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**Company** [European Assets Trust NV](#)  
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### UNAUDITED INTERIM RESULTS - SIX MONTHS TO 30 JUNE 2014

#### • Total return\* performance for the six months to 30 June 2014

	Euro	Sterling
Net asset value per share	6.6%	2.5%
Share price per share	7.6%	3.6%
Euromoney Smaller European Companies (ex UK) Index	10.8%	6.6%

#### • Total return\* performance for the three years to 30 June 2014

	Euro	Sterling
Net asset value per share	63.7%	45.0%
Share price per share	94.1%	71.9%
Euromoney Smaller European Companies (ex UK) Index	39.8%	23.9%

#### • Annual dividend of 6% of opening net asset value per share (2014: Euro 0.7221)

	Euro	Sterling
January 2014 dividend paid per share	€0.233	£0.1916
May 2014 dividend paid per share	€0.233	£0.1893
A further dividend of €0.2561 will be paid on 29 August 2014.		

\*Capital performance with dividends reinvested

### Investment Manager's Review

***A confusing but ultimately positive first half with small caps again outperforming their larger counterparts, and our index outperforming the majority of global indices.***

In recent years the pattern of leadership in the market has been fairly obvious; in 2011 and 2012 quality companies performed well, while in 2013, as European equities rose on the back of economic optimism, value and cyclical growth lead the market. The first half of this year has been more confusing with investment trends changing from a buoyant first quarter to more of a cautious second quarter as leading indicators, while still remaining positive, softened. Ultimately our index rose +10.8%, though this was +6.6% in Sterling terms due to a weakening Euro. The reason for this can be explained by a combination of a faster growing economy in the UK and expectations of rising UK rates in contrast to expectations of continual low rates in Europe. This performance was again ahead of the corresponding large cap indices, although this was entirely due to a strong performance in the first quarter with

small caps giving back some of their performance in the second quarter.

In contrast with rising bond yields in the second half of 2013, perhaps in anticipation of improved economic growth, a feature of the first quarter was the reversal of this with softening economic data leading to fears of deflation and expectations of quantitative easing. This expectation was realised in June with the anti-deflation programme announced by the European Central Bank. These declining yields can explain some of the features of market performance in the first half, particularly after the initial few months of the year, as money shifted out of sections of the market that had performed well during the recovery towards large cap defensives that offered attractive dividend yields such as Utilities and Healthcare. In fact the hunt for yield or income was a significant feature of the year so far and can in part explain, alongside ECB support and perceived lower credit risk, a further narrowing of spreads between the peripheral nations. Indeed these countries performed particularly well in the first half with the Italian MIB and the Spanish IBEX leading European equities forward.

***Despite performance that lagged the benchmark it was another positive half for European Assets Trust.***

While we can be happy that we have moved the NAV forward in total return terms at 2.5%, this is also disappointing as it has materially lagged the benchmark. However, given our high conviction investment style focused on quality businesses we must accept and indeed expect poor periods of relative performance, especially during strong markets. Indeed we have counselled our shareholders to expect performance less volatile than the market through the cycle, with an emphasis on capital preservation as well as capital growth. With this strategy it should be no surprise to lag a strong market, particularly when this has been led by lower quality assets. Indeed one of the characteristics of our recent performance that has been surprising is that we have managed to perform well in such a strong market since the recovery in European equities. Nonetheless, this disappointing first half of course needs some explanation.

The poor relative performance year to date can be put down to a combination of our investment style and some difficult stock performances. This can be demonstrated well by our exposure to Italy which contributed to the majority of the underperformance. While we had sufficient exposure to a strong performing country, our positions performed poorly relative to the benchmark. Tod's, the luxury brand in footwear had a very poor half, falling -24.4% in Sterling terms. This is a high quality business producing high returns on capital and offering good, long duration growth. However, it announced poor full year results. While the potential to grow in emerging markets is a key part of the investment case, weakness in Chinese consumption in addition to an anti-bribery law reducing 'gifting' had a fairly dramatic impact on their sales. In addition to this, Italy, their home market, continued to be weak at the same time as their business model transitioned away from the wholesale market towards more fully owned stores. This exaggerated the slowing demand.

Our Italian asset managers, Azimut and Banca Generali, also performed poorly falling -5.3% and -10.1% respectively. This performance is harder to explain because both businesses continued to generate superb operating performance. We think this share price performance is simply a reaction to the strong rises they have both achieved in the previous year and they seem to be the victims of 'profit-taking'. In fact, our financials exposure as a whole performed poorly with our holding in EFG International, the Swiss private bank falling -19.7%. Lower interest rates and low client risk appetite continues to suppress profit and obscures a high quality franchise, which we think is currently too cheap.

The other stand-out poor performer was Paddy Power, the gambling business, which fell -24.4%. A combination of greater regulation in the UK market, increased competition in the online market and higher costs associated with expansion all conspired to reduce profit expectations. We are reviewing the position.

Of course the first half of the year was not all bad news. We saw some excellent performance from our Spanish stocks with Jazztel, the broadband provider, and Bolsas y Mercados Espanoles ("BME") the stock exchange both performing strongly rising +28.7% and +23.3% respectively. Jazztel benefited from a combination of bid speculation and continued strong operating performance. Consolidation has started in the Spanish broadband and telecom market with the acquisition of a local cable company by Vodafone. It would not be surprising if this catalyses further corporate activity. BME simply benefited from rising trading volumes on the Spanish stock exchange leading to increasing revenues on a relatively fixed cost base, and therefore much better profits.

The other standout performers were Kuka the robot manufacturer and Forbo, the global leader in linoleum flooring. Kuka rose +25.9%, though there was little news in the first half except for continued solid operating performance. The shares had trod water during last year's strong market rise and at some point a catch up was inevitable. Forbo rose +22.4% as strong full year results reminded investors how companies with favourable market conditions can deliver good profit progress even when end markets are difficult.

***Portfolio Activity***

We exited three positions in the first half and added the same amount. Our process prompts us to review positions when either they perform poorly or they reach a valuation level where we believe the future cashflows are well discounted in the market price. This is why we sold Neopost the provider of franking machines to company post rooms, as a higher share price meant that expectations of growth were ahead of our assumptions and therefore the margin of safety was lost. We also sold Campari following a review that questioned its acquisition led business model in conjunction with valuation levels that were unappealing. Finally, we exited our position in Baron De Ley.

This was a position where our conviction had diminished, but due to liquidity concerns, we had not been able to do much with the holding. We did however manage to take advantage of some liquidity at the beginning of the year and sold the stock.

In terms of new positions, we added three. Early on in the half we bought Sparebank a high quality Norwegian bank that has high regional market share. The high and consistent profit levels are at odds with its valuation and we want to take advantage of this anomaly. We also added Leonteq a Swiss provider of structured financial products to the private banking industry. They have the strongest IT systems and processes in place which means that they have the lowest cost of production in the industry. They are consequently taking market share aggressively off the more traditional, but archaic providers of structured products, namely the investment banks. The shares have performed very well since purchase. Finally, we have added CTT, the Portuguese equivalent of the Royal Mail. They have a strong balance sheet and offer a very attractive dividend yield. We are expecting profits to improve from here as parcel volumes rise due to an increase in online shopping which is at low levels in Portugal in comparison to other European economies. We also expect them to take advantage of their outstanding distribution network to sell more financial products.

### Outlook

European smaller companies have performed extremely well since Mario Draghi pledged to save the Euro. We have seen a re-rating of the asset class from extremely cheap levels to more reasonable valuation levels, but we have seen no corresponding improvement in profits. It seems sensible to believe that further upside from here will depend on companies delivering profits. A normal economic cycle would see improving credit conditions, leading to improved leading indicators such as consumer confidence and purchasing managers' indices, and then economic growth should follow. Despite all the distractions this has essentially been what has happened in Europe albeit at an extremely slow pace. There is a danger though that expectations from certain areas of the market have moved ahead of economic reality. Indeed while the leading indicators are still in positive territory, they have softened more recently. We think therefore that the risks and rewards are more balanced than they have been at any point since the depths of the crisis. Risky assets such as southern European cyclical are no longer cheap, indeed there are no obvious areas of value in the market and there is less distinction between quality assets and everything else. Our stock research from here is likely to take place in the quality areas of the market and we think it is these areas that can deliver the profit growth and move the market forward.

### Sam Cosh

Lead Investment Manager  
F&C Investment Business Limited

### Dividend Information

#### 2014

Dividends of €0.233 per share have been paid in January and May 2014.

A further gross dividend of €0.2561 (net rate - €0.233) per share will be paid on 29 August 2014 to shareholders on the register on 15 August 2014, having an ex-dividend date of 13 August 2014. This will result in total gross dividends paid for the year of €0.7221 (net dividends - €0.699) per share.

The increase in the August dividend is to offset the element of Dutch withholding tax applicable and provide a full 6 per cent annual payment to shareholders.

Shareholders may elect to receive dividends by way of further shares in the Company rather than cash; the shares will be issued at the net asset value of the Company; the shares may trade in the market at a discount or premium to net asset value. Elections for scrip dividends can be made by shareholders using the form available from the Registrar on request. Subject to personal circumstances, UK resident individual shareholders who receive a scrip dividend should not be liable to UK income tax but UK capital gains tax rules should apply. Elections for scrip dividends must be received by the Company's Registrar, Computershare Investor Services PLC, by the record date in order to apply to this payment.

### Unaudited Revenue Account - for the six months ended

	Notes	30 June 2014 €000	30 June 2013
<b>Income from investments</b>			
Securities		4,044	2,701
Movements on investments - realised		6,171	3,253
Movements on investments - unrealised		<u>5,590</u>	<u>14,588</u>
		<b>11,761</b>	<b>17,841</b>
<b>Total income</b>		<b>15,805</b>	<b>20,542</b>
<b>Expenses and interest</b>	3		
Administration expenses		(525)	(532)
Investment management fee		(955)	(623)
Interest		<u>(128)</u>	<u>(87)</u>
<b>Net income</b>	1	<b>14,197</b>	<b>19,300</b>

Distributed by dividends	2	8,797	5,680
Earnings per share		€0.73	€1.24
Dividends per share	2	€0.47	€0.38

Unaudited Balance Sheet		30 June 2014 €000	31 December 2013 €000
	Notes		
<b>Investments</b>			
Securities	4	259,292	222,966
Net current liabilities	5	(12,622)	(13,889)
<b>Total assets less current liabilities</b>		<b>246,670</b>	<b>209,077</b>
<b>Equity shareholders' funds</b>		<b>246,670</b>	<b>209,077</b>
Net asset value per share - basic		€11.93	€11.64
Expressed in sterling		£9.55	£9.69

The number of €0.46 shares in issue at 30 June 2014 was 20,679,332 (31 December 2013 - 17,959,002).

#### Unaudited Summary of Changes in Shareholders' Funds - for the six months ended

		30 June 2014 €000	30 June 2013 €000
	Notes		
Total as at 1 January		209,077	135,286
Sale of own shares	6	32,193	10,657
Profit for the period		14,197	19,300
Dividends distributed		(8,797)	(5,680)
Total as at 30 June		<b>246,670</b>	<b>159,563</b>

#### Unaudited Statement of Cash Flows - for the six months ended

	30 June 2014 €000	30 June 2013 €000
<b>Cash flows from investment activities</b>		
Dividend income	3,572	2,622
Purchases of securities	(45,975)	(20,425)
Sales of securities	21,166	14,778
Administrative expenses, investment management fees and interest charges	(1,741)	(1,220)
	<b>(22,978)</b>	<b>(4,245)</b>
<b>Cash flows from financial activities</b>		
Dividends paid	(8,797)	(5,680)
Sales of own shares	31,968	10,657
Loan facility	(193)	(732)
	<b>22,978</b>	<b>4,245</b>
<b>Cash at bank</b>		
Net movement for the period	-	-
Balance as at 31 December	-	-
<b>Balance as at 30 June</b>	<b>-</b>	<b>-</b>

#### Representation concerning financial statements and Investment Manager's Review

The Management Board confirms that, to the best of its knowledge, the condensed financial statements, together

with comparative figures, have been prepared in accordance with applicable Dutch generally accepted accounting principles for interim reporting. These condensed financial statements give a true and fair view of the state of affairs of the Company at 30 June 2014 and of the net result for the period then ended.

The Investment Manager's Review in the Interim Report gives a true and fair view of the situation on the balance sheet date and of developments during the six month period, together with a description of the principal opportunities and risks associated with the expected development of the Company for the remaining months of the financial year.

In the normal course of its business, the Company holds a portfolio of equities and other securities and manages investment activities with on-balance sheet risk. Risk management is described in the Notes to the Accounts for the year ended 31 December 2013 and the principal risks have not changed materially since the date of that report.

#### **Alternative Investment Fund Managers Directive**

The Alternative Investment Fund Managers Directive ("the AIFMD") which was adopted by the European Parliament on 11 November 2010 introduced fundamental changes to the supervision of investment managers to allow the creation of a harmonised EU regulatory regime. To comply with the requirements of the Directive, which became fully effective on 22 July 2014, F&C Investment Business Limited has been appointed as AIF manager and KAS Trust & Depositary Services BV as depositary. Financial regulatory supervision has switched from the Dutch Autoriteit Financiële Markten to the UK's Financial Conduct Authority. The Company remains Dutch with the corporate duties of the Supervisory and Management Boards unchanged.

#### **Notes**

1. Income for the six month period should not be taken as an indication of the income for the full year.
2. Two dividends totalling €0.466 per share have been paid in January and May 2014. A further dividend of €0.2561 per share will be paid on 29 August 2014.
3. The ongoing charges figure, based on average shareholders' funds for the first half of the year, amounted to 1.27 per cent annualised (first half year 2013, 1.51 per cent annualised).
4. Securities comprise only listed investments. Listed investments are valued at the bid price on the valuation date on the relevant stock markets.
5. During the six month period ended 30 June 2014, the Company had a banking facility available of €25,000,000. The Company had €13,631,789 drawn down at 30 June 2014 (31 December 2013: €13,825,114).
6. During the six month period ended 30 June 2014 the Company sold 2,705,000 shares from treasury. In addition, 15,330 shares were issued during the period via the scrip dividend option.
7. The accounting policies applied in preparing the half-year figures at 30 June 2014 are consistent with those underlying the 2013 annual accounts.
8. Copies of the interim report will be mailed to shareholders and will be available from the registered office of the Company and the website [www.europeanassets.eu](http://www.europeanassets.eu).

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HALF YEARLY REPORT - RNS

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6/6