Subject: Monthly factsheet for European Opportunities Trust PLC
Date: Monday, 7 August 2023 at 09:18:22 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 July has been published to our website.

The MSCI Europe index was up 1.7% in sterling in July; your Company's NAV rose by 1.9%. Gearing was 4.6% at month end. The discount to NAV was 11.0% at the end of July.

The European economy is on track for 0.9% growth this year though the risks are probably to the downside. The European Purchasing Managers Index (PMI) indicators suggest further weakness ahead, with new orders showing marked declines and one-year business expectations also deteriorating. There are signs also of as oftening in the China economic recovery. Weaker China data continues with June exports down 12.4% year on year and lower transpacific freight underpins the view that US activity is also weakening. Imports indicate that demand is declining in the US and that will be apparent with Q4 GDP reports. In Europe expectations are that the ECB will raise rates again in September after the 25bp rise in July. That took the ECB's deposit rate to 3.75%, its highest level since 2000, and the main refinancing rate was set at 4.25%. Analysts still forecast a 'terminal rate' of around 4%.

Recent market performance has been aided by positive fund flows as global managers increased their European weightings, a pleasant surprise. This is slightly surprising as the current reporting period has been mildly disappointing overall. On balance there have been more downward than upward revisions. Generally speaking, real estate, banks and utilities have been slightly positive. 'Materials' and technology sectors have been, on balance, slightly disappointing.

As for our portfolio, we are generally pleased with our companies' recent reports. This is reflected in share prices in July. Our biggest contributor in July was **SOITEC** following its quarterly report. More importantly, the company convincingly communicated its confidence in growth opportunities, notably the commercial traction for its unique technology for silicon carbide wafers.

Genus shares rallied although there was no news to explain this. In the next few months, and certainly before the year end, we expect the company to file its gene editing application for regulatory approval of PRRSv-resistant animals in the US. This application, were it to succeed, would transform the company's medium- and long-term prospects.

GTT shares performed well after reporting excellent results. As a 'play' on LNG, GTT is likely to flourish as LNG, for all the talk of renewables, is a vital and growing energy source. Many might wish it otherwise, but there is little doubt that demand for natural gas is likely to continue to increase.

Grifols latest results gave a small boost to the share price rally. The company has been in the doldrums, but the pointers are now positive and the strong year to date performance of the share has continued. New management, cost cutting and confidence in clinical trials account for the market's qualified optimism.

Darktrace reported quarterly results and announced the results of the special audit, a response to the allegations of criminality by a US based hedge fund. Both these elements were very positive. Results were good and the company raised its guidance for profits for the full year. Cyber security remains a growth business and Darktrace is clearly benefiting from this, holding its own in terms of growth. As to the audit, the company was completely vindicated. The forensic auditor found no material concerns. There was no need to restate any published accounts. We remain impressed by the company's management, its reporting, and its prospects.

Deutsche Boerse also reported excellent results and raised its full year guidance. The numbers are impressive, showing, amongst other things, that Deutsche Boerse is a beneficiary of higher interest rates.

Though a small contributor to performance, **Bayer** provided us with disappointment in the form of a profits' warning. Last year Bayer enjoyed a surge in profits from their RoundUp business as Chinese competitors' supply was drastically constrained. That situation, and therefore profits, are now normalising. The principal reason that we invest in Bayer, its leadership in agricultural technology, is unchanged.

The biggest detractor in July was **Dassault Systèmes** following the release of second quarter results. The outlook has not changed. The company is likely to be a winner from the use of AI technology and in any case is building on its significant market positions.

Oxford Instruments shares were weak but not for any obvious reason. The last set of results were very encouraging. Its prospects are good and we remain confident.

Edenred's second quarter revenues increased organically by 20%; profits increased by more; and the company confirmed its ambitious full year targets.Nevertheless, the shares weakened in the absence of an increase in guidance.

Novo Nordisk, our biggest holding, slightly detracted from our July returns. As far as we know, the business continues to perform exceptionally well. True, there are shortages of its anti-obesity ‘wonder drug’, Wegovy. That there are shortages is testament to the scale of their success. We expect the supply situation to improve progressively. New safety concerns explain the share price weakness. Reports of self-harm and suicidal thoughts from those taking Novo Nordisk’s GLP-1 drugs are now being investigated by health authorities. Absent new, credible data, we are not unduly worried by this. The labels already advise prescribers to be wary of those with certain mental health problems. Further, it is no surprise that a very small minority of the huge numbers of people taking these drugs might have mental health problems. We think this is coincidence, not causation. Furthermore, the health authorities well understand that the risk/benefit analysis for this class of drug is overwhelmingly positive, absent compelling new evidence. In short, we do not expect these safety concerns to develop into a serious threat to this part of Novo Nordisk’s business.

Of all our companies, **Neste**, which reported second quarter results, is the one that gives cause for concern. The disappointment is the company’s poor execution (manufacturing glitches) rather than a change to the investment case.We expect these problems to be resolved. Neste is partly a play on green energy with its sustainable aviation fuel and partly a play on higher energy prices as prices for its renewable diesel product are linked to the price of diesel.

We raised about £12 million in net cash from the portfolio in July. The prospect of interest rates staying higher for longer is one element explaining why we have been reducing gearing.

The main sale from the portfolio was that of shares in **Experian**, reducing its substantial weighting in the portfolio. The slightly tighter credit conditions in the US have impacted the growth rates of both the credit bureau business and the consumer facing unit. We will monitor closely how this develops against our expectations that the credit tightening was a temporary effect caused by the collapse of Silicon Valley Bank in March and subsequent ructions with the demise of Credit Suisse.

We also sold a small number of shares in **RELX** after a good share price performance.

As for purchases, we increased the holding in **Worldline**. The company reported excellent results and explained their optimism for the next few