Results analysis: BlackRock Greater Europe

BRGE was the top-performing European trust during its most recent financial year...

Update
09 November 2023

- **BlackRock Greater Europe (BRGE) has delivered strong results for the year to 31/08/2023. The NAV total return was 19.2%, comfortably ahead of the reference index, the FTSE World Europe ex UK Index, which delivered a total return of 15.8%. Share price total returns were also ahead of the index at 17.1%. This made the trust the top-performing in the AIC Europe sector over the period, as well as over five years.**

- **Investments in the semiconductor industry were key contributors to relative returns as they rebounded following a weak 2022. Novo-Nordisk was another key stock, rallying 60% over the year on the success of its obesity treatment, Wegovy.**

- **Post-period end, in September, the trust was promoted to the FTSE 250 Index while Alexandra Dangoor has been named as co-portfolio manager, joining lead manager Stefan Gries. The appointment reflects Alexandra's strong track record as a research analyst, as well as the European Equity team's ongoing commitment to the development of talent from within. The appointment also returns the company to a co-portfolio manager structure.**

- **The board announced an increased final dividend of 5p a share, up from 4.85p in 2022, on top of an already paid interim of 1.75p (2022:1.75p). Revenue more than covered the dividends. At the time of writing they equated to a historic yield of c. 1.4%.**

- **Over the year to 31/08/2023, the shares traded at an average discount of 5.4%. The board bought back 698,692 ordinary shares at an average discount of 6.2%. Since the year end up to 03/11/2023, a further 188,000 ordinary shares have been repurchased. However, the board elected not to conduct the discretionary half-year tenders during the year or following the year end, citing the volatile market conditions and recognising the trust has been on the narrowest discount in the peer group.**

- **Chairman of the board Eric Sanderson said: "Our portfolio managers will continue to favour companies that have resilience, robust balance sheets, strong cash flows and management teams with deep experience through multiple cycles. Your board remains fully supportive of their approach, as markets tend to reward companies with stronger quality credentials amid heightened uncertainty."**

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Kepler view

These are strong results from **BlackRock Greater Europe (BRGE)** driven by the success of some of the world's leading companies in areas of long-term secular growth. We think this is not only evidence of the good stock-picking skills of the management team, but also highlights the attractions of investing in European equities – they include plenty of companies which can deliver attractive earnings growth even if the continent's economy is sluggish.

Returns were driven by companies which have been held for some time, including Novo-Nordisk as well as a number of companies in the semi-conductor industry. The strategy is to be long-term in outlook and Stefan maintained positions through relative weakness to reap the benefits when earnings growth came through. Overall, turnover was only 16% during the year, illustrating this long-term approach. This compares to 17% in FY 2022, and shows that Stefan stuck to his approach through two volatile years in terms of news flow and equity market movements.

Among the long-term themes in the portfolio which Stefan argues are providing opportunity whatever the level of growth, interest rates or inflation is the reorganization of supply chains to bring manufacturing closer to domestic markets. Stefan cites Atlas Copco as an example of a company which stands to benefit over many years. It is a leading provider of specialist vacuum and compressor equipment amongst other things to the semiconductor industry and others. Similarly, Stefan points to decarbonization as a trend which will drive company earnings over the long-term whatever the cyclical ups and downs in the economy. BRGE owns Sika, which provides chemicals used in construction, and Kingspan, which makes insulation products, and Stefan argues both should see growth in demand thanks to their strengths in providing support to governments' decarbonization agendas.

We note that investors have shown little interest in European equities this year, with flows being weak. Fretting about European growth is likely to be one reason, as well as the higher attractions of fixed interest investments in a higher interest rate environment. However, we would argue that equities with superior earnings growth are likely to deliver highly attractive returns over the long run, and returns ahead of inflation - high quality companies should be able to push through inflationary price increases over time. BRGE offers exposure to high quality, European-listed companies which we think have the potential to grow through tough times and as a result it could provide an attractive core investment in Europe for long-term investors.

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