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Results analysis: BlackRock Greater Europe

BRGE introduces enhanced dividend policy.

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- BlackRock Greater Europe's (BRGE) final results to 31/08/2026 show NAV and share price total returns of 8.8% and 8.4% respectively. BRGE's reference index, the FTSE World Europe ex UK, produced a total return of 20.9% over the same period. Over five years BRGE's NAV and share price total returns were 0.5% and -6.3% compared to 59.1% for the benchmark.
- Performance primarily reflects a continued challenging environment for quality growth investing. Stock selection has also been a negative factor. Following his appointment on 31/03/2026, manager Benjamin Moore has broadened the range of companies considered for investment, including businesses and industries where returns are improving, and has made changes to the portfolio to reflect this. Relative performance in the second half of the year has improved, and the portfolio has outperformed since Benjamin's appointment.
- Total dividends for the year were 8.00p (2025: 7.15p), an 11.9% increase. BRGE has increased its dividend every year for 20 years and now qualifies as an AIC 'Dividend Hero'. The dividend will be funded from current revenue together with a small transfer from revenue reserves.
- The results set out several initiatives: an enhanced dividend policy, a reduction in management fees, a conditional tender offer and the strategic use of gearing, summarised below.
- Enhanced dividend policy. BRGE will target an annual dividend equivalent to 4.5% of NAV at the preceding financial year end (31/08), payable quarterly with three equal interim dividends and a final dividend. BRGE's board is committed to increasing the dividend in absolute terms to ensure the progressive nature of the policy, which means that, in effect, the dividend will be, at least, the higher of 4.5% or the previous year's dividend. The policy will be funded from a mixture of revenue and capital reserves, and the managers remain free to target investments without any consideration of their dividend yield. There is a dividend reinvestment scheme for shareholders who prefer to have dividends automatically reinvested.
- Reduction in management fees. With effect from 01/09/2026, the management fee was reduced to 0.60% (previously 0.65%) on net assets up to £400m, 0.55% (previously 0.60%) between £400m and £1bn and 0.525% (previously the same) thereafter. The revised fee will result in a reduction in the ongoing charges ratio, which is estimated to fall to 0.75% post-implementation.
- Conditional tender offer. Should BRGE underperform the FTSE World Europe ex UK index in the five years to 31/08/2031, a tender offer for up to 25% of shares at a 2% discount to the prevailing NAV will be triggered. This is in addition to, rather than a replacement for, the twice-yearly discretionary tender offer mechanism already in place.
- Strategic use of gearing. BRGE will now target a baseline gearing level of 10% in market environments where earnings are growing and increase this when the team see market dislocations leading to mispricing of quality assets. Gearing will be reduced in scenarios where earnings risk is materially heightened, with the investment manager having the flexibility to hold net cash up to 15% of the portfolio to the extent the portfolio managers wish to take risk off. The current gearing range of 0-15% remains unchanged and in normal market circumstances the trust would be at least fully invested. Recognising that use of derivatives such as total return swaps is significantly cheaper than traditional borrowings, the investment policy will be amended to allow the use of derivatives for gearing purposes.
- As part of these initiatives, BRGE is proposing to change its name to BlackRock European Growth & Dividend Trust to reflect the new dividend policy.

- **BRGE's discount averaged 5.9% over the year. Buybacks aimed at damping discount volatility totalled 5.8% of shares in issue and the low average discount meant that the board did not utilise the twice-yearly discretionary tender offer mechanism.**
- **Russian securities update: Given the uncertainty of being able to sell Russian assets, they are held at a nominal value of £0.01. At the financial year end, the local value was c. £21.9m. Dividends paid from these securities are held in a frozen custody account in Moscow and amounted to £2.5m. Again, there is no certainty this income will ever be released, and it is not reflected in the NAV or income statement.**
- **Andrew Impey, chair, said: "...we are positioned to take advantage of opportunities across semiconductors, electrification, banks, defence, select industrials and civil aerospace, as well as some defensive assets within healthcare. Our portfolio managers believe that the backdrop for European quality growth companies is becoming increasingly supportive, notwithstanding the current geopolitical and interest rate environment, with the relative underperformance of European companies leaving many businesses trading on attractive valuations. We believe this disconnect creates a favourable environment for quality growth companies to recover performance when investors focus on fundamentals."**

Kepler view

What investors want from an investment trust obviously evolves over time and the set of initiatives announced in the results is a good reflection of how an investment trust can serve today's investor. **BlackRock Greater Europe's (BRGE)** enhanced dividend policy marries the best parts of the traditional progressive dividend with dividends funded from reserves. This means that over the long term, BRGE's dividend growth should correlate to the portfolio's capital growth, and therefore the opportunity is for dividends to grow faster than inflation. But at the same time the policy protects shareholders from large reductions in the dividend in years when markets, and BRGE's NAV, are down. Income investors increasingly have the choice, through investment trusts such as BRGE, to diversify their sources of income and to add exposure with higher capital growth prospects. As more and more investors choose to stay invested into retirement, the chance to combine the two should find a natural buyer.

The utilisation of derivatives for gearing is also a sensible update, in our view, with many investment trusts now choosing to use instruments like total return swaps instead of conventional debt. Together with another reduction in management fees, this should help reduce friction costs for those same long-term investors.

On the other hand, it's important to acknowledge that BRGE has, for many years, been a leader in discount control, predating the most recent phase of widespread discount problems which began a few years ago, and it's notable that, throughout the trust's difficult performance period, it has maintained a discount in the mid-to-low single digits with an active share buyback. This 'front-foot' approach means that the board has never had to use the discretionary twice-yearly tender mechanism, which can instead be considered as a backstop mechanism. Likewise, the newly introduced conditional tender is a recognition that BRGE has been through a tough performance period and that this needs to improve.

At the interim results earlier this year, new manager Benjamin Moore set out the refinements to BRGE's investment approach. This remains firmly in the 'quality growth' camp, but with a broader spread of investments and a slightly more cautious eye on valuations. What seems clear to us all now is that quality growth has, as a style, been stuck in the middle of a tussle between more speculative growth and value investing – both of those styles have had a much better time in the years since interest rates rose in Europe. Markets are now turning more cautious on speculative growth, and as Benjamin notes, there is little gap in valuation between quality growth and value stocks. If the short-term market caution and rotation into more defensive – say it quietly – 'quality' names gather momentum, BRGE's recent recovery in relative performance could turn into something more long term.

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