Subject: Newsletter from 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 December has been published to our website.

The total return on your Company's NAV in December was 5.4% and the total return on the Company's benchmark, the MSCI Europe index in Sterling, was 4.2%. The Company had no borrowings at the end of December. The discount to NAV was 8.7% at the month end.

Sentiment remained positive as investors believe that, because inflation seems to be weakening, the interest rate cycle has peaked. As usual, the US Fed is showing the way. The Federal Open Market Committee (FOMC) left the target range for the federal funds rate unchanged at 5.25-5.5% at its December meeting. Their language has softened slightly leading to analysts' confidence that interest rates have peaked. Economists' revised inflation forecasts have led them to expect the first interest rate cut in April and to expect a series of cuts thereafter until the deposit rate reaches 2.25% by early 2025. Economic growth in the US, where GDP expanded by 5.2% in the third quarter of this year, appears to be robust. Forecasters expect 2.4% growth in 2023. On the other hand, growth rates in Europe appear to be weakening, with economists now expecting around 0.8%, down from 1%, in 2024. Interest rates are expected to decline, but not to the same extent as in the US.

Optimism around falling interest rates explains the good stock market performance in December. There were weak spots, such as some of the luxury goods and premium drinks companies and the freight companies (who are suffering from overcapacity in their sector). On the other hand, defence companies continued to prosper as armed conflicts escalate around the world.

Experian was the biggest contributor to performance, following their good third quarter results and buoyed by confidence that interest rates will start to fall in the US. Third quarter results were proof of their resilient business model.

The next biggest contributor to performance in December was **Grifols**. This company, one of our most difficult investments,appears to be on the right track. Two developments helped the shares in December: One was the clinical trial failure at argenx, a global immunology company, which is developing new therapies for patients with severe autoimmune diseases.These new therapies, anti-FcRn, would compete with Grifols' plasma derived proteins. Their failure was an indirect boost to Grifols' prospects. The second reason for Grifols' improving share price was the announcement that it had agreed the sale of 20% of its stake in the Chinese company, Shanghai RAAS for approximately $1.8 billion. This, a good price, is a significant step in the company's deleveraging policy. Demand for Grifols' products remains good; costs are coming down after the spike during COVID, so that we expect a marked improvement in profitability.

Edenred shares improved despite regulatory threats in France. It is not easy to envisage what the French government might do. We remain relatively sanguine about this at present.

Deutsche Boerse's shares also performed well. The company has been seen as a beneficiary from higher interest rates so falling rates might be seen as disappointing for them. However, the company has expressed its confidence that it can retain interest income from customer deposits. Moreover, Deutsche Boerse's business benefits from volatile financial markets as market participants use the company's platforms to hedge risk. Uncertainty in financial markets has increased and is'good' for the company.

Finally, we note the slightly improved **Genus**' share price. This slight improvement in the share price does not amount to much: near-term trading is not strong. Indeed, pork prices in China, a key indicator of the company's trading there, have weakened considerably and the company has warned that their bovine genetics business is facing weaker demand. Nevertheless, we remain confident that Genus' leading positions, combined with the realistic prospect of getting FDA approval for its gene editing technology, make this a compelling investment.

The biggest detractor in December was **Merck KGaA**. The shares fell sharply as the company reported a failed clinical trial for what was considered one of their key pipeline assets. Notwithstanding the obvious disappointment with Merck's pharmaceutical division, we think that their electronics and life sciences tools businesses are high quality.

We note that **Bayer**, too, reported a failed trial in what had been thought of as an important asset. These two companies have much in common being German conglomerate structures where pharmaceutical innovation is clearly disappointing compared to companies in other parts of the world. Big pharma and small biotech companies seem to be outperforming these mid sized, German companies.

The retreat of **Neste's** shares is explained by the company's announcement that its crude oil refinery at Porvoo, Finland, will need to close for maintenance in early 2024. Clearly this will affect profits. The company also announced its intention to transform its Porvoo refinery into a renewables and circular solutions refining hub over ten years. This refinery is very profitable, not least because so much of Europe's refining capacity has shut over the last twenty years. It has proved to be strategically very important so news that it is to shut in due course is not necessarily good news.

Soitec's shares declined, but this was only a minor correction after a period of strong performance.

GTT shares, too, weakened slightly but, again, this was only a small setback after a strong bounce in the shares.

Trading activity in December was higher than usual as we continued to reduce gearing. Indeed, we ended the month with no net debt. Any cash balances that we raise in January for the purposes of satisfying the tender offer for up to 25% of your Company's shares at the month end will be invested in suitable ETFs linked to the Company's benchmark, the MSCI Europe index, and thus we anticipate that we will be fully invested throughout January. If share prices weaken markedly as we raise funds for the tender offer, it may be that we will seek to use Company's the borrowing facility. The availability of a gearing facility is a crucial feature of investment trusts, one of the main differentiating features from UCITS open-ended funds. Even though we are currently not using the borrowing facility, we are ready to gear the fund in what we consider to be the right circumstances.

We sold some of our **Neste** holding in response to the company's recent announcements. We bought an MSCI Europe ETF as a liquidity instrument which we can sell in short order to fund the tender offer at the end of January. We also slightly increased our holding in **BAE Systems** on the back of news of further order wins.

Outlook

As always, prospects for our portfolio depend on individual stocks rather than the macro environment or sentiment. We are confident that out-performance will follow if our investee companies are able to convert the transformational opportunities they have before them. Raising funds for the tender offer is an opportunity to re-evaluate our holdings, the result of which might be that individual stock weightings change.

We wish you a happy new year for 2024 and we would like to thank you for your continued support.

Yours faithfully

Alexander Darwall
Chief Investment Officer
Devon Equity Management Limited
Notes -

On 5 December the Company published a circular to Shareholders which contains details of a proposed **tender offer** for up to 25% of the Company's shares in issue. A General Meeting of Shareholders was held on 21 December at which the proposed tender offer was approved. Please click here to read the circular, which sets out details of the actions to be taken by Shareholders.

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

Click here if you would like to be added to the subscriber list for these monthly updates.

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.