

Subject: Monthly factsheet for European Opportunities Trust PLC
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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 June has been published to our website.

The MSCI Europe index was up 2.4% in sterling in June; your Company's NAV rose by 1.9%.

Inflation remains a problem in Europe. The annual rate of 5.5% was down from 6.1% in May in the twenty countries that use the Euro currency. Wage inflation remains a problem. On the other hand, US inflation is easing more quickly. For Europe this means that interest rates are likely to stay higher for longer. The ECB's 25 bp rise in the deposit rate to 3.5% in June is unlikely to be the last. A

further increase in July is “very likely” according to the ECB President, Christine Lagarde. Analysts now expect a terminal rate of 4%. Another important element to the economic backdrop is the faltering economic recovery in China. The combination of deteriorating activity in the Chinese property market and a sharp decline in exports is likely to clip economic growth in China. These factors play into European corporate earnings, where expectations have moderated. Reasonable analysts forecast c.5% earnings contraction in 2023 and flat earnings in 2024.

There are sectors to which we have minimal exposure which are showing signs of stress, the harbinger, perhaps, of slower economic growth in Europe. European banks have enjoyed good earnings upgrades earlier this year. However, we expect incremental rate hikes to be less beneficial to earnings. At the same time asset quality is likely to deteriorate. There have been plenty of profit warnings in the chemicals sector and demand weakness in the construction and electronics segments. Demand from the consumer-facing food ingredients segment has also been weak. The luxury goods companies have been extraordinarily strong, but demand for their products has softened in the US. Moreover, it might be that the slightly softer Chinese economic performance impacts demand for luxury goods.

Our biggest positive contributor in June was **Experian**, as sentiment turned positive. The regulatory threat to their activities in the US appears to have receded slightly. Specifically, it seems less likely that the Biden Administration will set up a new public credit bureau. Experian’s guidance for the current year was disappointing with low credit origination. However, some investors believe this guidance is unduly conservative.

SOITEC shares rose very strongly in June. Their capital markets day reassured investors about its new growth opportunities, notably silicon carbide for the automotive industry.

RELX has split opinion as to how it will be affected by AI. The bounce in the shares in June came as investors, prompted by the company, came to the view that RELX will be a beneficiary of AI. Controlling the data and with profound ‘domain knowledge’, RELX is a likely winner from what is likely to become a commoditised tool, like many others.

We think that **Deutsche Boerse** is a beneficiary of rising interest rates both because its index trading business is likely to profit as investors use them to hedge positions in changing times; and because it earns interest on customer deposits and collateral.

Infineon shares performed well as the entire semiconductor sector rallied. Part of this is probably enthusiasm around AI. More pertinently for Infineon, as the leader in power semiconductors, the need for greater energy efficiency is a strong secular driver of demand.

One of our newer holdings, **Prysmian**, also contributed to returns. The main drivers for the company are in the US, where electrification, reshoring and the growth of data-centres, are likely to sustain increasing demand for many years.

Although **Grifols** is no longer one of our bigger holdings, following a period of under performance, the recent share price rally has helped returns. The new CEO has intensified commitments to reducing debt through asset sales and has increased the scale of the planned restructuring. We expect further encouraging news.

Darktrace shares also recovered. The company is due to announce the results of a special audit in response to allegations of criminality by a US based hedge fund.

The biggest detractor in June was **Genus**. In the absence of hard news, perhaps the share price reflects disappointment that the Chinese pork market remains depressed as African Swine Fever decimates the pig herd. In due course we expect a restocking phase which will present a good opportunity for Genus. Of greater importance is the filing and eventual approval of Genus' gene editing technology. The company has said that it expects to file this with the US FDA in the next few months.

Novo Nordisk also detracted from the portfolio's returns in June. The American Diabetes Association (ADA) held its annual conference in June. The news from Novo Nordisk was encouraging. Arguably, the news from competitors was even more encouraging. Various competitors presented data which shows that competition will intensify in due course. Nevertheless, we remain very confident that the company has a strong position and will continue to be a significant

winner in both its diabetes and obesity franchises.

Merck KGaA shares also declined, reacting to bearish comments from competitors. We do not see the implications for Merck as especially negative and remain confident in its prospects.

Bayer shares also under performed. Profit expectations for this year have declined, partly because of currency effects and partly because profits from glyphosate (Round Up) are normalising after bumper returns in 2022. The valuation for this company, a world leader in agriculture technology, is extremely low.

In absolute terms, **Bachem** was the biggest faller in the portfolio but as a small holding it had a comparatively small effect. The mid-term outlook remains very strong but near-term earnings are under pressure as the company invests in new capacity to satisfy booked contracts. The principal area of demand for the peptide asset class is for GLP-1 drugs. We are confident about the strength of demand for Bachem's services.

Portfolio activity

Having invested a net £24 million in May, in June we sold a net £30 million. We sold £18 million of shares in Novo Nordisk, maintaining a weighting of 11.5% of total net assets. Our confidence in Novo Nordisk is undiminished. However, our recognition that competitors' assets will become more relevant and our desire to reduce your Company's gearing combined to prompt the sale.

Following the agreed takeover of **Network International**, we sold the position. Other sales included a small part of our stake in **Infineon**, which we sold following a strong bounce in the share price, and all the shares held in **Hikma**. This investment, which performed well, was sold once it reached a reasonable valuation.

There were no new positions, but we slightly increased some existing positions, namely **Oxford Instruments**, **Genus** and **ICG**. Our confidence in Oxford Instruments firmed following more good results and a meeting with management; the weak share price of Genus presented a good buying opportunity; and our confidence in ICG firmed following more good results and