

SHINING A LIGHT ON..... BLACKROCK GREATER EUROPE INVESTMENT TRUST

At a glance

Since Draghi's 'do whatever it takes' speech in 2012 the markets have become less worried about the collapse of the Euro and peripheral economies. There is a greater confidence around political stability in Europe.

However, investors continue to be wary of Europe which is reflected in negative inflows over the last five years. Towards the end of 2013 the outflows reduced and although still negative in aggregate it continues to narrow. As a consequence we are seeing more European fund managers on the road explaining why now is the time to invest.

We recently reviewed the JPM Europe Dynamic Fund and in this review we will consider the BlackRock Greater Europe Fund. The key differences between the funds are that the Trust can invest up to 25% in Emerging Europe (currently it holds around 11% in Emerging Europe), it holds fewer stocks (currently 59 but can be as low as 30 and as high as 70) and there is a conviction bias with the highest holding making up nearly 6% of the Trust.

Performance is similar to JPM Europe Dynamic Fund although it underperformed the JPM Fund in 2013. It has significantly outperformed the benchmark over the last five years. This is an investment trust and currently has a narrow discount of around 2%.

In this review we will consider this fund further.

Who are the team behind the fund?

The fund is co-managed by Vincent Devlin and Sam Vecht. Vincent Devlin is a member of the European Equity team within the Fundamental Equity division of BlackRock's Alpha Strategies Group. He is responsible for European long/short and continental European portfolios, adopting a flexible style. Prior to joining BlackRock in 2008, Vincent was an investment director with Scottish Widows Investment Partnership from 2000, responsible for European and Euroland portfolios. Vincent was a European investment manager at Insight Investments from 1998 and began his career as an investment analyst with the Co-operative Insurance Society in 1994.

Sam Vecht is head of the BlackRock Emerging Markets Specialist team. Sam manages the BGF Emerging Europe Fund, the BSF Emerging Markets Absolute Return Fund, the Emerging Europe Investment Trust, the Frontiers Investment Trust and the Emerging Frontiers Hedge Fund.

Vincent's performance is mixed demonstrating strong outperformance in falling markets (3 years out of 3 years) but in a rising market he has only outperformed the peer groups 4 years out of 7.

What is the story behind the investment?

Some commentators argue that the US has had a strong run and there is not much more that can be gained from this market whereas the opposite is true for Europe. Although the European market was one of the strongest in 2013 much of it was through re-rating rather than growth.

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The lead indicators (PMI and Consumer Confidence) indicate that this growth can come through in 2014 (although the economies are very fragile). The Q1 and Q2 corporate earnings news will be a crucial to how 2014 will behave.

Additionally companies in Europe are sitting on over €1 trillion on balance sheets. As companies feel more confident on the outlook the markets would expect this money to be put to use. This could be through M&A activity, buy-backs and special dividends.

If the news is positive the belief is that the second half of the year could be strong for European equities.

Fund highlights?

The performance in 2013 was driven by the peripheral regions and the trust was not aggressive in allocating enough assets to this region. This meant that although the trust outperformed the index it was behind others funds in the sector.

Where the managers have identified opportunities going forward is in the domestic space. These stocks have tended to underperform those with emerging market exposure. However, with the uncertainty in emerging markets they believe the reverse will occur. This has meant they have sold out of the likes Reny Cointreau and Kering.

The stocks they favour at the moment are strong European Banks – KBC, Commerzbank and ING are examples. Commerzbank has returned nearly 100% since October and the managers believe that the stock is coming to the end of its cycle.

Another stock is Continental which is an auto supplier, predominantly tyres. When they invested in the stock it was an indebted company trading at 8 times earnings, they have re-financed their debt and are trading at 11 times earnings. They believe there are more opportunities to drive the business forward; for example they have invested in engine technology, which will benefit from the increase in European car sales (coming from an all-time low in 2013).

The trust does favour large cap stocks but will invest in the mid-cap space. As an example, Adecco is an employment agency which will gain from an improvement in the job market across Europe.

Its highest holding is Roche but it also has holdings in other health care companies including GN which has recently developed a product which syncs hearing aids with an iPhone and Grifols which specialises in blood plasma.

Similar to JPM this is a stocks picker's fund. The managers believe that domestic Europe is where returns will come from and have positioned the fund to benefit from this. It does have a lower number of holdings to JPM and there is a greater conviction. It would be difficult to favour one fund over the other as performance is similar. JPM focused on peripheral companies in 2013 and BlackRock didn't. JPM may not be able to repeat the performance this year whereas BlackRock's focus on domestics may drive better performance. Investors therefore need to consider long term which style of management they prefer and accept there will be periods where one outperforms the other.

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Fund performance

The table below shows performance over the last five years and going into 2014:

	2009	2010	2011	2012	2013	2014
BlackRock Greater Europe Investment Trust	28.36%	15.63%	-13.66%	21.51%	27.18%	3.32%
JPM Europe Dynamic (ex-UK) Fund	16.61%	16.03%	-19.21%	21.88%	36.89%	3.33%
iShares MSCI Europe Ex UK	15.08%	1.95%	-17.85%	14.00%	21.74%	2.28%

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

Conclusion

The fund has demonstrated its ability to outperform the market index. It carries a slight discount and is positioned in domestic stocks on the basis that the recovery will strengthen in 2014. Compared to JPM Europe Dynamic which we recently reviewed there is little difference in terms of performance however in terms of holdings it is more concentrated with more conviction around stocks they believe will be long term drivers of performance.

The source of information in this note has been provided by BlackRock and is correct as at February 2014. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well rise.