The European Smaller Companies Trust PLC

Summary for the half-year ended 31 December 2022

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:

Cork production line

Corticeira Amorim
Percentage of portfolio: 0.9%
Geographical area: Portugal
Cork manufacturers engaged in the research, development and promotion of products and new solutions for the cork industry.

This report contains material extracted from the unaudited half-year results of the Company for the six months ended 31 December 2022. The unabridged results for the half-year are available on the Company's website:

www.europeansmallercompaniestrust.com

Performance highlights

Total return performance for the six months to 31 December 2022

NAV
9.3%

Benchmark
6.0%

Share price
8.2%

NAV per share

31 Dec 2022
174.29p

30 June 2022
162.76p

Share price

31 Dec 2022
148.00p

30 June 2022
140.00p

Total return performance

(including dividends reinvested and excluding transaction costs)

	6 months %	1 year %	3 years %	5 years %	10 years %
NAV[1]	9.3	-12.5	37.0	29.6	289.4
Benchmark index[2]	6.0	-15.7	15.6	21.8	192.6
Average sector[3] NAV	6.6	-23.7	20.4	28.5	219.8
Share price[4]	8.2	-14.7	32.1	10.8	325.9
Average sector[3] share price	8.1	-26.8	16.9	21.2	236.5

1 Net asset value ('NAV') per ordinary share total return
2 The benchmark index is the MSCI Europe ex UK Small Cap Index expressed in sterling
3 The sector is the Association of Investment Companies ('AIC') European Smaller Companies sector
4 Share price total return using mid-market closing price
Source: Morningstar Direct, Refinitive Datastream

Chairman's Statement

Performance

Europe proved to be resilient over the six months to 31 December 2022. The Eurozone economy continued to grow in the third quarter of 2022, driven by the post-pandemic revival of tourism and decisive action taken on energy. The demand for gas was lower than it had been over the two previous years due to an unseasonably warm winter and a concrete effort across the bloc to reduce demand. As a result, gas storage levels reached 95% in November, making shortages and a deeper recession less likely. However, the labour market has remained unaffected by recession fears so far and may prevent inflation from falling as quickly as expected.

Despite the uncertain market backdrop, the Company's NAV total return for the period was 9.3%, outperforming the benchmark return of 6.0%. The share price total return was 8.2%, compared to the average sector share price total return of 8.1%.

Interim dividend

The Board is pleased to declare an interim dividend of 1.45p (2021: 1.25p) per ordinary share for the year ending June 2023. This is a 16.0% increase on the interim dividend paid last year and will be paid on 28 April 2023 to shareholders on the register at 31 March 2023.

We remain confident that the Company will be able to deliver progressive dividend growth as the underlying portfolio companies continue to generate healthy 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 Manager to put greater emphasis on capital growth rather than income.

Discount management

Over the six months to 31 December 2022, the Company's shares traded at an average discount of 15.2%. This can be attributed to two things:

- Europe, as an investment region, continues to be out of favour; and
- nervousness around small caps, despite our underlying holdings having strong balance sheets and European smaller companies being central to the clean energy transition.

The Board regularly monitors the discount level and evaluates the appropriateness of buying back shares when we believe this level is not indicative of the sector. At close of business on 1 March 2023, the discount stood at 14.5%. We have not deemed it beneficial to repurchase shares in the six months to 31 December 2022 or in the period up to the date of this report.

Outlook

The outlook remains uncertain due to the ongoing conflict in eastern Europe and high and volatile energy prices. Ukraine has confounded many of her sceptics and delivered a series of battlefield successes while demonstrating the impressive coherence of the Western Alliance and the EU. The cost of enduring conflict is tragic in human terms and has broader repercussions for ongoing expensive energy. However, there are reasons for optimism. The dramatic response in Europe, both from a demand reduction and a supply creation perspective, has muted the worst of the impact on the markets in which we invest. The supply chain issues which many corporates faced are now clearing, which should help drive recovery and dampen inflation's bigger impacts. In addition, the end of China's 'zero covid' policy should further help improve the flow of global trade in due course. We believe that inflation has peaked, but will be a bit more persistent than we were accustomed to prior to the pandemic. The requirement to diversify energy sources, drive the green transition and build better resilience into supply chains will require a revival of capital expenditure. European smaller companies are well placed to benefit from this investment.

We would like to caution that policy risk has shifted after being accommodative for most of the pandemic. If the European Central Bank continues with its stated plan, there is a risk that monetary policy will become too restrictive as the short-term inflationary effects of the pandemic begin to clear. As a result, the market may experience bouts of volatility as we see things settle. We believe that a structurally higher interest rate environment will change the attitude of market valuation – the 'growth at any price' trend of recent years will end and the market will be more selective in rewarding businesses that generate cash. This aligns with our Fund Manager's approach of disciplined valuation which has worked to maximize returns for our shareholders.

Christopher Casey
Chairman
2 March 2023

Fund Manager’s Report

The first half of the financial year ending 30 June 2023 saw the Company outperform the benchmark. This was principally driven by the ongoing multiple compression of the ‘growth at any price’ stocks that had performed so well in 2021 and a result of the market recognising that the cost of capital could not stay as low as seemed the case in a zero-interest rate world. The portfolio’s exposure to more sensibly priced growth, value and self-help investment cases made it more resilient than the benchmark.

The largest contributors to portfolio performance predominantly came from value stocks boosted by the underlying macroeconomic environment and some stock-specific successes. Industrials exposed to energy capital expenditure performed well such as Greek-listed conglomerate, Mytilineos, whose power generation business performed very strongly. Likewise, Norwegian Liquified Natural Gas ('LNG') carrier FLEX LNG benefited from the market recognising the value of the vessels and the long-dated contracts the company has in place. Many of the financial stocks that the Company has invested in did very well as the prospect of rising interest rates began to boost their very depressed valuations. Irish-listed Allied Irish Bank ('AIB'), German Commerzbank, Italian-listed BFF Bank and Credito Emiliano all performed very well. In other highlights, French-listed Ipsos continued its rerating as the new management team has continued to improve governance and market communication.

Detractors from performance follow a less consistent pattern, although they have invariably been due to failure to deliver on expectations, poor management of the inflationary environment or pause for breath after strong performance. German-listed battery equipment manufacturer Manz did poorly, having let expectations become too optimistic and suffered as a large client (Britishvolt) went into administration. German-listed online meal box provider HelloFresh was a drag on performance as it gave up some of the premium rating it attained during the pandemic and as it suffered from rising customer acquisition costs.

Likewise, German-listed manufacturer of gears for electric bicycles, hGears, suffered from input-cost inflation and supply chain bottlenecks at its customers.

We opened new positions in Swedish-listed climate control company, Munters, which is benefiting from the structural growth in data centres and climate-controlled agriculture, and German manufacturer of semiconductor equipment, PVA TePla, the latter making the most of the need for furnaces in exciting new areas such as silicon carbide which is essential for the fast charging of electric vehicles.

We exited our position in German bank Aareal after it was bid for by private equity. We also sold into bids for Finnish-listed building systems provider, Caverion; Finnish electronic-invoice software company Basware; French-listed automated home company, Somfy; and Dutch-listed dredging company Boskalis Westminster. The level of corporate activity showcases that even in a tricky stock market and uncertain economic environment, cash-generative undervalued businesses can attract premium bids.

The challenges the world faces in 2023 are not terribly different from those we faced in 2022: war in eastern Europe, high energy costs and inflation. Europe has done a far better job of navigating these than many commentators have expected, but this has yet to be reflected in valuation multiples. We believe that valuation disciplines will be an important part of this cycle as the market re-learns how to price the cost of capital. There is still a moderate component of the European smaller companies market that trades on multiples which are hard to reconcile to the fundamental cash generation capacity of these companies. We remain focused on pursuing investment ideas that can create a return on your capital by generating cash and delivering growth.

Ollie Beckett, Rory Stokes and Julia Scheufler
2 March 2023

Financial summary

Extract from the Statement of Comprehensive Income	Half-year ended 31 Dec 2022 (unaudited) Revenue return £'000	Capital return £'000	Total return £'000	Half-year ended 31 Dec 2021 (unaudited) Total return £'000	Year ended 30 June 2022 (audited) Total return £'000
Investment income	6,746	–	6,746	7,946	25,231
Other income	1	–	1	–	–
Gains/(losses) on investments held at fair value through profit or loss	–	61,176	61,176	(11,013)	(185,662)
Total income	**6,747**	**61,176**	**67,923**	**(3,067)**	**(160,431)**
Expenses, finance costs and taxation	(940)	(8,377)	(9,317)	(8,608)	(14,281)
Profit/(loss) for the period and total comprehensive income	**5,807**	**52,799**	**58,606**	**(11,675)**	**(174,712)**
Return per ordinary share - basic and diluted	1.45p	13.17p	14.62p	(2.91p)	(43.59p)

Extract from the Balance Sheet	**31 Dec 2022 (unaudited) £'000**	31 Dec 2021 (unaudited) £'000	30 June 2022 (audited) £'000
Investments held at fair value through profit or loss	775,230	906,484	725,441
Current assets	3,481	3,383	6,997
Current liabilities	(80,032)	(89,321)	(79,974)
Net assets	**698,679**	**820,546**	**652,464**
Net asset value per ordinary share - basic and diluted	174.29p	204.69p	162.76p

Dividends

The Company has declared an interim dividend of 1.45p per ordinary share (31 December 2021: 1.25p) payable on 28 April 2023 to members on the register as at 31 March 2023. The shares will trade ex-dividend on 30 March 2023.

Share capital

At 31 December 2022 there were 400,867,176 ordinary shares in issue (31 December 2021 and 30 June 2022: 400,867,176).

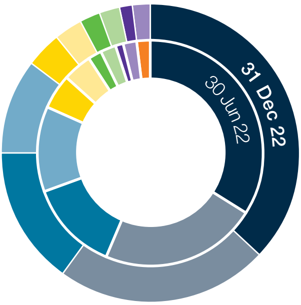
Portfolio information

Ten largest investments at 31 December 2022

Company	Sector	Geographical area	Valuation £'000	% of portfolio
TKH	Industrials	Netherlands	23,023	3.0
Van Lanschot Kempen	Financials	Netherlands	21,437	2.8
DFDS	Industrials	Denmark	18,902	2.4
u-blox	Technology	Switzerland	14,029	1.8
BFF Bank	Financials	Italy	13,578	1.7
Mytilineos	Industrials	Greece	12,735	1.6
Verallia	Industrials	France	12,169	1.6
Ipsos	Consumer Discretionary	France	12,155	1.6
Mersen	Industrials	France	11,216	1.4
Credito Emiliano	Financials	Italy	10,730	1.4
10 largest			**149,974**	**19.3**

Sector exposure

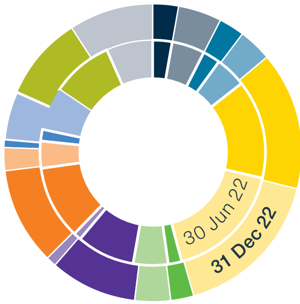
As a percentage of the portfolio excluding cash



	31 Dec 22 %	30 Jun 22 %
Industrials	**37.1**	34.1
Consumer Discretionary	**23.0**	22.5
Financials	**14.9**	13.1
Technology	**10.4**	12.0
Utilities	**3.8**	5.1
Consumer Staples	**3.2**	4.1
Energy	**2.3**	2.0
Basic Materials	**2.1**	2.1
Real Estate	**1.5**	1.2
Health Care	**1.7**	2.1
Telecommunications	**–**	1.7

Geographic exposure

As a percentage of the portfolio excluding cash



	31 Dec 22 %	30 Jun 22 %
Austria	**3.0**	2.9
Belgium	**4.6**	4.8
Denmark	**2.7**	2.4
Finland	**3.8**	4.6
France	**15.0**	14.1
Germany	**16.5**	17.1
Greece	**2.6**	2.0
Ireland	**4.0**	4.9
Italy	**9.3**	8.5
Malta	**1.1**	1.0
Netherlands	**10.5**	10.6
Norway	**2.6**	3.8
Portugal	**0.9**	1.9
Spain	**5.1**	6.0
Sweden	**9.3**	8.8
Switzerland	**9.0**	6.6

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The Association of
Investment Companies

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