

Manager Commentary
Sam Cosh



October was a challenging month for risk assets as the combination of higher US bond yields, global trade wars and European politics drove a heavy sell-off, which was no doubt exacerbated by automated trading systems. European smaller companies participated in this rout and fell heavily, and our portfolio underperformed.

Delivering below the benchmark is of course disappointing. However, we take some comfort in the components of this underperformance, the entirety of which came from companies where we believe the strong fundamentals are at odds with the large share-price reactions to relatively minor indiscretions.

For example, our largest detractor was Cerved, an Italian credit information systems provider, which fell over 24% (in sterling terms). Such a severe fall could indicate a permanent impairment of business performance, but we struggle to see how this is the case. We believe the reason for this return was the combination of a sell-off in Italian equities, the resignation of the CEO and a soft quarterly earnings release. On the face of it, the CEO change was concerning. However, the current CEO is moving to another opportunity and is doing so on good terms with the supervisory board, while being replaced on an interim basis by the Chairman who has previously been CEO of the company and led it through its initial public offering. Additionally, we do not believe that a soft quarter of profit development is a concern. We would always caution against taking too much notice of such a short period, particularly when the long-term record is so good, and there is no evidence of a deterioration of the company's competitive position; its significantly dominant and most profitable division continues to hold a market share over 50%. Additionally,

its cash generation and stability of revenues is strong. Ultimately, we believe this fall is unwarranted and think it will be reversed in due course.

The other significant negative contributors are also companies that have good fundamentals but have been unfairly punished, in our view. Of note is Lectra, a French technology equipment company, and Viscofan, the global leading producer of synthetic sausage skins. Lectra suffered due to its exposure to the automobile sector. However, this proved unfounded as, post month-end, it produced encouraging results that indicated resilience to any end-market weakness. Viscofan performed poorly following some weak quarterly results and a more muted outlook. The share performed well this year, so it was perhaps not unexpected that it would see some weakness, but this appeared severe to us given that we do not believe the investment case is not impaired. We continue to believe in both holdings.

Key facts as at 31.10.2018

Trust aims: To achieve growth of capital through investment in quoted small and medium-sized companies in Europe, excluding the United Kingdom. A high distribution policy has been adopted and dividends are paid from a mix of income and capital reserves.

Trust highlights: Diversified portfolio of small to mid-cap growth businesses across Continental Europe. This area of the market is less well researched, allowing value to be added from stock selection.

Benchmark: EMIX Smaller European Companies (ex UK) Index†

Fund type: Investment Trust

Launch date: 1972

Total assets: £406.5 million

Share price: 104.00p

NAV: 110.69p

NAV €: 1.25

Discount/premium(-/+): -6.04%

Dividend payment dates: Jan, Apr, Jul, Oct

Yield††: 7.50%

Net gearing/Net cash*: 0.40%/0.00%

Management fee rate:** 0.80%

Ongoing charges*:** 1.06%

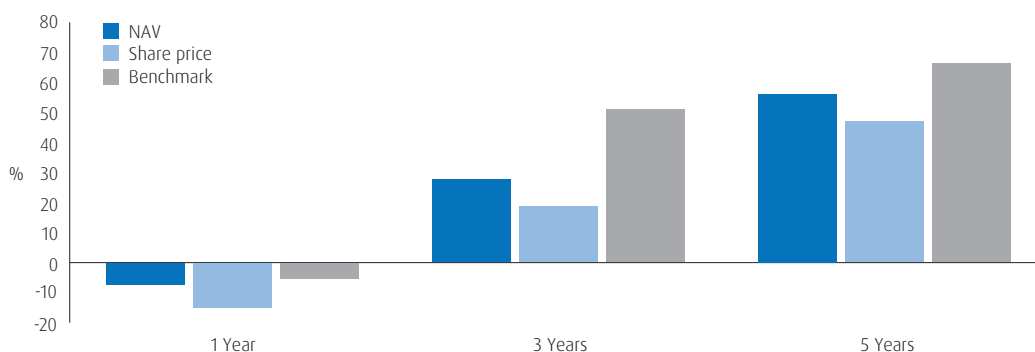
Year end: 31 December

Sector: European Smaller Companies

Currency: Euros

Website: www.europeanassets.eu

Fund performance as at 31.10.2018



Cumulative performance (%) as at 31.10.2018

	1 Month	Year to date	1 Year	3 Years	5 Years
NAV	-9.41	-9.96	-7.13	27.57	55.97
Share price	-8.38	-15.35	-14.70	18.58	46.78
Benchmark	-7.60	-5.90	-5.25	50.80	66.10

Discrete performance (%) as at 31.10.2018

	2018/2017	2017/2016	2016/2015	2015/2014	2014/2013
NAV	-7.13	20.09	14.40	20.39	1.55
Share price	-14.70	32.95	4.56	25.98	-1.75
Benchmark	-5.25	22.99	29.41	13.27	-2.76

Key risks

Stock market movements may cause the value of investments and the income from them to fall as well as rise and investors may not get back the amount originally invested. Changes in rates of exchange may have an adverse effect on the value, price or income of investments. If markets fall, gearing can magnify the negative impact on performance. Where investments are made in smaller companies, their potential volatility may increase the risk to the value of, and the income from the investment.

Past performance is not a guide to future performance.

Source: Lipper and BMO. Basis: Percentage growth, total return, bid to bid price with net income reinvested in sterling. The discrete performance table refers to 12 month periods, ending at the date shown.

Lines may be recorded

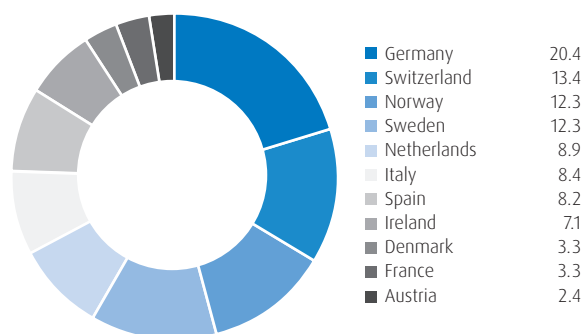


Trust codes	
Stock exchange code	Sedol
EAT	322566

Top 10 holdings (%)				
	Portfolio Weight	Benchmark Weight	Difference	Sector
SpareBank 1	4.0	0.2	3.8	Financials
Gerresheimer	3.9	0.1	3.8	Health Care
Storebrand	3.8	0.2	3.6	Financials
IMCD Group	3.7	0.2	3.5	Basic Materials
Sligro Food Group	3.7	0.1	3.6	Consumer Services
CTS Eventim	3.7	0.2	3.5	Consumer Services
Forbo Holding	3.6	0.2	3.4	Consumer Goods
Tecan Group	3.4	0.2	3.2	Health Care
Ringkjøbing Landbobank	3.3	0.1	3.2	Financials
Vidrala	3.1	0.1	3.0	Industrials

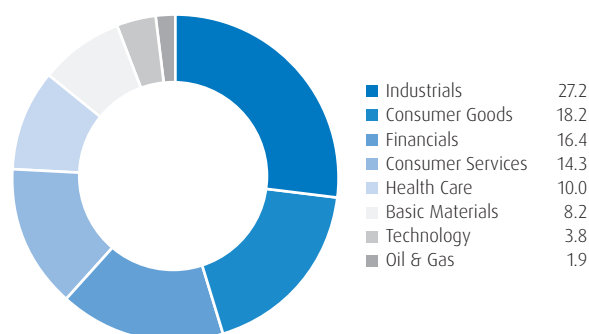
All figures are subject to rounding.

Geographical breakdown (%)



All figures are subject to rounding.

Sector breakdown (%)



Net dividend distributions per share

	2018
January €	0.0220
January £	0.0191
April €	0.0220
April £	0.0191
July €	0.0220
July £	0.0196
October €	0.0220
October £	0.0193
Total €	0.0880
Total £	0.0772

The 2018 dividend will be paid in four equal instalments of Euro 0.022* per share on 31 January, 30 April, 31 July and 31 October. Previously, the Company paid its dividends in three equal instalments. Dividends are declared in euros (€) and paid in sterling (£) to UK registered shareholders. The sterling equivalent figures are rounded and determined close to the payment date. The annual dividend is equivalent to 6% of the net asset value as at 31 December each year.

*Dividends shown in the table above have been adjusted to reflect ten for one stock split, effective from 3 May 2018

Glossary

Bid price	Investment trust shares are sold via the stock exchange at the bid price. This price is determined by supply and demand.
Dividend	Income paid to shareholders by the company they invest in.
Net asset value	A key measure of the value of a company or trust – the total value of assets less liabilities, divided by the number of shares.

All data as at 31.10.2018 in sterling (£) unless otherwise stated. All information is sourced from BMO, unless otherwise stated. All percentages are based on gross assets. † Formally known as Euromoney Smaller European Companies (ex UK) Index. †† The yield is calculated using the dividends declared for the company's current financial year and the closing share price and exchange rate as at the end of the relevant month. * Net gearing is total assets less cash and cash equivalents divided by shareholders' funds and expressed as a percentage. Net cash is net exposure to cash and cash equivalents expressed as a percentage of shareholders funds after any offset against gearing. ** A reduced management fee of 0.65% per annum is charged on funds under management in excess of €500 million. *** Ongoing charges calculated in accordance with AIC recommendations. Please refer to the latest annual report as to how the fee is structured. The share price may either be below (at a discount) or above (at a premium) to the NAV. Discounts and premiums vary continuously. Performance information excludes any product charges which can be found in the Key Investor Document ("KID") for the relevant product. The factsheet is issued and approved by BMO, a trading name of BMO Asset Management Limited. Authorised and regulated in the UK by the Financial Conduct Authority. Registered office: Exchange House, Primrose Street, London EC2A 2NY. Registered in England & Wales No 517895. (11/18)