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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 October has been published to our website.

The slowdown in the European economy is becoming more obvious, particularly in Germany. Companies reporting recently have noted demand weakness for, variously, crop protection, industrial specialties and food ingredients, 5G, luxury goods and electric vehicles (EVs). In the US,credit card spend in luxury continues to deteriorate.

Although European car sales, excluding EVs grew slightly in September, EV demand weakened. This was particularly noticeable in Germany following the end of corporate car incentives. EV demand is also down in China. Forecasters now think that the global EV penetration in 2024 will be only 18% as against earlier forecasts of 20%.Industrial activity in China is also weaker. The Eurozone manufacturing Purchasing Managers Index contracted in September and October. This is one important element behind the generally poor numbers of European capital goods companies. On a more positive note, that inflation is stabilising, even declining, is good and explains why, for now at least, interest rates are expected to remain stable. Euro-Area core inflation is running at 4.2%, down from its peak in March.

In the stock market, European equity sentiment remains poor. Earnings expectations for European companies are coming down. Whereas in America recent results are tracking well, in Europe third quarter earnings are estimated to have contracted by 7%, though the figure is better excluding energy stocks. The threat of new government taxes is intensifying. For instance, in France, the government proposes to tax businesses and activities to accelerate the green transition. Toll roads and airports are the first in line for this proposed tax. In Norway, the government is hurting business with more taxes.

A number of our investee companies reported recently:

Deutsche Boerse announced good third quarter results. Revenues rose by 9%, and profits increased by an underlying 13%. The company again increased its outlook by raising revenue and profits guidance for 2023.

Neste's results were encouraging with profits from their renewables products coming in ahead of expectations. Infineon reaffirmed their confidence in their auto-related activities; and Prysmian CMD was very reassuring.

The biggest contributor to performance in October was **Dassault Systèmes**. The company released excellent third quarter results with sales up 11% and expressed their confidence in near term growth rates. There are some counter cyclical elements to the company's business. For example, as western car companies come under pressure from the twin challenges of the transition to electric vehicles and Asian competitors, they need to improve productivity and costs drastically. Dassault Systèmes is singularly well placed to provide the tools needed for that improvement.

Novo Nordisk shares were also good contributors, driven by continuing high demand for its new diabetes and weight reducing drugs. Q3 results were excellent with sales up 38%. The company increased its sales and profits guidance for 2023 on the back of its booming GLP-1 business. Its weight loss drug, Wegovy continues to impress. Novo Nordisk's recent clinical trials results appear to be very good and build confidence that the company should maintain its preeminent position in this space.

RELX shares continued their advance as the market appreciated the company's indication that it can sustain growth rates, currently running at about 8%, at a higher level in their Risk and Legal divisions. Artificial Intelligence is proving to be an opportunity for RELX to improve its product offering.

GTT shares also performed well following the release of very strong third quarter revenues. GTT's fortunes are, for the time being at least, closely tied to the worldwide development of LNG. The news on this is encouraging, one example being that Total Energies of France and Qatar Energy have signed a 27-year LNG supply agreement. Such agreements underpin demand for GTT's engineering services in the building of LNG carriers.

Another contributor to performance was **Genus**, responding to the company's recent CMD where it explained its confidence in its gene editing programme. Specifically, Genus has filed an application for the production of gene edited pigs. It is likely that the FDA will approve this application, opening the way for the company to build a significant new earnings stream in the medium term.

Whilst the share price reaction was muted, we note that **BioMérieux'** recent results were good. Its respiratory diagnostics revenues softened slightly as Covid-related testing declined, but other revenues advanced impressively. Moreover, it announced its decision to buy a stake in Oxford Nanopore, a step into real-time analysis of DNA/RNA sequencing technology.

The biggest detractor in October was **Edenred**. Although the company delivered excellent results with operating revenues up by 16% in the third quarter, the shares suffered because the relevant French ministry has announced its intention to intervene in the 'specific-purpose' payment market in France. Such an intervention might damage Edenred's business. However, it is not easy to envisage what the French government will do. Edenred has proved to be very competent at promoting French government benefits; it would be perverse for the government to damage the very company that has delivered government policy.

Experian shares fell after one of its American competitors, Trans Union, reported very poor numbers. However, we think that Experian's business is better and more diversified than Trans Union's. Moreover, if demand for credit weakens in the US, Experian has some counter cyclical activities that would partially offset this eventuality.

Worldline shares fell on the release of its results. A profit warning and the announcement of a costly restructuring plan has undermined management credibility. Worldline cited a sudden deterioration in consumer spending in Germany.

Soitec was another recent detractor from returns as some investors believe that the company will suffer from a slowdown in the market for electric vehicles and smartphones.

Bayer continues to disappoint. Poor management, lack of financial discipline and poor accountability have exacerbated their strategic challenges. The crop protection market is currently weak but is expected to recover. Notwithstanding the obvious disappointment with the company, we will wait for the new CEO to unveil his restructuring plan. A decent management team could unlock value; we will see if the CEO is good enough.

Trading activity was low. We sold our two remaining Norwegian holdings, **Borregaard** and **Elkem**, recognising the anti-business politics of the Norwegian government. We also slightly reduced our holding in **Novo Nordisk** in view of its high weighting. We took advantage of attractive share prices to buy more shares in **Worldline** and **Prysmian** and we established a new position in the Swedish biotech company, **Camurus**.

Net borrowings were £47.1 million at the end of the month, a net gearing ratio of 5.8%.

Outlook

Relatively high interest rates are taking their toll both as regards the increased cost of debt refinancing and in terms of equity valuations. We are less concerned about the costs of debt as our investee companies have less debt than the average. An attractive risk-free interest rate is clearly undermining investor enthusiasm. We believe that our investee companies have potentially transformative opportunities to create shareholder value, underpinning our confidence.

We would like to thank you for your continued support.

Yours faithfully

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Notes -

QuotedData have recently initiated coverage of the Company. Click here to read their note, titled "European Opportunities Trust - 'Special' growth companies".

Click here to view an **IG TV** interview with Alexander Darwall filmed on 24 October.

Click here to read the 2023 **annual report and accounts.** The annual report also includes notice and details as to how to attend and vote at the Company's Annual General Meeting of shareholders on 15 November 2023.