

The European Smaller Companies Trust PLC

Summary for the half-year ended
31 December 2023



MANAGED BY

Janus Henderson
— INVESTORS —

Investment Objective

The Company seeks capital growth by investing in smaller and medium sized companies which are quoted, domiciled, listed or have operations in Europe (ex UK).

Front cover:

Granulated materials being supplied to a fluid production process.

NORMA Group

Percentage of portfolio: 0.48%

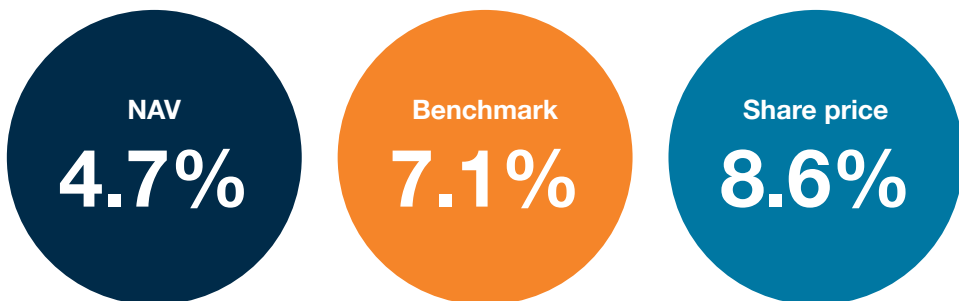
Geographical area: Germany

Designer and manufacturer of engineered joining technology such as couplings, claps and connectors.

This report contains material extracted from the unaudited half-year results of the Company for the six months ended 31 December 2023. The unabridged results for the half-year are available on the Company's website:

Performance highlights

Total return performance for the six months to 31 December 2023



NAV per share

31 Dec 2023

189.29p

30 June 2023

184.26p

Share price

31 Dec 2023

163.50p

30 June 2023

154.00p

Total return performance

(including dividends reinvested and excluding transaction costs)

	6 months %	1 year %	3 years %	5 years %	10 years %
NAV ¹	4.7	11.6	14.8	91.6	201.9
Benchmark index ²	7.1	11.1	8.0	54.9	136.4
Average sector ³ NAV	2.9	7.3	-0.7	60.5	152.1
Share price ⁴	8.6	14.0	10.4	93.1	199.0
Average sector ³ share price	5.2	7.2	-5.2	60.3	146.3

1 Net asset value ('NAV') per ordinary share total return

2 Euromoney Smaller European Companies ex UK Index up to 30 June 2022, thereafter the MSCI Europe ex UK Small Cap Index

3 The sector is the Association of Investment Companies ('AIC') European Smaller Companies

4 Share price total return using closing price

Source: Morningstar Direct, Janus Henderson Investors

Chairman's Statement

Performance

The European economy has proved to be far more resilient than the bears had feared, though there has been a wide dispersion between the various economies. Curiously, we have seen an inversion of the economic narrative on the continent, with peripheral countries such as Portugal, Ireland and Greece delivering strong performances, while core economies such as Germany and France have struggled, even as gas prices have stabilised. It now seems apparent that inflation has been somewhat brought under control and that the interest rate cycle has peaked, which should allow the pressure on the core economies to alleviate. This in turn should help stock markets begin to rerate from very cheap levels and provide the opportunity for the value in the portfolio to be recognised.

NAV total return performance for the six months to 31 December 2023 was 4.7%, behind our benchmark of 7.1%. This was driven by our higher exposure to smaller capitalised companies in comparison to our immediate competitors, a cyclical bias in the portfolio and some poor stock selection. The share price total return, however, was considerably stronger than NAV growth with an increase of 8.6%, against the AIC European Smaller Companies sector of 5.2%.

Discount management

The Board continuously monitors the level of the discount and evaluates the appropriateness of buying back shares when we believe this is not indicative of the sector. The end of the summer break saw nearly all investment trusts step to wider discounts, with the average across the sector reaching -19%. However, as interest rate expectations turned in November, sentiment rapidly improved towards the close of the year, particularly for trusts with a small cap exposure. We consider the principal driver for this narrowing to be the European smaller companies sector coming back into favour as economic prospects begin to brighten.

Over the six months to 31 December 2023, the Company's shares traded in a range of -12.9% to -17.9%, averaging 14.5% and narrowing to 13.6% at the end of the period. In conjunction with your fund management team, we decided to repurchase 545,988 shares in the Company during the period at an average price of £1.40. The Board takes the discount of the Company's shares compared to its NAV seriously and we consider share repurchases at wide discounts to

be part of a sensible balance when allocating capital and creating value for our shareholders.

Interim dividend

The Board is pleased to declare an interim dividend of 1.45p (2022: 1.45p) per ordinary share for the year ending 30 June 2024. This will be paid on 3 May 2024 to shareholders on the register at 5 April 2024.

We remain confident that the Company will be able to deliver a healthy dividend as the underlying portfolio companies continue to generate steady cash flows. We may, however, not achieve the significant growth of recent years, particularly if the economy improves, as it is likely to lead our fund management team placing greater emphasis on capital growth.

Outlook

European smaller companies have rarely traded as cheaply as they currently do. Investors have shunned the space as concerns about an impending recession, that has yet to materialise, have dominated the attractive valuations. Performance over the period has reflected our bias towards investing in smaller capitalised companies, meaning we have not benefitted from the recent returns delivered by the mid-cap space. However, the Board is confident that the growing optimism will reach the smaller companies sector in due course.

Whilst energy prices remain elevated in Europe, falling interest rates and increasing consumer optimism should help drive stock markets. We remain of the view that we are unlikely to go back to the negative/zero interest rate era that we left after the pandemic, but we do see scope for interest rates to drop meaningfully. European smaller companies are first and foremost a derivative of global growth and the remarkable performance of the US is encouraging from that perspective, though we keep a wary eye on the struggling Chinese economy as it wrestles with a bursting property bubble.

We believe your fund management team has an abundance of very attractively priced investment opportunities at their disposal and are diligently pursuing the best ones to deliver returns for our shareholders.

Christopher Casey
Chairman
26 February 2024

Fund Manager's Report

The beginning half of the financial year ending 30 June 2024 has seen the Company underperform its benchmark by 2.4%. This was due to a combination of reasons. First, our size bias to smaller companies continued to be a detractor. Second, the portfolio had notable positions in the consumer discretionary and industrials sectors, while the market continued to worry about a recession that has yet to come. As these sectors are traditionally vulnerable in a recession, their prices were suppressed by the market. These two factors were exacerbated by some poor stock selection.

It has been an unusual period, with US, UK and European stock markets being driven by a small number of large cap companies. The US has 'The Magnificent Seven', the seven tech stocks that have dominated index performance. In Europe, we have large-cap names such as GLP-1 producer Novo Nordisk, semiconductor equipment titan ASML and luxury goods behemoth LVMH. We think the focus on these companies partly reflects a search for safety in liquid names and is partly motivated by a thematic focus on obesity drugs, Artificial Intelligence and luxury goods. We expect the performance of stock markets to broaden in due course.

Sector positioning has been a frustration as the economy has been more robust than stock markets feared. However, we have experienced stock-specific challenges too. Dutch listed conglomerate **TKH** suffered from buyers destocking in its Smart Vision (machine vision technology) and Smart Connectivity (on- and offshore energy cables) divisions. Italian listed stator and rotor manufacturer **Eurogroup Laminations** was confronted by surprisingly lacklustre electric vehicle numbers, its main market.

Similarly impacted by the poor performance of electric vehicles was Dutch listed specialty minerals producer **AMG**, which suffered persistent earnings downgrades due to the collapse in the lithium price, tightly linked to electric vehicle sales. A further challenge came from an unexpected and highly dilutive rights issue from **ams OSRAM**, the Swiss listed semiconductor producer, forced by a stretched balance sheet.

Positive contributors to performance include Italian listed electronic component producer, **SAES Getters**, which sold its medical division for more than the market capitalisation of the company. Also positive was

Gaztransport et Technigaz, a producer of Liquefied Natural Gas ('LNG') container vessel liner systems. The company has taken large order volumes for its technology as the world is increasingly reliant on LNG to keep the lights on. Further support for performance came from **Alleima**, the specialty steel producer that was spun out of Sandvik Materials Technology at an attractive valuation and has benefited from its exposure to the medical and oil & gas sectors.

We opened a new position in **Eckert & Zielger**, the German listed producer of radioactive isotopes that we believe will benefit from the growth in nuclear medicine. We also opened a position in French listed semiconductor producer **S.O.I.T.E.C.**, in anticipation of renewed demand for new smartphones. We added Norwegian specialty chemical producer **Borregaard** as we think it has been too harshly derated on expectations of a recession. We also added Greek challenger bank **Optima** as it continues to take share in the Greek banking market.

We exited our positions in Italian truck producer **IVECO** taking profit as we have short-term concerns about the shape of the global truck cycle. We sold our position in French financial advisor **Rothschild & Co.** as the family took the company private. We also exited our position in Dutch listed food equipment producer **Marel** over governance concerns.

As we look into 2024, the inflation beast looks largely slain and we anticipate interest rates will fall over the course of the year, though we do not think we are returning to a world of zero inflation and zero rates. The European economy has been remarkably resilient in light of the challenges of the energy shock, the supply chain shock, the inflation shock and the resulting monetary policy responses. However, European smaller companies are still trading at extremely low valuation multiples. While we rarely struggle to find investment ideas at attractive valuations, we are currently spoilt for choice which makes for a very exciting environment. As sentiment begins to improve, we are focused on finding the best investment ideas to grow the value of your capital.

Ollie Beckett, Rory Stokes and Julia Scheuffler
26 February 2024

Financial summary

Extract from the Statement of Comprehensive Income	Half-year ended 31 Dec 2023 (unaudited)			Half-year ended 31 Dec 2022 (unaudited)	Year ended 30 June 2023 (audited)
	Revenue return £'000	Capital return £'000	Total return £'000	Total return £'000	Total return £'000
Investment income	6,444	-	6,444	6,746	25,054
Other income	11	-	11	1	9
Gains on investments held at fair value through profit or loss	-	31,881	31,881	61,176	96,206
Total income	6,455	31,881	38,336	67,923	121,269
Expenses, finance costs and taxation	(1,703)	(3,731)	(5,434)	(9,317)	(16,888)
Profit for the period and total comprehensive income	4,752	28,150	32,902	58,606	104,381
Return per ordinary share - basic and diluted	1.19p	7.02p	8.21p	14.62p	26.04p

Extract from the Balance Sheet	31 December 2023 (unaudited) £'000	21 December 2022 (unaudited) £'000	30 June 2023 (audited) £'000
Investments held at fair value through profit or loss	857,284	775,230	835,744
Current assets	4,523	3,481	7,325
Current liabilities	(104,031)	(80,032)	(104,427)
Net assets	757,776	698,679	738,642
Net asset value per ordinary share - basic and diluted	189.29p	174.29p	184.26p

Dividends

The Company has declared an interim dividend of 1.45p per ordinary share (31 December 2022: 1.45p) payable on 3 May 2024 to members on the register as at 5 April 2024. The shares will trade ex-dividend on 4 April 2024.

Share capital

At 31 December 2023 there were 400,321,188 ordinary shares in issue (31 December 2022 and 30 June 2023: 400,867,176). During the half-year ended 31 December 2023, the Company repurchased 545,988 ordinary shares for cancellation, at a total cost of £758,000 (31 December 2022 and 30 June 2023: nil). No ordinary shares were issued (31 December 2022 and 30 June 2023: same).

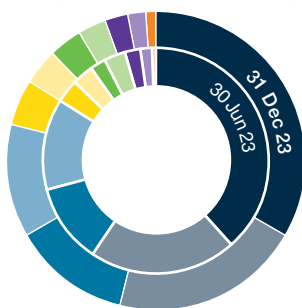
Portfolio information

Ten largest investments at 31 December 2023

Company	Sector	Geographical area	Valuation £'000	% of portfolio
Van Lanschot Kempen	Financials	Netherlands	25,879	3.0
TKH	Industrials	Netherlands	25,229	3.0
u-blox	Technology	Switzerland	16,463	1.9
KSB	Industrials	Germany	16,134	1.9
DFDS	Industrials	Denmark	15,494	1.8
Ipsos	Consumer Discretionary	France	14,557	1.7
Fugro	Industrials	Netherlands	13,897	1.6
Stroeer	Consumer Discretionary	Germany	13,832	1.6
eDreams ODIGEO	Consumer Discretionary	Spain	13,382	1.6
Nordnet	Financials	Sweden	13,151	1.5
10 largest			168,018	19.6

Sector exposure

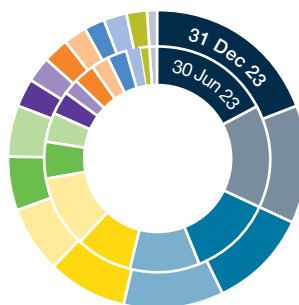
As a percentage of the portfolio excluding cash



	31 Dec 23 %	30 Jun 23 %
Industrials	33.4	38.6
Consumer Discretionary	20.7	20.9
Technology	12.8	11.6
Financials	12.2	13.0
Basic Materials	5.0	3.2
Utilities	3.7	3.1
Real Estate	3.6	2.3
Health Care	3.1	3.1
Consumer Staples	2.5	2.0
Energy	2.1	1.7
Telecommunications	0.9	0.5

Geographic exposure

As a percentage of the portfolio excluding cash



	31 Dec 23 %	30 Jun 23 %
Germany	19.4	17.4
France	12.8	14.6
Netherlands	10.8	11.9
Sweden	10.7	10.0
Switzerland	8.7	8.1
Italy	7.2	10.3
Spain	5.7	5.4
Belgium	5.7	4.2
Greece	3.0	3.2
Norway	2.9	2.3
Finland	2.6	3.0
Ireland	2.5	2.5
Denmark	2.4	2.8
Austria	2.3	2.0
Portugal	2.3	1.3
Malta	1.0	1.0

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MANAGED BY
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The Association of
Investment Companies



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