



Portfolio update: BlackRock Greater Europe (BRGE)

BRGE is positioned for Europe's long-term revival.

Update

22 December 2025

- Under manager Stefan Gries' tenure beginning in June 2017, BlackRock Greater Europe (BRGE) has delivered strong performance compared to both the Morningstar Europe peer group and the MSCI Europe ex UK benchmark, with an annualised NAV total return of 9.1% compared to the two comparators' respective 6.9% and 7.3% annualised returns (figures from 30/06/2017 to 10/12/2025).
- In the last year, however, BRGE has trailed the index with a NAV TR of 6.7% compared to the index's 19.5% (figures to 10/12/2025). Whilst the peer group average is also ahead of BRGE, at 12.7%, underperformance of the peer group over this period provides some of the context for BRGE's own recent performance. First, a strong year for European equities at an index level has been led by strong price performance by banks, an area that BRGE and many of its peers tend to be underweight in. Second, BRGE's strategy has tended to favour Europe's 'global champions' and this year has marked a resurgence of more domestically orientated stocks, with investors taking an optimistic view of Germany's infrastructure spending plans as a means to stimulate the economy, as well as the long-term prospects for defence spending in Europe. Third, index heavyweight Novo Nordisk has been a key holding for BRGE for some time and has suffered both from competitor products and changes in senior management that not all shareholders have welcomed, resulting in a more than halving of the share price. More generally, however, Stefan and the team believe that underperformance is driven by style factors, with value and domestic names favoured over BRGE's core of quality growth stocks, rather than specific corporate issues. In many cases, therefore, holdings have been retained.
- That said, Stefan and the team have carefully reviewed the portfolio and the investment landscape and have made some evolutionary changes to give greater recognition to long-term growth trends in defence spending and to Germany's infrastructure spending plans. BRGE's gearing is c. 8%, having risen a little over recent months as the portfolio has evolved and some new positions have been added.
- Further, BRGE's board noted in the recent annual results to 31/08/2025 that, following a proposal from BlackRock, Stefan would be joined by his colleague Brian Hall as co-manager of the trust, starting on 04/11/2025. Whilst BRGE's core proposition remains as a quality growth investor,

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and there are no changes to the investment objective, Brian's approach is more value-orientated, and is expected to lead to a more balanced portfolio in terms of valuations. The two have worked closely together for many years and, like Stefan, Brian also invests in 'quality' companies, and therefore investors should not expect a shift into deep value or turnaround situations, for example.

- BRGE has maintained a narrow discount throughout the different phases of its performance. Currently, c. 6%, the discount has averaged 4% over the last five years. The board takes an active approach to managing the discount using share buybacks dynamically, for example, repurchasing c. £23m of shares in 2025 year to date and a similar amount in 2024. Whilst there is no specifically stated discount number that the board targets, consistent use of share buybacks suggests it prefers to maintain it in low single digits.

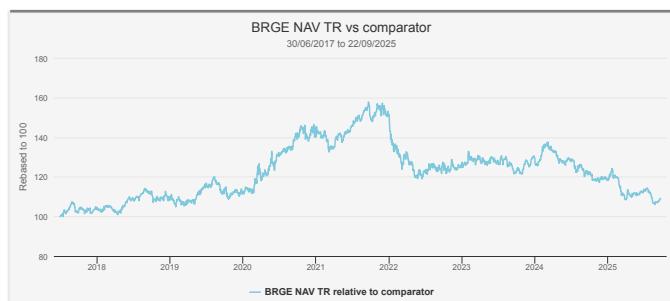


Performance

Since lead manager Stefan Gries began his tenure managing the trust, the NAV total return (TR) has annualised at c. 9.3%, ahead of the benchmark and peer group and establishing a strong track record for the trust that has at times been rewarded with a premium rating and periods of share issuance. The last five years has seen a more mixed picture, with **BlackRock Greater Europe's (BRGE)** NAV and share price TR over the last five years of c. 36% and 38% respectively, compared to the Morningstar Europe peer group's NAV TR of c. 49%, and the benchmark's 68% TR. The largest source of this underperformance has occurred during the last year, with European equities performing strongly, but with market leadership coming from areas in which BRGE is typically underweight, notably the banks sector, as well as a variety of more domestically orientated stocks benefitting from investor optimism over Germany's planned stimulus package of infrastructure spending. At the same time, Novo Nordisk, the index heavyweight and one of BRGE's larger holdings over the last five years, has seen a more than 50% share price decline through a mixture of lower cost competition and changes in the company's management, which were not welcomed by the market. Whereas this might not spell the end for the Novo Nordisk story, Stefan and the team took the difficult decision to exit the position as they believe that issues will take time to work out, and BRGE is a distinctly active portfolio that doesn't need to own stocks due to their size in the index.

With BRGE's overall outperformance under Stefan's management tenure, beginning in June 2017, having occurred in distinct phases, the best way to visualise things is with a relative chart, dividing BRGE's NAV total return by, in this case, an ETF tracking BRGE's benchmark index. The chart clearly highlights the recent period of underperformance, but also shows the overall outperformance since Stefan took on his management role.

Fig.1: Relative Performance



Source: Morningstar

Past performance is not a reliable indicator of future results.

Thus, we can see that BRGE's performance tends to be stronger when growth, particularly quality growth, is performing better, which was the case in the 2020 to 2022 period, and to underperform in scenarios such as rising interest rates putting pressure on growth stocks, or where investors are favouring more value-orientated sectors. However, BRGE has an active approach, and as we see in the next section, it is able to evolve its exposure as the investment landscape changes. During 2025, there has been a significant reallocation by institutional investors into European equities, in part driven by improving prospects for Europe's domestic economy, as well as on relative valuation grounds and by investors seeking to diversify portfolios from a more unpredictable US market. We would expect that if capital that has flowed into Europe in the short-term stays for any length of time, the market will broaden beyond the relatively narrow focus on banks and domestically orientated stocks, and BRGE is well positioned to benefit from this.

Positioning & outlook

As noted above, whilst many of the holdings that have underperformed the market have done so for style reasons rather than a change in the overall thesis, Stefan and the team have carefully reviewed the portfolio and made some changes in emphasis. For example, the outlook for defence spending in Europe has improved notably and is accompanied by an objective to build a more robust domestic European defence industry. Whilst it is true that some defence stocks saw some wild speculative moves in the latter stages of 2024, the team believe that the long-term outlook for the sector is strong, and that there is a particular emphasis among European countries to bolster the domestic defence economy. France's Safran Group, a long-term holding in the portfolio, is not a pure play defence stock but, alongside its commercial aero engine business, supplies the defence sector in a broad range of technologies, pertinently being a leader in drone technology. Germany's MTU Aero Engines is another long-term holding and is a leading supplier to the German armed forces, as well involved in various partnerships with other leading businesses such as Rolls-Royce and GE. More recently, Norway's Kongsberg Group has been added to the portfolio. Kongsberg's defence division specialises in areas such as missiles, air defence, and autonomous underwater vehicles.

Another stock the team have added more recently is Nemetschek Group, which provides software solutions for the construction and architecture industry, and which could therefore be a significant beneficiary from Germany's infrastructure spending plans. A business like this also gives BRGE an option over an end to the war in Ukraine, with Europe likely to be heavily involved in



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post-war reconstruction. Stefan cautions that politicians are prone to announcing the same spending more than once, and that infrastructure projects can take years or decades to come to fruition. But nevertheless, Germany's plans do appear to be backed by reality and could be a significant positive for the economy. In Spain, the addition of CaixaBank gives the trust exposure to one of Spain's leading retail banks with a strong position in the savings market.

An important sector for BRGE's longer-term outperformance has been the luxury goods sector, with businesses such as LVMH, Hermes, and Richemont providing exposure both to the US consumer but also growing disposable income in China. The team reduced exposure to LVMH in 2024 following strong results, which they believed were unsustainable, following aggressive price increases and softening in the key growth market of China. Since then, the focus has been on more 'hard luxury' businesses such as Richemont, which has several luxury watch brands among many others, which they believe exposes the company to a wealthier customer base less susceptible to inflation, as well as Hermes, which they believe has a traditional product mix less reliant on innovation than LVMH in order to justify higher prices. This sector has suffered by association from this year's tariff negotiations between the US and Europe, but the team believe that ultimately, once this settles down, the products these companies sell appeal to a strata of consumers less susceptible to short-term economic fluctuations.

Other areas of price weakness in the last year are the semiconductor equipment manufacturers ASML and ASM International. Stefan notes that both remain dominant in their niches, but recent softening in order books is assessed by the team as a follow-on consequence of post-COVID over-ordering by customers rather than a reflection of a deteriorating market share, and in the longer term, the equipment manufacturers will continue to benefit from global semiconductor demand. Both companies operate in specific niches with very high barriers to entry and have very high market share, and thus ultimately retain pricing power.

Finally, very recently, BRGE's board and manager agreed that Stefan's long-term colleague Brian Hall would join Stefan as co-manager beginning in November 2025. Brian manages BlackRock's European core strategy, which has generated annualised relative outperformance of 4.3% since 2019. Brian brings a more value-conscious approach. Both he and Stefan favour quality companies, but his approach over the years has been more skewed to lower valuations. This means that investors should not expect to see BRGE investing in deep value situations, but can expect to see a more balanced approach, which may result

in the average portfolio valuation being a little lower. With Brian only in-post for a few weeks at the time of writing, this change will become more obvious over the coming months.

BRGE is, at time of writing, net geared c. 8%, having risen from a below average position over recent months as the team reviewed the portfolio and made some of the changes noted above. Overall, BRGE's positioning has evolved somewhat to recognise changes in the landscape for Europe, with more emphasis on defence, a selective increase in banks, but, at the same time, keeping confidence in the long-term themes that have delivered BRGE's performance since 2017.

Kepler View

Focussed portfolios that don't reflect the construction of the index, can and do diverge from the index from time to time and whilst its disappointing that BRGE's performance has done so at a point when European equities have performed quite well, the point to take away from Stefan and the team's overview of their portfolio is that whilst, yes, there are some changes in the landscape, overall the recent underperformance is assessed as being for investment style reasons rather than a fundamental change in the investment case, with Novo Nordisk being the notable exception. We don't think the addition of another experienced co-manager will change that, but will bring a greater emphasis on valuations, which will likely result in BRGE, over time, having a little more balance in the portfolio. This makes sense in an environment where, for example, investors shifting from the tech-heavy US on valuation grounds might not immediately jump into the same sectors in Europe and perhaps instead be more drawn to lower-rated sectors such as the banks. Clearly, trade tariffs have played a significant role in investors' minds, but moving beyond the unsettling first phase, Stefan reflects that many of those stocks are already invested in manufacturing in the US, and that recent accounting changes in the US favour companies investing for growth. Thus, whilst the swing factor for a sustainable improvement in investor sentiment and capital flows towards Europe is an improving outlook for domestic economies, many of Europe's most successful companies are global in nature, and BRGE is well positioned to capture the upside these companies offer.

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