fallen a long way from its peaks of last year (WTI crude oil is currently trading at around $72 a barrel) and gas supplies to Europe have remained satisfactory. Against those encouraging factors, services inflation has worsened on the back of intractable wage growth inflation. The upshot of all this is that analysts still expect Europe's deposit rate to peak at around 4% in the summer and in the US they expect the current Fed funds rate to be nearing its peak. Private equity companies are active, providing some underpinning to valuations. Typically, their interest is in medium and smaller companies. Amongst the largest companies, the regulatory authorities in Europe and in the US are blocking mergers and acquisitions more frequently, invoking either national security or antitrust considerations.

Our biggest winner in April was **Network International**, the London listed payments business, one of our smaller investments. The company announced that it received a non-binding proposal regarding a possible offer for the company.This was followed by a similar offer from another private equity firm.

Grenke,another of our smaller holdings, also performed well, its share price sharply up in April. The company reported good results amid signs that it is recovering strongly from the unsubstantiated allegations that caused serious problems a couple of years ago.

Oxford Instruments was another notable contributor. The company recently upgraded its guidance in a trading update. Its high technology products and tools are selling well in its major markets, namely the US, Europe and Japan.

Darktrace's trading update in April guided to a current year revenue growth rate of 29%. Whilst this was disappointing for some, the shares have performed well recently.

Bachem, a small holding for us, was another good performer in April. The company produces APIs for leading commercial and late state GLP-1 assets with excellent long-term growth prospects. As the complexity of GLP-1 and combination therapies/dual agonists increases, we believe Bachem’s proprietary chemical synthesis processes will prove an increasingly critical component of both drug development and manufacturing.

Edenred, which represents about 6% of our portfolio, reported very strong results for the first quarter of 2023. Underlying sales were up by 25.7%. The drivers for its business remain and its dominant position in specific purpose payments is a salient advantage which should ensure continuing success.

We note the improvement in the **ICG** share price recently. Rising interest rates are seen as a threat to the business model of the private equity and private debt players. Indeed, this is a reasonable concern. However, at current and medium term interest rates, we do not think that ICG's business is vulnerable. Its exposure to senior debt mitigates much of the risk.

Our largest holdings,**Novo Nordisk** and **Experian**, contributed to the April returns. As one of the largest companies in Europe, Novo Nordisk attracts huge attention with the tiniest developments and rumours likely to move the share price. The investment case for Novo Nordisk as the leader, alongside Eli Lilly, in addressing two massive, global and growing therapeutic areas, is compelling. Despite their positive contribution over the month, Experian shares have been held back by the perceived impact of rising interest rates, especially in the US. However,we believe its prospects are robust.

The biggest detractor was **Neste**. Profitability declined on refining margins dropping,albeit from a high level. As the market leader in sustainable aviation fuel (SAF), Neste is well positioned to capitalise on tightening emissions regulations and the strong rebound in aviation demand. SAF production volumes will increase significantly this year due to increased production capacity, which the company does not expect to be dilutive to margins.

Infineon's shares also under-performed, giving up the gains in March after it raised full year guidance. The quarterly results that followed in April were excellent. Revenues increased by a quarter over the past year, chiefly due to demand for power semiconductors in cars. Recent concerns centred around the continued weak smartphone and consumer computing markets, some forthcoming idle costs and an order backlog that has dipped. The company is set to benefit from the increase in semiconductors in cars and in industrial sectors such as renewables.

Soitec also underperformed on fears that the weakness of the smartphone market could persist longer than anticipated, as well as due to management change. Despite a cyclical slowdown in mobile, the company aims to be a key provider of silicon carbide wafers to the automotive industry, which would provide a new structural leg of growth.

Lastly, **Genus** under-performed, due to continued weakness in pig prices in China. We expect that market to improve in due course. The most significant opportunity is the expected completion later this year of the company's gene editing programme in pigs to suppress PRRSV, a major fatal respiratory disease.

We raised about £19 million in cash from portfolio sales in April. All the sales were made to reduce our net borrowings, rather than as a consequence of any particular concerns about the companies in question.We remain confident in our investments but have been reducing net gearing over the last few months, largely in response to higher interest rates. We sold shares in Dassault Systemes, RELX, Novo Nordisk, Borregaard and Wolters Kluwer. We slightly increased our holdings in Network International, which we bought after the first approach from Private Equity, and in
BioMerieux, after the company released good results.

The Company's net borrowings stood at £44 million / 4.4% at the month end.

Outlook

The resilience of the European economy, in consumer spending in particular, is remarkable. Household savings built up during the COVID pandemic is one factor that explains this resilience. Corporate balance sheets, too, are generally good; and private equity firms still have lots of funds to deploy. This benign situation is bolstered by a favourable near-term energy outlook. That is to say, Europe is a notable beneficiary of the current low prices of oil and gas. This situation can easily and quickly change when China resumes its purchases of natural gas next winter. In such an eventuality, higher energy costs would put a tremendous strain on the European economy. Our portfolio is well positioned to cope with a range of economic scenarios. Our companies have relatively strong balance sheets, low levels of debt, are less dependent on consumer spending and are less vulnerable to energy cost shocks. Yet our companies have plenty