

TR European Growth Trust PLC

Report for the half year ended
31 December 2019



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.

Front cover:
DFDS Delft Seaways

DFDS

Percentage of portfolio: 2.6%

Activity: Industrial transportation

Geographical area: Denmark

DFDS moves freight and passengers on ferry routes in Europe and provides transport and logistics solutions for a wide range of businesses.

This report contains material extracted from the unaudited half year results of the Company for the six months ended 31 December 2019. 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 2019



NAV per share

31 Dec 2019

1,085.80p

30 June 2019

1,039.79p

Share price

31 Dec 2019

970.50p

30 June 2019

892.00p

Total return performance

(including dividends reinvested and excluding transaction costs)

	6 months %	1 year %	3 years %	5 years %	10 years %
NAV ¹	5.9	25.3	25.8	99.3	191.6
Benchmark index ²	4.0	20.6	29.9	87.7	166.9
Average sector ³ NAV	3.1	23.5	35.4	99.2	215.8
Share price ⁴	10.3	28.2	32.3	105.5	188.4
Average sector ³ share price	5.0	27.5	46.8	106.2	235.0

1 Net Asset Value ('NAV') per share total return (including dividends reinvested and excluding the cost of reinvestment)

2 The benchmark index is the Euromoney Smaller European Companies Index (ex UK) expressed in Sterling

3 The sector is the AIC European Smaller Companies sector

4 Share price total return using mid-market closing price

Chairman's Statement

Performance

Your Company has made a good start to the financial year, with the NAV total return performance for the six months to 31 December 2019 being 5.9%. This was 1.9% ahead of the benchmark and 2.8% ahead of the AIC sector average of 4.0% and 3.1% respectively. The share price total return was 10.3%, with the share price itself improving 8.8% to 970.50p from the year-end position of 892.00p.

There have been no shortages of challenges in the global economy and by extension the European economy in recent times: slowing global growth, Sino-American trade wars; and Brexit to name but three. Sector specific issues such as the accelerating shift away from internal combustion engine cars have impacted the important automotive sector in Europe dislocating many stock prices. The stock market has bifurcated into very expensive 'quality growth' names and very cheap 'value names' and expensive stocks have rarely looked so expensive. The sustainability of this trend is one we question. We take comfort from the fact that the portfolio has a combination of self-help cheap stocks and undervalued structural growth stories to navigate this dynamic.

Dividend

The Board was pleased to declare an interim dividend of 7.80p per ordinary share, representing a 4.0% increase on the interim dividend paid in the prior year. The interim dividend will be paid on 17 April 2020 to shareholders on the register on 27 March 2020. The shares will trade ex-dividend on 26 March 2020.

Board changes

During the period, we said goodbye to Audley Twiston-Davies. Audley was the Chairman from 2002 and retired from the Board at the Annual General Meeting held on 25 November 2019. I would like to thank him for his very substantial contribution to the Company and its shareholders,

and well appreciate that he has left some large shoes to fill.

We welcomed two new directors to the Board during the period, Ann Grevelius and Daniel (Dan) Burgess, on 23 September 2019 and 25 November 2019 respectively. Ann has substantial investment management experience and Dan brings with him extensive audit and accounting experience having been a partner at KPMG for twenty-three years. Dan became the Audit Committee Chairman on appointment.

Outlook

The economic backdrop remains sluggish and uncertain, albeit there are indications that things might improve. Purchasing Managers' Indexes (PMI) look to be troughing and smaller companies typically outperform after such troughs. The Sino-American trade war seems to be less antagonistic which should offer relief to Europe where the economy is driven by global economic growth. Brexit stagnation appears to be lifting which should offer a further boost. In this context it is pleasing to see the upturn in performance in recent months and we remain optimistic that our managers can continue to find undervalued companies in which to invest the Company's capital.

Christopher Casey
Chairman

Fund Manager's Report

The first half of 2019 saw the Company outperform the benchmark in a market that was less turbulent and more sanguine on the economic outlook. A combination of some of our undervalued stocks rerating and growth in other holdings drove performance in an environment that remains heavily tilted towards earnings momentum at almost any price. This calmer market exposed some of our 'self-help' stories to the oxygen of recognition.

In the preceding year we had been too optimistic on the markets' interpretation of the US-China trade war, Brexit and European politics. We can hope that the political backdrop will be calmer in the year ahead. In reality, investors will need to get used to political volatility as Mr Trump is still President, UK-EU negotiations are still ongoing and Germany will need to transition from Chancellor Merkel's leadership. European smaller company investing is a noisy sector, but it is a space filled with innovative companies that are exposed to all the exciting change that is taking place in the world.

We endeavour to find stocks that are exposed to global fluctuations and complement them with investments in companies that are too cheap due to a misperception of their prospects. The positive contributors to performance reflect this mix. French cable manufacturer **Nexans** experienced a substantial rerating as the benefits of its restructuring programme coincided with a rebound in demand for their high voltage cables and a strong backdrop in the renewables market of offshore wind which they serve. Elsewhere, battery manufacturer **Varta** contributed strongly to performance as their microbatteries were included in Apple AirPods and they look to show considerable growth among other manufacturers. We have subsequently sold the position as we felt the valuation discounted too much growth and assumed little or no new competitors.

Detractors from performance were value companies that did not execute their plans well. French listed global manufacturer of floor coverings and artificial sports pitches, **Tarkett**, had a substantial profit warning in July and yet another in December. A weak trading backdrop in the US and Europe combined with mis-execution on a new Enterprise

Resource Management system resulted in weak profitability. Online gambling service provider, **Kindred**, also detracted from performance as tighter regulations in Sweden, the UK and the Netherlands combined with poor corporate communication led to a profit warning. While many market participants view the environmental, social and governance ('ESG') criteria as a reason to sell the entire sector; **Kindred** is a market leader in responsible gaming and we remain invested as we do not believe that the derating of the equity offsets the opportunity of growth in the US. Both **Tarkett** and **Kindred** are substantially under-valued and have management teams that we continue to back to deliver on the self-help the companies require.

We opened new positions in Swiss software value added reseller **SoftwareONE**, which has a big opportunity as a purely cloud focused software vendor. We also opened a position in Spanish online travel company **eDreams ODIGEO**, which is beginning to reap the benefits of consolidating the market and transitioning to a new revenue model.

Meanwhile, we exited positions in Austrian manmade fibre company **Lenzing** as we had reservations about their large capital expenditure programme in an environment of falling prices for their underlying products. We also exited Swedish home builder, **JM**, taking profits as we felt that enthusiasm for the sector had overshot.

Going into 2020 we had anticipated neither a global economic recession or a dynamic recovery, but instead a period of anaemic global growth. At the time of writing, the Coronavirus has created huge uncertainty for the global economy. Like everyone else, we are unsure how long the impact will last. It seems reasonably certain that the first half of the calendar year will be weak; understandably leading to ever lower bond yields and a flight to safety. If the health scare can be contained in the coming weeks, we might see a v-shaped recovery and a rapid reversal in market leadership. This would be helpful for the performance of European smaller companies as Europe remains heavily geared to global growth.

Ollie Beckett and Rory Stokes

Financial summary

Half year ended

Extract from the Consolidated Statement of Comprehensive Income (unaudited)	31 Dec 2019 Revenue return £'000	31 Dec 2019 Capital return £'000	31 Dec 2019 Total return £'000	31 Dec 2018 Total return £'000
Investment income	2,109	-	2,109	1,543
Gains/(losses) on investments held at fair value through profit or loss	-	30,670	30,670	(122,836)
Total income/(expense)	2,109	30,670	32,779	(121,293)
Expenses, finance costs & taxation	(907)	(1,554)	(2,461)	(2,316)
Profit/(loss) for the period	1,202	29,116	30,318	(123,609)
Return per ordinary share - basic and diluted	2.40p	58.11p	60.51p	(246.68p)

Half year ended

Extract from Consolidated Balance Sheet (unaudited except June 2018 figures)	31 Dec 2019 £'000	31 Dec 2018 £'000	Year ended 30 Jun 2019 £'000
Investments held at fair value through profit or loss	595,572	505,818	580,396
Net liabilities	(53,197)	(63,843)	(64,001)
Net assets	544,075	443,967	521,023
Net asset per ordinary share – basic and diluted	1,085.80p	886.01p	1,039.79p

Dividends

The Company has declared an interim dividend of 7.80p per ordinary share (31 December 2018: 7.50p) payable on 17 April 2020 to members on the register as at 27 March 2020. The ex-dividend date will be 26 March 2020.

Share Capital

At 31 December 2019 there were 50,108,397 ordinary shares in issue (31 December 2018 and 30 June 2019: same)

Portfolio information

Ten largest investments at 31 December 2019

Company	Principal activities	Geographical area	Valuation £'000	% of portfolio
DFDS	Industrial transportation	Denmark	15,297	2.6
Van Lanschot	Banks	Netherlands	12,462	2.1
TKH	Electronic & electrical equipment	Netherlands	11,578	1.9
Nexans	Electronic & electrical equipment	France	11,065	1.9
Conzzeta	Industrial engineering	Switzerland	9,356	1.6
Karnov	Leisure goods	Sweden	9,192	1.5
Gaztransport et Technigaz	Support services	France	8,534	1.4
Banca Farmafactoring	Banks	Italy	7,574	1.3
Trigano	Leisure goods	France	7,255	1.2
Mersen	Electronic & electrical equipment	France	7,229	1.2

These investments total £99,542,000 or 16.7% of the portfolio.

Sector exposure

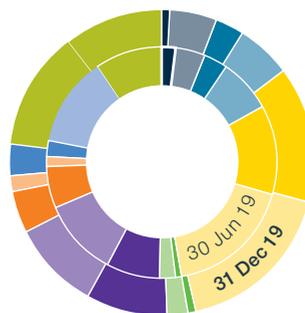
As a percentage of the portfolio excluding cash



	31 Dec 19 %	30 Jun 19 %
Industrial Goods	25.2	25.3
Consumer Goods	17.7	18.5
Financial	13.8	12.5
Basic Materials	12.3	14.9
Technology	12.3	11.1
Business Providers	11.0	11.7
Retail Providers	6.7	5.0
Natural Resources	1.0	1.0

Geographic exposure

As a percentage of the portfolio excluding cash



	31 Dec 19 %	30 Jun 19 %
Austria	0.9	2.0
Belgium	5.2	4.3
Denmark	3.0	3.4
Finland	5.8	7.4
France	14.3	12.5
Germany	17.4	17.8
Greece	0.7	0.7
Ireland	2.2	2.3
Italy	8.6	7.4
Netherlands	9.6	10.9
Norway	4.5	5.9
Portugal	1.6	1.5
Spain	3.3	2.1
Sweden	12.6	12.4
Switzerland	10.3	9.4

Delivered by



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The Association of
Investment Companies



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