



Results analysis: BlackRock Greater Europe

BRGE's outperformance is driven by its portfolio of global leaders in their fields...

Update
08 November 2024

- BlackRock Greater Europe's (BRGE) final results to 31/08/2024 show an NAV and share price total return of 16.4% and 15.5% respectively. BRGE's reference index, the FTSE World Europe ex UK produced a total return of 15.8% over the same period, and BRGE's peer group index, the Morningstar IT Europe Index, produced an NAV total return of 14.7%.
- Over five years BRGE's NAV and share price total returns were 71.7% and 66.6% compared to 46.7% and 50.5% for the same two comparators.
- The two largest positive contributors to performance were Novo Nordisk and RELX. Novo continued to see strong sales growth globally, with the US a core market, and the team believe that it to be a dominant player in the GLP1 market for the foreseeable future. They see RELX as an AI winner, with its large resource of specialist data it sells to the legal and scientific, technical and medical sectors enhanced by its development of various AI tools allowing its customers to better utilize that data.
- BRGE's semiconductor holdings benefitted from a recovery from the cyclical trough for the industry in 2023, with large technology businesses ramping up capital expenditure to stay in the race for generative AI products.
- Together with the interim dividend already paid, the final dividend of 5.25p brings the annual total to 7.0p. BRGE primarily targets capital growth and has a relatively low yield, currently c. 1.2%, but this marks the 18th consecutive dividend increase for the trust and an increase of 3.7%. Over the last 10 years BRGE has increased its dividend at an annualized rate of c. 4%.
- BRGE's discount averaged 5.6% over the year, compared to 8.5% for the peer group. The board spent c. £10.2m on share buybacks over the year and post year end a further £6.3m, with the objective of maintaining a relatively narrow discount. Having maintained the narrowest discount in the peer group, the board concluded it would not operate BRGE's half yearly discretionary tender offer mechanism.

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- Gearing was 8.0% at the period end and is currently at a similar level. After a volatile period where gearing was reduced, over the last year the manager has restored gearing to longer-term average levels.
- Update on holdings in Russia. The board notes that there can be no certainty that any value will ever be released from these holdings, but notes that dividends from Russian holdings, paid into an account in Moscow, amount to a sterling equivalent of £2.45m and that the value of the Russian shares trading on the local exchange have a sterling equivalent value of £23.1m. Revenue is valued at zero and the shares are valued at a nominal 0.01p in BRGE's NAV. Overall, BRGE has zero weighting in developing European markets.
- Eric Sanderson, chair, said: "There are uncertainties in the outlook based on events such as the recent elections both in the US



and Europe, inflation and interest rates, as well as geo-politics. However, a combination of interest rates starting to trend downwards (the ECB has indicated a clear direction after easing policy twice since June) and signs of moderate but improving economic momentum, give reasons for cautious optimism for the European economy and its stock markets. European stocks are attractively valued both relative to their history and global markets, especially so in comparison to the US market. This could bring positive returns, helped by the macroeconomic environment, the potential for improvement in corporate earnings and the increased use of buybacks by European management teams returning capital to shareholders.”

Kepler View

The **BlackRock Greater Europe (BRGE)** team’s focused approach, with 34 stocks in the portfolio and a long average holding period of 3 to 5 years has paid off with outperformance in another year when investors might be a bit surprised that the European index has done so well. Sometimes the absence of content is just as interesting as the content itself, and in BRGE’s very comprehensive manager’s report there is very little discussion of European macroeconomics. This reflects the team’s very strong focus on stock picking, but also the fact that BRGE’s portfolio is a collection of companies with a global outlook. Novo Nordisk is the extreme example of that, with a market cap larger than the GDP of its home country Denmark, and its largest market is the US. Likewise, the team’s holding in ‘luxury brand’ Ferrari, which is about Italian as it gets in popular perception, counts Italy as only its fifth largest market, again with the US as the largest single market, and with an ability to restrict supply of new models, increase prices and sell to its existing customer base. The team is carefully navigating the luxury goods theme overall though, with long-term holdings in LVMH and Hermes being pared back as the decade-long theme that has driven the performance of these companies, in simple terms being the rise of the Chinese consumer, coming under increasing pressure at the same time as inflation has put pressure on consumers elsewhere seeking the aspirational products of these companies.

The main observation the team does make about Europe as an entity is that European equities, despite a market composed more of healthcare, industrial and technology growth companies and less of oil and banking stocks than it was a decade or more ago, sits at an historically wide discount to the US, even as the market has risen 15% over the last year. In our view, while some of this discount may persist through differing investor perceptions of the two regions, sentiment to European equities is particularly

weak, with outflows from European equity funds from 2022 to date in contrast to more than just respectable corporate performance among some of the market’s largest constituents. A shift in sentiment could provide the impetus for some of that valuation discount to close, which could have a very positive impact on BRGE’s portfolio companies and hence BRGE itself. In the meantime, the board has kept a laudably tight lid on the discount, which means investors haven’t lost out in share price terms in a period when sector-wide discounts have proved a disappointment for some. This helps BRGE stake its claim as a core European equity holding for long-term investors.

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