

# Fidelity European Trust

Not persuaded by great (rotation) expectations

Fidelity European Trust (FEV, formerly Fidelity European Values) aims to achieve long-term growth in both capital and income from a portfolio of European stocks. FEV is managed by Sam Morse and Marcel Stötzel and has an established track record of attractive returns and outperformance – it has made an average annual return of 11.3% in share price terms and 10.1% on an NAV basis over the past 10 years and outperformed the index over three, five and 10 years. The trust also did relatively well over most of 2020 and was substantially ahead of the benchmark for the nine months to end September 2020, but the performance, while still positive, lagged the benchmark in Q420 and Q121 as value stocks and cyclical outperformed growth strategies. However, the trust's managers are sceptical of the case for a full-blown rotation into value and they are not tempted to chase the market and adjust the portfolio in anticipation of a sustained value rally. Instead, they intend to maintain their current, more balanced, course, seeking out quality companies with strong balance sheets and positive dividend growth prospects at attractive valuations. They believe this approach has served FEV's shareholders well and they expect it to continue to do so in the future, when markets are once again guided by fundamentals, rather than expectations of economic developments that are, in their view, far from assured.

## Long-term NAV outperformance versus benchmark



Source: Refinitiv

## The analyst's view

- FEV aims to capture the diversity of the European market by investing across a range of countries and sectors. The trust may therefore appeal to investors seeking broad European exposure across market cycles.
- Experienced investment management team which has delivered long-term outperformance, supported by Fidelity's extensive research capability.
- A fee reduction that took effect from 1 April 2021 will make the trust's fee structure even more competitive relative to its peers. The tiered rate of 0.85% up to £400m remains unchanged but the 0.75% of net assets in excess of £400m will decline to 0.65%, achieving what the board calls 'useful savings on overall percentage costs for shareholders'.
- A recent widening in the discount provides new investors with the opportunity to invest at a relatively attractive level.

Investment trusts  
European equities

26 April 2021

**Price** 296.5p

**Market cap** £1220m

**AUM** £1422m

NAV\* 319.0p

Discount to NAV 7.0%

\*Including income. At 22 April 2021.

Yield 2.2%

Shares in issue 411.5m

Code FEV

Primary exchange LSE

AIC sector Europe

52-week high/low\* 296.5p 224.0p

NAV\*\* high/low 319.0p 243.5p

\*Including income.

## Gearing

Gross market gearing\* 13.8%

Net market gearing 12.8%

\*As at 31 March 2021

## Fund objective

Fidelity European Trust's investment objective is to achieve long-term growth in both capital and income from a portfolio predominantly comprising continental European securities. Up to 20% exposure to stocks listed outside continental Europe is permitted, to give the manager investment flexibility.

## Bull points

- European-wide exposure and diversification away from the UK market.
- Board commitment to maintaining the trend of annual dividend increases established in FY10.
- Recent fee reduction.

## Bear points

- Near-term relative performance is vulnerable if the rotation into value continues or if inflation pressures begin to build.
- Longer-term outperformance is only in line with the average of the AIC sector.
- Relatively high gearing compared to peers magnifies the portfolio's exposure to a sharp market correction.

## Analysts

Joanne Collins +44 (0)20 3077 5700

Mel Jenner +44 (0)20 3077 5720

[investmenttrusts@edisongroup.com](mailto:investmenttrusts@edisongroup.com)

[Edison profile page](#)

**Fidelity European Trust is a  
research client of Edison  
Investment Research Limited**

## The manager's view and positioning

---

The arrival of several viable vaccines in November 2020 heralded the potential for an improvement in the global economic outlook, as vaccination programmes are rolled out and potentially enabling life to gradually return to some semblance of normality. Equity markets around the world responded positively to the news and have since made significant gains – the 20% rise in the MSCI Europe ex-UK Index in the five months between end October 2020 and end March 2021 mirrored gains in other major markets. Economically sensitive stocks and sectors have outperformed as investors anticipate a surge in demand for eating out, entertainment and travel and there is much speculation that this is just the beginning of a longer-term rotation into value and cyclical stocks, which have underperformed growth and momentum stocks for several years – and dramatically since the onset of the pandemic.

However, FEV's managers Sam Morse and Marcel Stötzel are sceptical. They do not believe the conditions are in place to drive a sustained rotation into economically sensitive parts of the market. In their view, the recovery will be 'a stop/start affair for some time', mirrored by associated market fluctuations. While they acknowledge the possibility that inflation will tick-up in the short term, due to pent-up demand and rising commodity prices, they believe strong disinflationary forces remain, particularly in Continental Europe. They expect globalisation, technological disruption, an aging population, and the eventual need to reduce extraordinary levels of government borrowing, to conspire to keep inflation low.

While they will 'keep scanning the horizon' for evidence of a sustainable economic rebound, accompanied by inflationary pressures and higher interest rates, until it emerges, they intend to maintain their current, more balanced, course, rather than adopting what they see as the riskier course of 'chasing the market and positioning for a sustained value rally that relies on macro conditions that are very difficult to predict'. They intend to continue their search for quality companies with strong balance sheets, whose prospects for delivering sustainable dividend growth are not yet fully discounted in the share price. In their view, this approach, which combines a focus on quality and growth, at attractive valuations, has served their portfolio well and they expect it to continue to do so in the future, when markets are once again 'driven by fundamentals rather than sentiment and unsubstantiated expectations'. Meanwhile, the managers believe that for stock-pickers like themselves, the opportunity set within European equities remains compelling and the ongoing market fluctuations they foresee will continue to provide opportunities to acquire or add to holdings which meet their longstanding investment criteria.

Acquisitions in recent months include a new position in Prosus, a Dutch holding company majority-owned by Naspers, the South African media conglomerate. Prosus has major investments in some of the world's leading on-line consumer franchises such as Tencent and Delivery Hero. The managers believe that the pandemic has accelerated a change in consumer habits such that strong on-line businesses like these will continue to grow faster than anticipated, even when lockdowns end. Worries about regulation and government interference provided the managers with an attractive entry point, as the stock was trading at a significant c 35% discount to its sum-of-the-parts valuation. The managers have also added to existing positions in industrial companies Legrand, a French electrical devices manufacturer; Schindler, a Swiss machinery maker; and DKSH Holding, a Swiss consulting company. They also increased their exposure to Deutsche Borse, the German financial services company.

Strong share price performances have prompted profit-taking on several stocks in recent months, including the outright sale of Andritz, the Austrian industrial distribution company. The managers also trimmed profitable positions in 3i Group, the UK private equity and infrastructure company, Intesa Sanpaolo, an Italian bank, and German luxury fashion house, LVMH, while poor

performance led the managers to reduce exposure to the German chemical company Symrise. This company's underperformance in the nascent value rotation of late 2020 was exacerbated by a significant cyberattack, which hit sales and adversely affected performance targets.

However, overall portfolio turnover remained relatively low at an annualised rate of around 25%, due to the trust's long-term horizon and its aim to minimise transaction costs. This is evidenced by the relative stability of the trust's top 10 holdings (Exhibit 1). As at end March 2021, eight of the top 10 holdings were unchanged compared to the previous year, and around 70% of the portfolio's holdings remain unchanged over the past five years. Long-standing holdings include Swiss food producer Nestlé and pharmaceutical company Roche. As at end March 2021, the trust's most significant sectoral overweight positions were in technology and financials, while its heaviest underweights were in industrials and real estate. On a market cap basis, its most notable positions were a 11% overweight to mega-cap companies (valued above €100bn) and an equivalent underweight of companies valued between €20–50bn.

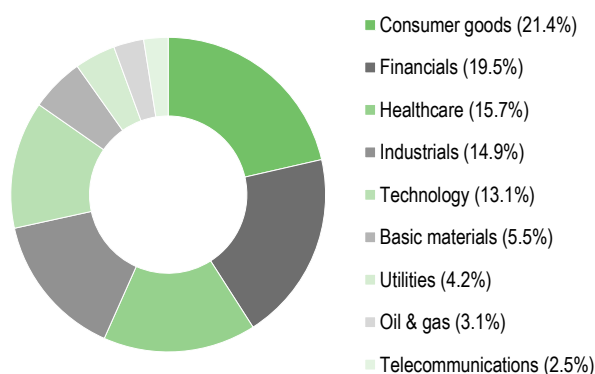
Net gearing rose to almost 13% during late 2020 and Q121, with the 5–15% guideline range recently agreed with the board (up from a maximum of 10% net gearing previously). Gearing is achieved using long contracts for difference (CFD) and Stoxx50 index futures. The recent increase in gearing was motivated by the managers' assessment that some of the main market risks have dissipated – the US election delivered a clear outcome, the first vaccines proved to be more effective than anticipated and a Brexit deal was eventually concluded. However, the managers stress that they have kept gearing below its maximum permitted level due to their concern that market sentiment has become too positive, with IPOs oversubscribed, retail investment surging and riskier assets such as Bitcoin hitting all-time highs. The portfolio currently holds two short positions in single stocks, again implemented via CFDs.

**Exhibit 1: Top 10 holdings (as at 31 March 2021)**

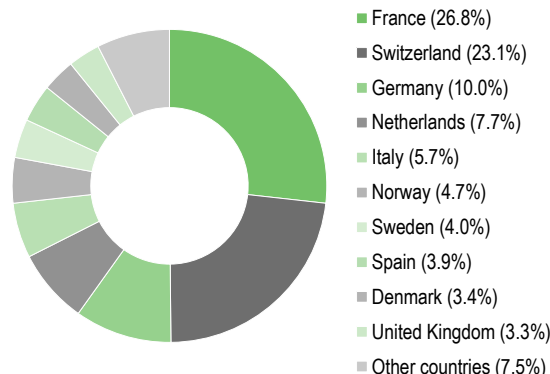
Company	Country	Sector	Portfolio weight %		Benchmark weight (%)	Active weight (%)
			31 Mar 2021	31 Mar 2020**	31 Mar 2021	31 Mar 2020
Nestlé	Switzerland	Consumer goods	6.3	8.0	3.8	2.5
ASML Holding	Netherlands	Technology	5.4	3.5	3.0	2.4
LVMH	France	Consumer goods	4.6	4.0	2.0	2.6
Roche Holding	Switzerland	Healthcare	4.4	6.5	2.9	1.5
L'Oréal	France	Consumer goods	3.7	3.5	1.1	2.6
Enel	Italy	Utilities	3.4	N/A	1.0	2.4
Sanofi	France	Healthcare	3.1	4.0	1.3	1.8
Total	France	Oil & Gas	3.1	3.4	1.4	1.7
SAP	Germany	Technology	3.1	4.2	1.7	1.4
EssilorLuxottica	France	Healthcare	3.0	N/A	0.6	2.4
<b>Top 10</b>			<b>40.4</b>	<b>43.7</b>		

Source: FEV, Edison Investment Research, Bloomberg, Morningstar. Note: \*Gearing net of short positions. \*\*N/A where not in end-March 2020 top 10.

**Exhibit 2: Portfolio breakdown by sector**



**Exhibit 3: Portfolio breakdown by geography**



Source: FEV, Edison Investment Research. Note: Data at 31 March 2021.

## Performance

**Exhibit 4: Five-year discrete performance data**

12 months ending	Share price (%)	NAV (%)	MSCI Europe ex-UK (%)	MSCI World (%)	CBOE UK All Cos (%)
31/03/17	19.3	23.2	28.4	32.7	22.6
31/03/18	11.8	7.8	3.7	1.8	1.2
31/03/19	9.0	9.7	3.1	12.6	6.2
31/03/20	0.3	(2.5)	(7.5)	(5.3)	(19.1)
31/03/21	32.5	30.2	34.4	39.1	26.6

Source: Refinitiv. Note: All % on a total return basis in pounds sterling.

FEV did relatively well over most of 2020 and was substantially ahead of the benchmark for the nine months to end September 2020, but the performance, while still positive, lagged the benchmark in Q420 and Q121. Thus, in the six months to end March 2021, the trust returned 8.8% on a share price basis and 7.4% on an NAV basis, underperforming the MSCI Europe, ex-UK Index, which returned 12.0%. It also underperformed the index on a one-year basis, returning 32.5% on a share price basis and 30.2% in NAV terms compared to a benchmark return of 34.4% in the year to end-March 2021. Over the longer term, the trust's performance has been good in absolute and relative terms – it has made an average annual return of 11.3% in share price terms and 10.1% on an NAV basis over the past 10 years and outperformed the benchmark over three, five and 10 years (Exhibit 5). FEV has outperformed the UK market more decisively over one, three, five and 10 years.

The managers ascribe the trust's near-term underperformance to a 'perfect storm of negative factors', coupled with disappointing stock selection. The trust's focus on growth has been a drag on relative returns as the improving economic outlook has seen value and cyclical stocks outperform growth strategies in recent months. FEV's significant overweight to mega-cap stocks has also detracted from relative returns as small cap stocks have outperformed larger companies over this period.

On a stock basis, the largest detractor from relative performance over the six months to end February was the portfolio's overweight to the German technology company SAP. The company issued a profit warning due to the disappointing performance of some of its cloud businesses, including Concur, the on-line travel expense management company. SAP also revised down its medium-term guidance as it steps up its shift away from 'on-premise' sales, towards a more 'cloud-based' business model. Despite these setbacks, SAP remains one of FEV's top 10 holdings as the managers believe that SAP's management is doing the right thing for the longer-term growth and sustainability of the business, even though it comes at a cost to medium-term profitability, as up-front licence fees, coupled with maintenance contracts, are gradually replaced by annual subscription fees. This confidence in SAP's outlook may be starting to pay off. The release of very positive preliminary first quarter results in mid-April 2021 saw SAP's share price reach a six-month high.

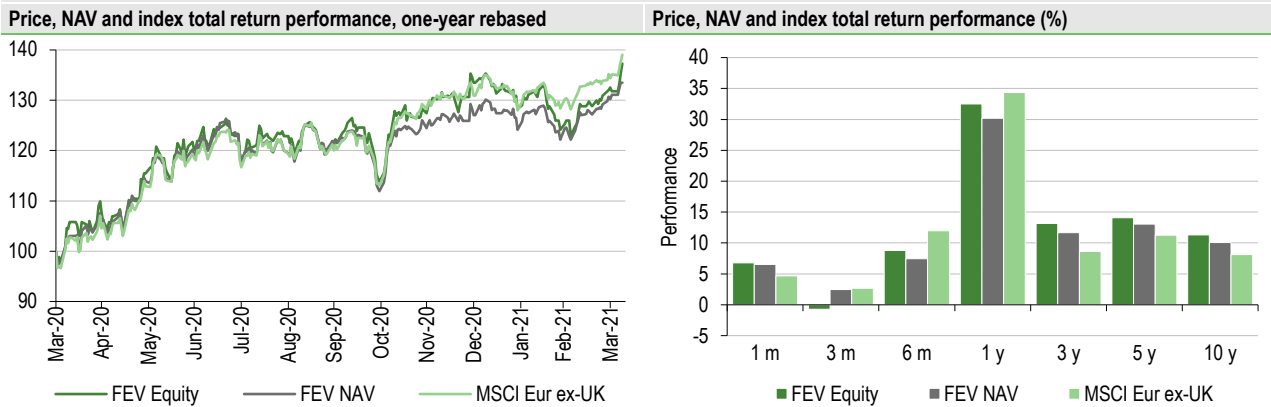
While 're-opening plays' in economically sensitive stocks recovered strongly during November and December 2020 and early 2021, many of the trust's winners during the first nine months of 2020 lagged badly. These included its overweight positions in Symrise (since trimmed, as discussed above), Nestlé and Swedish Match, a tobacco company. The portfolio's short position in the hotel company Accor also detracted from performance, as this stock rebounded strongly on the positive vaccine news.

These adverse influences on relative performance over the six months to February 2021 were in part offset by the positive impact of several overweight positions, including in the Dutch semiconductor producer ASML, which benefited from the surge in demand for semiconductors and the general buoyance of technology companies, as the digitalisation trend accelerates. Overweight

positions in LVMH and its French competitor Hermes, and in 3i, also boosted relative returns, as did an underweight to Novartis, the Swiss healthcare stock.

The trust's strong performance in the first three quarters of 2020 saw its share price discount to cum-income NAV narrow from around 9% in H120, to less than 4% at end 2020, its narrowest in five years. The recent underperformance has seen the discount re-widen to 7% as at 22 April 2021.

### Exhibit 5: Investment trust performance to 31 March 2021



Source: Refinitiv, Edison Investment Research. Note: Three, five and 10-year performance figures annualised.

## Peer group comparison

### Exhibit 6: AIC Europe sector peer group as at 23 April 2021\*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield
Fidelity European Trust	1,220.0	33.4	43.4	94.0	171.0	(7.0)	0.9	No	113	2.2
Baillie Gifford European Growth	554.2	70.5	55.6	114.0	162.7	1.6	0.4	No	107	2.3
BlackRock Greater Europe	511.6	59.7	77.3	144.1	230.0	0.7	1.0	No	106	1.0
European Opportunities	796.7	8.6	17.8	61.1	196.6	(13.0)	1.0	No	105	0.5
Henderson European Focus	332.5	42.4	38.9	82.9	202.2	(8.3)	0.8	No	100	2.0
Henderson Euro	312.5	41.5	48.4	104.0	220.0	(10.9)	0.8	No	101	1.7
JPMorgan European Growth Pool	245.8	40.1	21.1	68.0	125.3	(12.1)	1.0	No	104	1.3
JPMorgan European Income Pool	129.9	42.4	7.8	53.0	131.4	(8.6)	1.0	No	108	4.4
<b>Average (8 funds)</b>	<b>512.9</b>	<b>42.3</b>	<b>38.8</b>	<b>90.1</b>	<b>179.9</b>	<b>(7.2)</b>	<b>0.9</b>		<b>105</b>	<b>1.9</b>
<b>Trust rank in sector</b>	<b>1</b>	<b>7</b>	<b>4</b>	<b>4</b>	<b>5</b>	<b>3</b>	<b>5</b>		<b>1</b>	<b>3</b>

Source: Morningstar, Edison Investment Research. Note: \*Performance to 22 April 2021 based on ex-par NAV. TR=total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

FEV is the largest of eight funds in the AIC Europe sector (Exhibit 6). While its recent disappointing performance means that the trust's NAV returns have lagged the average return among its peers over one year, it has exceeded the average return over three and five years and almost matched the average return over 10 years. Its discount is narrower than the average and its ongoing charge is in line with the average of its peers. Like all the other funds in the sector, FEV does not charge a performance fee. Its gearing is the highest in the sector, while its yield is above average.

---

## General disclaimer and copyright

This report has been commissioned by Fidelity European Trust and prepared and issued by Edison, in consideration of a fee payable by Fidelity European Trust. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

**Accuracy of content:** All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

**Exclusion of Liability:** To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

**No personalised advice:** The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

**Investment in securities mentioned:** Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2021 Edison Investment Research Limited (Edison).

---

## Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

---

## New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

---

## United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

---

## United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960

Schumannstrasse 34b

60325 Frankfurt

Germany

London +44 (0)20 3077 5700

280 High Holborn

London, WC1V 7EE

United Kingdom

New York +1 646 653 7026

1185 Avenue of the Americas

3rd Floor, New York, NY 10036

United States of America

Sydney +61 (0)2 8249 8342

Level 4, Office 1205

95 Pitt Street, Sydney

NSW 2000, Australia