RNS Announcement

Baillie Gifford European Growth Trust plc

Legal Entity Identifier: 213800QNN9EHZ4SC1R12

Results for the year to 30 September 2022

The following is the results announcement for the year to 30 September 2022 which was approved by the Board on 21 November 2022.

Over the year to 30 September 2022, the Company's net asset value per share (NAV) total return was -40.4% compared to a total return of -15.3% for the comparative index. The share price total return for the same period was -47.7%.

- The largest detractors to relative performance were: Zalando, an online fashion retailer; Takeaway.com, an online food delivery service; and Wizz Air, a low cost airline.
- Annual turnover was 25.9% and gearing stood at 15.7% of shareholders' funds as at the year end.
- The portfolio now contains four unlisted companies accounting for 10.9% of total assets as at 30 September 2022 (2021: 4.5% in three companies).
- The net revenue for the year was 0.79p per share (2021: 0.44p). A final dividend of 0.70p per share is being recommended (2021: 0.35p).
- Over the year a total of 5,911,659 shares have been bought back into treasury.

For a definition of terms see Glossary of Terms and Alternative Performance Measures at the end of this announcement. Total return information is sourced from Baillie Gifford/Refinitiv and relevant underlying index providers; see disclaimer at the end of this announcement.

Baillie Gifford European Growth Trust's principal investment objective is to achieve capital growth over the long-term from a diversified portfolio of European securities.

The Company is managed by Baillie Gifford & Co, an Edinburgh based fund management group with around £230 billion under management and advice as at 18 November 2022.

Past performance is not a guide to future performance. Baillie Gifford European Growth Trust plc is a listed UK company. The value of its shares and any income from them can fall as well as rise and investors may not get back the amount invested. The Company is listed on the London Stock Exchange and is not authorised or regulated by the Financial Conduct Authority. You can find up to date performance information about Baillie Gifford European Growth Trust plc on the Company's page of the Managers' website at **bgeuropeangrowth.com**‡

‡ Neither the contents of the Managers' website nor the contents of any website accessible from hyperlinks on the Managers' website (or any other website) is incorporated into, or forms part of, this announcement.

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Chairman's Statement

Performance

The net asset value per share ('NAV') total return over the Company's financial year was -40.4% compared to a total return of -15.3% for the FTSE Europe ex UK Index, in sterling terms. The share price total return over the year was -47.7% as the discount to NAV of the Company's shares widened from 1.3% to 13.5%. A reversal of fortune and a very disappointing year in absolute and relative terms.

Since Baillie Gifford began managing the portfolio in November 2019, the NAV total return has been 0.8% compared to a total return of 3.9% for the FTSE Europe ex UK Index, in sterling terms. The share price total return has been -5.6%, with the discount widening from 7.5% to 13.5%.

It has certainly been a challenging year for all investors but it has been particularly hard for growth investors. Reasons for this are discussed at length in the Managers' report and a little below.

Despite strong operational performance from our holdings (further detail provided in the Managers' report below), the share prices of the types of companies we own have fallen very significantly, with those companies which have a technology angle to them being punished severely.

Earnings and Dividend

As noted in the Company's 2019 Annual Report, any dividend paid will be by way of a final dividend and be the minimum required for the Company to maintain its investment trust status. Revenue per share for the year was 0.79p (2021: 0.44p) and the Board is recommending a final dividend of 0.70p per share (2021: 0.35p). Subject to shareholder approval at the Annual General Meeting, the dividend will be paid on 10 February 2023 to shareholders on the register on 6 January 2023. The ex-dividend date will be 5 January 2023.

Borrowings

The Company has two €30 million long-term debt facilities: the first has a duration of 20 years and is priced at a fixed rate of 1.57% and the other has a term of 15 years at a fixed rate of 1.55%. The Company also has an undrawn €30 million overdraft facility with The Northern Trust Company, which at present is capped at €15 million following Board agreement. At the year end, the Company had invested borrowings of 15.7% with a further 1.1% drawn and held in cash.

Share Buybacks, Issuance and Discount

Over the course of the Company's financial year, the share price moved from a 1.3% discount to NAV to a 13.5% discount to NAV. During this period, the Company bought back 5,911,659 shares at a total cost of approximately £7,444,000 and an average discount of 7.9%. The shares repurchased by the Company are held in treasury and are available to be reissued, at a premium, when market conditions allow.

The Board is of the view that the Company should retain the power to buy back shares during the current financial year and so, at the Annual General Meeting, is seeking to renew the annual authority to repurchase up to 14.99% of the shares in issue. When buying back shares, the Board does not have a formal discount target and is prepared to buy back shares opportunistically.

The Company also has authority to issue new shares and to reissue any shares held in treasury for cash on a non pre-emptive basis. Shares are issued/reissued only at a premium to NAV, thereby enhancing NAV for existing shareholders. The Directors are, once again, seeking 10% share issuance authority at the Annual General Meeting. As with the buyback authority, this authority will expire at the conclusion of the Annual General Meeting to be held in 2024, unless renewed.

The Board and Portfolio Manager

The Company has been managed by Stephen Paice, Chris Davies and Moritz Sitte as co-portfolio managers. In July 2022, Moritz took up a new opportunity with a family office. The Board would like to wish Moritz well in his new endeavours. The Company will continue to be managed by the experienced team of Stephen and Chris as co-portfolio managers.

There have been no changes to the composition of the Board during the Company's financial year, though succession planning is underway for the end of next year, as Dr Woodward will stand down from the Board at the 2024 Annual General Meeting

Annual General Meeting ('AGM')

The AGM will be held at 11.00 a.m. on 2 February 2023 at The Institute of Directors, 116 Pall Mall, London, SW1Y 5ED. Baillie Gifford will make a presentation and I look forward to meeting shareholders who are able to attend. The Board encourages all shareholders to exercise their votes on the AGM resolutions by completing and submitting a form of proxy.

Should the situation change and it not be possible to meet in person, further information will be made available through the Company's website at bgeuropeangrowth.com and the London Stock Exchange regulatory news service. Should shareholders have questions for the Board or the Managers or any queries as to how to vote, they are welcome, as always, to submit them by email to trustenquiries@bailliegifford.com or call 0800 917 2112. Information on the resolutions can be found on pages 55 and 56 of the Annual Report and Financial Statements. The Directors consider that all resolutions to be put to shareholders are in their and the Company's best interests as a whole and recommend that shareholders vote in favour.

The First 50 Years

To commemorate its first 50 years, John Newlands has written a short history of the Company. A copy of this is available on the Company's page of the Managers' website at bgeuropeangrowth.com and is enclosed with this Annual Report for those shareholders who have asked to receive a printed copy.

Outlook

In retrospect, we will look back on the last 25 years of low and falling interest rates as something of a mirage. Central bankers have enjoyed fame far in excess of their historically important but unglamorous role as financial plumbers. Their job, according to Paul Volcker, who proved his worth as a practitioner, is to remove the punchbowl before the party gets started. For decades there was no sign of the punchbowl being removed and the world became accustomed to unlimited punch. We must all consequently now get used to the feeling of being punch drunk. An unparalleled period of near-zero interest rates sits oddly with a 400–year average of over 4%. The present challenges set by a sharp deterioration in geo-political harmony are shaking us out of that reverie. Something was always bound to, but it was impossible to guess when. The music has stopped, the party is well and truly over, the police have arrived and reality has intervened. Interest rates are on their way back to or above long term norms. In the stock market, present cash flows are prized as rising inflation and interest rates currently, though temporarily, outweigh all other factors. The market's barometer is set to maximum fear and storm hatches have been battened. The underlying prognosis for economic activity is being impaired. Relative strength and growth will, in time, become rarer and better appreciated.

If this all sounds and is dispiriting, the good news is that we are living through a golden age of innovation and disruption in business. Living standards are high, albeit inflated by an asset bubble and cheap debt, and technological progress remains extraordinary. Opportunities to grow and strengthen businesses and to build enduring barriers to entry at pace have seldom been greater. And positive change is being catalysed by today's adversity. A $100 oil price, for example, can only hasten the end of the carbon economy and accelerate its replacement. Equities, and this portfolio specifically, remain a bet on human ingenuity. It is challenging to endure this painful period of flux, but even in its midst we might yet struggle to answer the question differently: 'what would I rather own for the long term?'

Michael MacPhee
Chairman
21 November 2022

Past performance is not a guide to future performance.

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For a definition of terms, see Glossary of Terms and Alternative Performance Measures at the end of this announcement.

Managers' Report

In our last annual report, we noted 'a very good start' in performance terms to our tenure as the Company's managers. Twelve months on, with the share price down almost 50%, and at times trading at prices in line with the beginning of our tenure, the same could hardly now be said. With hindsight it is clear that we underestimated inflationary forces and misjudged the speed and magnitude of the subsequent correction in company valuations.

As ever in investing, there will be lessons for us to learn and no doubt we will be debating these for the rest of our careers. The more important priority for us at this point, however, is turning today's prevailing pessimism to the advantage of our shareholders. We find ourselves at a pivot point, with an extreme mismatch between the potential of our companies and their valuations. If we were at all over-optimistic on valuations last year, the balm must surely be taking advantage when markets are depressed.

We recently read Richard Rumelt's Good Strategy Bad Strategy, one of the most compelling books on the subject we've come across. Perhaps his most powerful insight on strategy is that 'a great deal of strategy work is trying to figure out what is going on. Not just deciding what to do, but the more fundamental problem of comprehending the situation'. This is as relevant to our own strategy as to the strategy of any of our portfolio companies, so before we explain our ongoing commitment to the process we've built, it is important to attempt the task Rumelt wisely encourages.

Simplistically, one could disaggregate the headwinds facing European growth into those facing Europe, and those facing growth. Geopolitics dominates the former. Russia's invasion of Ukraine has exposed Europe's frailties, particularly the dependence on Russian hydrocarbons, and unleashed a wave of inflation not seen in the region for decades. Countless commodities have seen prices explode as supply shocks hit markets. Perhaps most terrifying of all has been Russia's reckless shelling around Ukrainian nuclear power plants and its heightened rhetoric around the use of nuclear weapons, recalling a much more dangerous era in Europe's past. The proximity of developed Europe to the emerging crisis has caused a great deal of fear, manifesting perhaps most strikingly in the substantial outflows from European equities since the war began.

As for growth, economies are clearly weakening. Several consumer-facing portfolio companies, including HelloFresh, Zalando, Allegro, Delivery Hero and Just Eat Takeaway, have already revised guidance downwards for this year, but it feels increasingly likely that more widespread downgrades are on the way. We do not aim to distinguish ourselves as economic forecasters: John Galbraith's observation that the role of economic forecasting is 'to make astrology look respectable' springs to mind. Over time our portfolio will live or die by the strength of its idiosyncratic growth drivers and competitive advantages, not the short-term oscillations of a naturally cyclical economy.

More relevant for assessing the dramatic sell-off in European growth equities over the past year is the significant rise in discount rates. With inflation running high – double digits in some European economies – central banks are scrambling to bring it under control by increasing interest rates. In the parlance of the capital asset pricing model, the risk-free rate has risen, and the equity risk premium too. The result is that future cashflows are being valued much less highly than they were last year.

Share prices ultimately reflect the market's assessment of the present value of a company's future cashflows. When discount rates move up, growth stocks see their share prices hit disproportionately. To illustrate the severity of this, one only needs to look at some of our worst-performing stocks. We arbitrarily selected fifteen holdings that have delivered a total return of -50% or worse over the financial year. The average annual revenue growth for these companies over the preceding three years was 44% but, despite this strength, the three-year forward revenue growth forecast remains a healthy 18.5%. It is notable, however, that the average forward enterprise value to sales multiple for this group of companies fell 61% over the year to 30 September 2022, despite their strong fundamentals. Multiple compression has done a great deal of damage but, in many cases, it feels like there has been a serious over-correction.

Despite all this turmoil, our strategy remains unchanged. We aim to identify Europe's great growth companies by carrying out deep research, unearthing insights and building conviction around a view that differs from that of the market. We then own these special companies over the long term. With the market seemingly pouring scorn on this approach, the onus is on us to explain our ongoing commitment to it.

Long-term fundamentals remain strong. Ben Graham's insight that 'in the short run, the market is a voting machine but in the long run, it is a weighing machine' reveals an important truth about markets: long-term returns are driven by fundamentals, not multiples. Weight matters, and we think this portfolio has plenty. A cursory glance across the markets being addressed by our portfolio companies reveals strong secular underpinnings that will drive high growth rates over the next decade. In freight forwarding, digital disruptor sennder has the €300bn EU freight truck market to grow into, with a mere €540m of managed revenue today. Much bigger peer DSV operates across land, sea and air markets, and tends to make large acquisitions every few years, yet even it has a tiny 4% market share in third party logistics. HelloFresh saw its revenue more than double in 2020, growing another 60% in 2021, yet market penetration remains below 0.5%. Wizz Air is growing its fleet at 15% per annum to the end of the decade, taking advantage of the inefficiency of legacy carriers to stimulate new demand and gain market share. Similar stories could be told across the portfolio. In short, little has changed about the long-term opportunities for our companies.

Crucially, we also see strengthening competitive advantages in this difficult environment of scarce and expensive capital. Wizz Air and Ryanair should both benefit from their low cost/low fare model as demand softens and competitors retrench. Scandinavian airline SAS recently filed for bankruptcy, Romania's Blue Air looks set to follow suit, and there will be others. Food delivery companies seem to be getting more rational, with signs of retrenchment across the board. Deliveroo is exiting the Netherlands, Just Eat Takeaway's home turf, while the latter has exited Norway, Portugal and Brazil. We should see less discounting and better profits. Serial acquirers with strong balance sheets and strong cash flows should also find it easier to acquire targets in tougher times. Europe's energy transition enablers also seem much better placed given recent dislocations. NIBE's heat pumps, Epiroc's electric mining vehicles and Kingspan's insulated panels feel increasingly privileged. These companies are certainly not wasting this crisis.

It's also worth pointing out that we have high conviction in the portfolio's ability to weather the current storm. Long-term prospects are irrelevant if companies do not survive to realise them. We take comfort from the relatively low level of debt across the portfolio. The net det to equity ratio, for example, remains low at 0.2x compared to the benchmark at 0.6x. That is not to say that it has been plain sailing - some stocks have required additional attention. Delivery Hero successfully plugged potential holes in its balance sheet earlier this year, and we've spent more time than usual getting comfortable with Wizz Air's liquidity position. We're also keeping a close eye on names like Cellectis (where cash burn is high as its CAR-T cell treatments continue through clinical trials) and Allegro (which is highly levered after the acquisition of Mall Group); but, overall, the portfolio is in good shape.

Another reason for optimism is that valuations are more attractive than they have been in a long while. Outlier returns aren't only the result of investing in high-growth, high-quality companies; they are also the result of the market's expectations being too low. We often use discounted cashflow (DCF) analysis as a means of establishing where an expectations mismatch might arise. We revisited our DCF analyses from last year and were struck by how much less heavy lifting our companies need to do from here to hit our return hurdle, a minimum of doubling over the next five years. With long-term prospects still looking strong and competitive advantages strengthening, we see attractive payoffs ahead for the portfolio.

DCFs don't determine our investment decisions but can serve to sense check our assumptions. They have helped highlight discrepancies between our expectations and those of the market for various stocks. In the case of our luxury holdings, Kering and Richemont, it seemed at one point that the market was pricing in competitive advantage periods of three years or less, which for businesses that get stronger with age felt strangely pessimistic. We found ourselves similarly surprised by the extremely gloomy expectations for names at the higher growth end of the portfolio like Zalando and HelloFresh, businesses that are disrupting existing profit pools and creating new ones. These are businesses with years of growth ahead if one looks beyond the fear and uncertainty dominating markets today. These are exactly the sort of mismatches we aim to exploit, and there are currently plenty to go around.

In short, there is much to be optimistic about. Our portfolio is well-positioned to weather the current storm and continue driving transformational change across a range of industries. The mismatch between these powerful long-term drivers and current share prices is, however, starker than ever. For long-term growth investors such dislocations are to be embraced, not feared. We may be natural optimists, but hopefully of the rational sort.

Portfolio & Transactions

We believe strongly that Europe's big winners over the next decade will be different from those of the past. With valuations now depressed for many potential contenders, our attention has naturally gravitated away from companies where likely growth rates and/or valuations offer less upside potential. Rational, Kuehne & Nagel and FinecoBank have exited the portfolio over the past six months as more appealing opportunities for capital deployment arose. As Ukraine is perhaps proving, the best form of defence is often attack. Competition for capital has seldom felt this intense.

Over the course of the past year, we've made opportunistic additions to a significant number of our high-growth companies. These include Aker Horizons, Wizz Air, Allegro, Prosus, Delivery Hero, Just Eat Takeaway, AUTO1, Schibsted, VNV Global and Kinnevik. Each of these companies continues to invest heavily for future growth and competitive advantage, harnessing today's cashflows to grow those of the future. These are the names where we observe the greatest mismatches between long-term fundamentals and share prices, but there have been several others. Luxury holdings Richemont and Kering, Irish building materials supplier Kingspan and freight forwarder DSV have all received additional capital on this basis.

Market volatility has allowed us to be equally opportunistic in the purchase of new holdings. In some cases, these are businesses we've known and admired for some time. Two such cases are in healthcare, where momentous change is afoot thanks to an ever-enriching biological toolbox increasingly available to innovative companies. CRISPR Therapeutics is riding this wave, using a game-changing gene-editing tool discovered by Jennifer Doudna and Emmanuelle Charpentier called CRISPR-Cas9. This is essentially a pair of molecular scissors capable of cutting DNA in specific places and making precise deletions of genetic material. The discovery won the pair the Nobel Prize for chemistry in 2020. CRISPR Therapeutics has been developing a curative treatment for sickle cell disease, but this is potentially a platform technology that could be applied to a broad range of other conditions.

We've also taken a new holding in Evotec, a contract research organisation (CRO) and drug discovery business. This is another key enabler of the biological revolution. Its most mature business is a traditional CRO helping biotech and pharma companies with parts of the R&D process they cannot do in-house. Evotec has a uniquely end-to-end pre-clinical offering here, giving it an edge over peers. More interesting for high-return outcomes, however, is Evotec's recent move to jointly develop a pipeline of 120+ drugs with its partners and share in the economics of their success. This business model transition and the unique focus on research excellence supporting it is ascribed little value by the market

We speak often of the breadth and diversity in the European market. This could not be better demonstrated than by the other new purchases we've made this year. Toy company Tonies, online digital real estate agent McMakler (unlisted), acquisitive vertical market software company Topicus and video games consolidator Embracer – all mentioned in the interim report – demonstrate this clearly. These are all relatively young companies, so it may be somewhat surprising to see us purchase two companies that can trace their origins back to the 19th century: Nexans and EXOR.

Both companies are modernising. Nexans, a French cables maker, is reforging itself as a pure electrification business under the leadership of CEO Christopher Guerin after years of underperformance. He has staked his career on a radical reshaping of the company, with one third of revenues earmarked for divestment and an aspiration to use the freed-up capital to acquire electrification businesses. The centrepiece for Nexans' pivot is its subsea high-voltage business, where it supplies cables to the offshore wind and interconnector markets and is one of two companies in the world able to install subsea cables at extreme depths. Nexans is thus a key enabler of the green energy transition and, if Guerin is successful, its financial results will be radically improved.

EXOR is the holding company of the Agnelli family. Its portfolio today remains dominated by the businesses of the old Fiat empire. The best of these is luxury carmaker Ferrari, which is perhaps closer to a luxury goods company. Its siblings from the old Fiat stable include Stellantis, formed by the merger of Fiat Chrysler and Peugeot, and agricultural equipment maker CNH Industrial. EXOR's discount to NAV recently widened to nearly 50%, but the more appealing aspect of EXOR is the potential for portfolio transformation. John Elkann - CEO and fifth generation Agnelli – has a great deal of permanent capital to deploy at a time when it is in short supply and valuations are attractive thanks to the recent sale of reinsurance business PartnerRe. Elkann plans to pivot the portfolio towards sectors where structural growth prospects are stronger than the legacy car business, using the Agnelli long-termism to open doors others can't. These include luxury, healthcare and technology. We feel that this transformation is underappreciated by the market.

Aside from our investment in McMakler earlier this year, we have made no additional investments in unlisted companies. Private markets have been somewhat quieter in 2022 with far fewer companies raising capital compared to 2021. With public market valuations having fallen, many unlisted companies perhaps fear that further funding rounds may be transacted at lower levels than previous ones, or so-called 'down rounds'. We remain enthused by the long-term potential for Europe's unlisted companies, but we may have to wait until brighter days before we can deploy fresh capital. Despite fewer new opportunities, our current unlisted investments continue to perform well. Swedish battery maker Northvolt - our largest holding as at 30 September 2022 – was the standout contributor to relative performance during the period, though we would note that this performance has benefitted from foreign exchange movements.

Outlook

One of the main characters in Hernan Diaz' recent novel Trust is narcissistic financier Andrew Bevel, who makes a fortune investing in markets in the 1920s largely on advice provided by his wife. Drafting a revisionist memoir, Bevel seeks to cast himself as the self-sufficient protagonist, depriving his late wife of much deserved credit. Despite Bevel's obvious shortcomings, through him Diaz offers a remarkably piercing insight with clear parallels to stock markets:

'Every life is organised around a small number of events that either propel us or bring us to a grinding halt. We spend the years between these episodes benefitting or suffering from their consequences until the arrival of the next forceful moment. A man's worth is established by the number of these defining circumstances he is able to create for himself. He need not always be successful, for there can be great honour in defeat. But he ought to be the main actor in the decisive scenes in his existence, whether they be epic or tragic.'

Europe is living through several forceful moments at once. Not simply the ongoing reverberations of Covid and the dislocations caused by war, but also the immense wave of innovation in technologies and business models which are surely the more relevant protagonists of the story to be written in the years ahead. It is precisely these 'main actors' we seek – companies that are in control of their own destinies, able to create their own luck. This is why we are uninterested in banks, traditional energy companies, utilities and the cast of companies that rely on exogenous factors to drive profits. We believe Europe's outliers are much more likely to be those companies that can create their own 'defining circumstances' over long periods.

Not all of our protagonists will go on to attain superstar status as the great outliers of the next decade, but not all of them need to. We believe the cast we have assembled provides an excellent platform for those outliers to step forth, supported by inexorable underlying growth trends, strengthening competitive positions and excellent managers. The outlook for this portfolio must therefore be based on an assessment of these factors. As you can perhaps tell, we remain defiantly optimistic.

Stephen Paice
Chris Davies
Baillie Gifford & Co
21 November 2022

List of Investments as at 30 September 2022

Name	Business	Country	Value £'000	% of total assets
Northvolt [U]	Battery developer and manufacturer	Sweden	24,301	6.7
Prosus	Portfolio of online consumer companies	Netherlands	21,439	5.9
Adyen	Online payments platform	Netherlands	14,969	4.1
Topicus.com*	Acquirer of vertical market software companies	Netherlands	13,025	3.6
Richemont	Owner of luxury goods companies	Switzerland	12,234	3.4
Ryanair	Low-cost airline	Ireland	11,990	3.3
Kering	Owner of luxury fashion brands	France	11,347	3.1
Atlas Copco	Industrial group	Sweden	10,958	3.0
IMCD	Speciality chemicals distributor	Netherlands	10,023	2.8
Nexans*	Cable manufacturing company	France	9,642	2.7
ASML	Semiconductor equipment manufacturer	Netherlands	9,609	2.6
Schibsted	Media and classifieds advertising platforms	Norway	9,431	2.6
Avanza Bank	Online investment platform	Sweden	9,076	2.5
Mettler-Toledo	Manufacturer of precision instruments for laboratories	Switzerland	8,888	2.4
Hexpol	Manufacturer of rubber and polymer compounds	Sweden	8,848	2.4
DSV	Freight forwarder	Denmark	8,565	2.4
Dassault Systèmes	Develops software for 3D computer-aided design	France	8,330	2.3
EXOR*	Investment company specialising in industrials	Netherlands	8,304	2.3
Reply	IT consulting and systems integration provider	Italy	8,020	2.2

Kinnevik	Investment company specialising in digital consumer businesses	Sweden	7,953	2.2
Allegro.eu	E-commerce platform	Poland	7,786	2.1
Takeaway.com	Online food ordering and home delivery	Netherlands	7,621	2.1
Sartorius Stedim Biotech	Pharmaceutical and laboratory equipment provider	France	7,585	2.1
Kingspan Group	Building materials provider	Ireland	7,502	2.1
Spotify	Online audio streaming service	Sweden	7,263	2.0
Delivery Hero	Online food delivery platform	Germany	7,116	2.0
Adevinta	Online classifieds marketplaces	Norway	6,290	1.7
Zalando	Online fashion retail platform	Germany	6,241	1.7
sennder [U]	Freight forwarder focused on road logistics	Germany	6,098	1.7
McMakler*[U]	Digital real estate broker	Germany	5,372	1.5
Wizz Air Holdings	Low-cost airline	Hungary	5,081	1.4
AUTO1	Online platform for used car selling in Europe	Germany	4,857	1.3
Embracer*	Acquirer of video, mobile and board games companies	Sweden	4,828	1.3
NIBE Industrier	Heat pump manufacturer	Sweden	4,657	1.3
adidas	Sports shoes and clothing manufacturer	Germany	4,619	1.3
Evotec*	Contract research and drug discovery company	Germany	4,604	1.3
Epiroc	Mining and infrastructure equipment provider	Sweden	4,235	1.2
Flixmobility [U]	Long-distance bus and train provider	Germany	3,828	1.1
HelloFresh	Meal kit delivery company	Germany	3,731	1.0
Beijer	Wholesaler of cooling technology	Sweden	3,678	1.0
Hemnet	Online real estate platform	Sweden	3,442	1.0
Aker Horizons	Investment company specialising in green technology	Norway	3,197	0.9
Addlife	Acquirer of life sciences companies	Sweden	3,058	0.8
VNV Global	Investment company specialising in early-stage technologies	Sweden	2,862	0.8
Tonies*	Musical storybox toys for children	Germany	2,832	0.8
Crispr Therapeutics*	Developer of treatments based on gene editing technology	Switzerland	1,967	0.5
Cellectis#	Biotech focused on genetic engineering	France	742	0.2
Ubisoft Entertainment	Video games publisher	France	61	–
Total investments			358,105	98.7
Net liquid assets			4,852	1.3
Total assets			**362,957**	**100.0**
Borrowings			(52,560)	(14.5)
Shareholders' funds			**310,397**	**85.5**

[U] Denotes unlisted

* New holding bought during the year (Bechtle, FinecoBank, Investor, Kuehne + Nagel, L'Oréal, MorphoSys, Pernod Ricard and Rational were sold during the year).

\# Includes American Depositary Receipt.

Income Statement

	Notes	2022 Revenue £'000	2022 Capital £'000	**2022 Total £'000**	2021 Revenue £'000	2021 Capital £'000	**2021 Total £'000**
Net (losses)/gains on investments		–	(241,839)	**(241,839)**	–	106,241	**106,241**
Currency gains/(losses)		104	(1,145)	**(1,041)**	(61)	1,981	**1,920**
Income	2	4,313	–	**4,313**	3,256	–	**3,256**
Investment management fee	3	(412)	(1,647)	**(2,059)**	(574)	(2,298)	**(2,872)**
Other administrative expenses		(572)	–	**(572)**	(636)	–	**(636)**
Net return before finance costs and taxation		3,433	(244,631)	**(241,198)**	1,985	105,924	**107,909**
Finance costs		(214)	(652)	**(866)**	(134)	(427)	**(561)**
Net return on ordinary activities before taxation		3,219	(245,283)	**(242,064)**	1,851	105,497	**107,348**
Tax on ordinary activities		(358)	–	**(358)**	(318)	(380)	**(698)**
Net return on ordinary activities after taxation		**2,861**	**(245,283)**	**(242,422)**	**1,533**	**105,117**	**106,650**
Net return per ordinary share*	4	**0.79p**	**(67.98p)**	**(67.19p)**	**0.42p**	**28.90p**	**29.32p**

The total column of this statement is the profit and loss account of the Company. The supplementary revenue and capital return columns are prepared under guidance published by the Association of Investment Companies.
All revenue and capital items in this statement derive from continuing operations.
A Statement of Comprehensive Income is not required as all gains and losses of the Company have been reflected in the above statement

Balance Sheet

	Notes	2022 £'000	2022 £'000	2021 £'000	2021 £'000
Fixed assets					
Investments held at fair value through profit or loss	6		358,105		600,351
Current assets					
Debtors		2,797		2,320	
Cash and cash equivalents		3,571		12,252	
		6,368		14,572	
Creditors					
Amounts falling due within one year		(1,516)		(1,913)	

	Notes		
Net current assets		4,852	12,659
Total assets less current liabilities		**362,957**	**613,010**
Creditors			
Amounts falling due after more than one year	7	(52,560)	(51,471)
Net assets		**310,397**	**561,539**
Capital and reserves			
Share capital		10,061	10,061
Share premium account		125,050	125,050
Capital redemption reserve		8,750	8,750
Capital reserve		158,457	411,184
Revenue reserve		8,079	6,494
Shareholders' funds		**310,397**	**561,539**
Net asset value per ordinary share* (borrowings at book value)		**86.5p**	**154.0p**
Net asset value per ordinary share* (borrowings at fair value)		**91.9p**	**154.5p**

Statement of Changes in Equity

	Notes	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	**Shareholders' funds £'000**
Shareholders' funds at 1 October 2021		10,061	125,050	8,750	411,184	6,494	**561,539**
Dividends paid during the year	5	–	–	–	–	(1,276)	**(1,276)**
Shares bought back into treasury	9	–	–	–	(7,444)	–	**(7,444)**
Net return on ordinary activities after taxation		–	–	–	(245,283)	2,861	**(242,422)**
Shareholders' funds at 30 September 2022		**10,061**	**125,050**	**8,750**	**158,457**	**8,079**	**310,397**

	Notes	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	**Shareholders' funds £'000**
Shareholders' funds at 1 October 2020		10,061	123,749	8,750	303,860	6,228	**452,648**
Dividends paid during the year	5	–	–	–	–	(1,267)	**(1,267)**
Shares issued from treasury	9	–	1,301	–	2,207	–	**3,508**
Net return on ordinary activities after taxation		–	–	–	105,117	1,533	**106,650**
Shareholders' funds at 30 September 2021		**10,061**	**125,050**	**8,750**	**411,184**	**6,494**	**561,539**

Cash Flow Statement

	Notes	2022 £'000	2022 £'000	2021 £'000	2021 £'000
Cash flows from operating activities					
Net return on ordinary activities before taxation		(242,064)		107,348	
Net losses/(gains) on investments		241,839		(106,241)	
Currency losses/(gains)		1,041		(1,920)	
Finance costs		866		561	
Overseas withholding tax suffered		(284)		(698)	
Overseas withholding tax received		459		576	
Changes in debtors and creditors*		(530)		63	
Cash from operations**			1,327		(311)
Interest paid			(852)		(339)
Net cash inflow/(outflow) from operating activities			475		(650)
Cash flows from investing activities					
Acquisitions of investments		(147.499)		(126,932)	
Disposals of investments		147,012		101,088	
Net cash outflow from investing activities			(487)		(25,844)
Cash flows from financing activities					
Shares issued from treasury		–		3,508	
Shares bought back into treasury		(7,436)		–	
Equity dividends paid		(1,276)		(1,267)	
Private placement loan notes issued		–		52,994	
Costs of issuance of private placement loan notes		–		(103)	
Net cash (outflow)/inflow from financing activities			(8,712)		55,132
(Decrease)/increase in cash and cash equivalents			(8,724)		28,638
Exchange movements			43		496
Cash and cash equivalents at start of year	10		12,252		(16,882)
Cash and cash equivalents at end of year	10		3,571		12,252
Comprising:					
Cash at bank			3,571		12,252

	3,571	**12,252**

*Change in debtors (£214,000) (2021 – (£119,000)), change in creditors (£316,000) (2021 - £182,000).
** Cash from operations includes dividends received of £4,284,000 (2021 – £3,224,000).

Notes to the Condensed Financial Statements

1. The Financial Statements for the year to 30 September 2022 have been prepared in accordance with FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' on the basis of the accounting policies set out pages 41 and 42 of the Annual Report and Financial Statements which are consistent with those applied for the year ended 30 September 2021.

2.

	2022 £'000	2021 £'000
Income from investments		
Overseas dividends	4,311	3,255
Other income		
Interest on deposits	2	1
Total income	**4,313**	**3,256**

3. **Investment Management Fee**

	2022 Revenue £'000	2022 Capital £'000	**2022 Total £'000**	2021 Revenue £'000	2021 Capital £'000	**2021 Total £'000**
Investment management fee	**412**	**1,647**	**2,059**	**574**	**2,298**	**2,872**

Baillie Gifford & Co Limited, a wholly owned subsidiary of Baillie Gifford & Co, was appointed as the Company's Alternative Investment Fund Manager ('AIFM') and Company Secretary on 29 November 2019. Baillie Gifford & Co Limited has delegated portfolio management services to Baillie Gifford & Co. Dealing activity and transaction reporting has been further sub-delegated to Baillie Gifford Overseas Limited and Baillie Gifford Asia (Hong Kong) Limited. The Investment Management Agreement between the AIFM and the Company sets out the matters over which the Managers have authority in accordance with the policies and directions of, and subject to restrictions imposed by, the Board. The Investment Management Agreement is terminable on not less than three months' notice or on shorter notice in certain circumstances. Compensation would only be payable if termination occurred prior to the expiry of the notice period.

Baillie Gifford & Co Limited's annual management fee is 0.55% of the lower of (i) the Company's market capitalisation and (ii) the Company's net asset value (which shall include income), in either case up to £500 million, and 0.50% of the amount of the lower of the Company's market capitalisation or net asset value above £500 million, calculated and payable quarterly.

4. **Net Return per Ordinary Share**

	2022 Revenue	2022 Capital	**2022 Total**	2021 Revenue	2021 Capital	**2021 Total**
Net return per ordinary share	**0.79p**	**(67.98p)**	**(67.19p)**	**0.42p**	**28.90p**	**29.32p**

Revenue return per ordinary share is based on the net revenue return on ordinary activities after taxation of £2,861,000 (2021 – £1,533,000), and on 360,823,119 (2021 – 363,715,768) ordinary shares, being the weighted average number of ordinary shares in issue during each year.
Capital return per ordinary share is based on the net capital loss for the financial year of £245,283,000 (2021 – net capital gain of £105,117,000), and on 360,823,119 (2021 – 363,715,768) ordinary shares, being the weighted average number of ordinary shares in issue during each year.
There are no dilutive or potentially dilutive shares in issue.

5. **Ordinary Dividends**

	2022	2021	2022	2021

			£'000	£'000
Amounts recognised as distributions in the year:				
Previous year's final dividend (paid 11 February 2022)	**0.35p**	**0.35p**	**1,276**	**1,267**

Also set out below are the total dividends paid and proposed in respect of the financial year, which is the basis on which the requirements of section 1158 of the Corporation Tax Act 2010 are considered. The revenue available for distribution by way of dividend for the year is £2,861,000 (2021 – £1,533,000).

	2022	2021	2022 £'000	2021 £'000
Dividends paid and payable in respect of the year:				
Proposed final dividend (payable 10 February 2023)	0.70p	**0.35p**	2,511	**1,276**

6. Investments

As at 30 September 2022	Level 1 £'000	Level 2 £'000	Level 3 £'000	**Total £'000**
Securities				
Listed equities	318,506	–	–	**318,506**
Unlisted securities	–	–	39,599	**39,599**
Total financial asset investments	**318,506**	**–**	**39,599**	**358,105**

As at 30 September 2021	Level 1 £'000	Level 2 £'000	Level 3 £'000	**Total £'000**
Securities				
Listed equities	572,399	–	–	**572,399**
Unlisted securities	–	–	27,952	**27,952**
Total financial asset investments	**572,399**	**–**	**27,952**	**600,351**

Investments in securities are financial assets designated at fair value through profit or loss on initial recognition. In accordance with FRS 102 the tables above provide an analysis of these investments based on the fair value hierarchy described below which reflects the reliability and significance of the information used to measure their fair value.

Fair Value Hierarchy

The levels are determined by the lowest (that is the least reliable or least independently observable) level of input that is significant to the fair value measurement for the individual investment in its entirety as follows:

Level 1 – using unadjusted quoted prices for identical instruments in an active market;

Level 2 – using inputs, other than quoted prices included within Level 1, that are directly or indirectly observable (based on market data); and

Level 3 – using inputs that are unobservable (for which market data is unavailable).

The valuation techniques used by the Company are explained in the accounting policies on page 42 of the Annual Report and Financial Statements. A sensitivity analysis by valuation technique of the unlisted securities is on pages 52 and 53 of the Annual Report and Financial Statements.

7. Creditors – amounts falling due after more than one year

	2022 £'000	2021 £'000
Unsecured loan notes:		
€30m 1.55% 24 June 2036	26,299	25,755

€30m 1.57% 8 December 2040	26,261	25,716
	52,560	**51,471**

The company has €30 million of long-term, fixed rate, senior, unsecured privately placed loan notes, with a fixed coupon of 1.57% to be repaid on 8 December 2040 and a further €30 million of long-term, fixed rate, senior, unsecured privately placed loan notes with a fixed coupon of 1.55% to be repaid on 24 June 2036.

The main covenants which are tested monthly are: (i) Net tangible assets shall not fall below £200,000,000. (ii) Total borrowings shall not exceed 30% of the Company's adjusted assets. (iii) The Company's number of holdings shall not fall below 30.

At 30 September 2022 the Company currently had a €30,000,000 bank overdraft credit facility agreement with The Northern Trust Company (the 'Bank') for the purpose of pursuing its investment objective. As at 30 September 2022, nil had been drawn down (2021 – nil). The facility is uncommitted. Interest is charged at 1.25% above the European Central Bank Main Financing Rate. The Board has currently agreed to cap a drawdown under this facility at €15,000,000.

8. Transaction costs incurred on the purchase and sale of investments are added to the purchase costs or deducted from the sales proceeds, as appropriate. The purchases and sales proceeds figures include transaction costs of £104,000 (2021 – £96,000) and £59,000 (2021 – £45,000) respectively.

9. Share Capital

	2022 Number	2022 £'000	2021 Number	2021 £'000
Allotted, called up and fully paid ordinary shares of 2.5p each	358,687,671	8,967	364,599,330	9,115
Treasury shares of 2.5p each	43,756,019	1,094	37,844,360	946
Total	**402,443,690**	**10,061**	**402,443,690**	**10,061**

The Company's shareholder authority permits it to hold shares bought back in treasury. Under such authority, treasury shares may be subsequently either sold for cash (at a premium to net asset value per ordinary share) or cancelled. At 30 September 2022 the Company had authority to buy back 53,554,834 ordinary shares. During the year to 30 September 2022, no ordinary shares (2021 – nil) were bought back for cancellation and 5,911,659 ordinary shares were bought back into treasury at a cost of £7,444,000 (2021 – nil). Under the provisions of the Company's Articles of Association share buy-backs are funded from the capital reserve. The Company has authority to allot shares under section 551 of the Companies Act 2006. The Board has authorised use of this authority to issue new shares at a premium to net asset value per share in order to enhance the net asset value per share for existing shareholders and improve the liquidity of the Company's shares. During the year to 30 September 2022 no shares were issued (in the year to 30 September 2021 – 2,400,000 shares on a non pre-emptive basis (nominal value £60,000, representing 0.7% of the issued share capital at 30 September 2020) at a premium to net asset value (on the basis of debt valued at book value) raising net proceeds of £3,508,000).

10. Analysis on change in net debt

	1 October 2021 £'000	Cash flows £'000	Other non-cash changes £'000	Exchange movement £'000	30 September 2022 £'000
Cash and cash equivalents	12,252	(8,619)	–	(62)	**3,571**
Loans due in more than one year	**(51,471)**	–	(6)	(1,083)	**(52,560)**
	(39,219)	**(8,619)**	**(6)**	**(1,145)**	**(48,989)**

11. The financial information for 2021 is derived from the statutory accounts for 2021 which have been delivered to the Registrar of Companies. Statutory accounts for 2022 will be delivered to the Registrar of Companies in due course. The Auditors have reported on the 2021 and 2022 accounts, their report was (i) unqualified; (ii) did not include a reference to any matters to which the Auditors drew attention by way of emphasis without qualifying their report; and (iii) did not contain a statement under sections 498(2) or (3) to 497 of the Companies Act 2006.

12. Transactions with Related Parties and the Managers and Secretaries

The Directors' fees for the year and interests in the Company's shares at the end of the year are detailed in the Directors' Remuneration Report on page 30 of the Annual Report and Financial Statements. The Directors' Fees are included in note 4 on page 43 of the Annual Report and Financial Statements. No Director has a contract of service with the Company. During the years reported, no Director was interested in any contract or other matter requiring disclosure under section 412 of the Companies Act 2006.
The Management fee due to Baillie Gifford & Co Limited is set out in note 3 on page 43 of the Annual Report and Financial Statements and the amount accrued at 30 September 2022 is set out in note 11 on page 47 of the Annual Report and Financial Statements. Details of the Investment Management Agreement are set out on page 20 of the Annual Report and Financial Statements.

13. The Annual Report and Financial Statements will be available on the Company's page of the Managers' website at **bgeuropeangrowth.com** on or around 6 December 2022.

None of the views expressed in this document should be construed as advice to buy or sell a particular investment.

Glossary of Terms and Alternative Performance Measures (APM)

An Alternative Performance Measure ('APM') is a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework. The APMs noted below are commonly used measures within the investment trust industry and serve to improve comparability between investment trusts.

Total Assets
This is the Company's definition of Adjusted Total Assets, being the total value of all assets less current liabilities, before deduction of all borrowings.

Shareholders' Funds
Shareholders' Funds is the value of all assets held less all liabilities, with borrowings deducted at book value.

Net Asset Value
Net Asset Value is the value of total assets less liabilities with borrowings deducted at either book value or fair value as described below. The net asset value per share (NAV) is calculated by dividing this amount by the number of ordinary shares in issue (excluding treasury shares).

Net Asset Value (Borrowings at Fair Value) (APM)
Borrowings are valued at an estimate of market worth. The fair value of the Company's loan notes is set out in note 19 on page 54 of the Annual Report and Financial Statements.
A reconciliation from shareholders' funds (borrowings at book value) to net asset value after deducting borrowings at fair value is provided below.

	2022 £'000	2022 per share	2021 £'000	2021 per share
Shareholders' funds (borrowings at book value)	310,397	86.5p	561,539	154.0p
Add: book value of borrowings	52,560	14.7p	51,471	14.1p
Less: fair value of borrowings	(33,425)	(9.3p)	(49,855)	(13.6p)
Net asset value (borrowings at fair value)	**329,532**	**91.9p**	**563,155**	**154.5p**

The per share figures above are based on 358,687,671 (2021 – 364,599,330) ordinary shares of 2.5p, being the number of ordinary shares in issue at the year end.

Net Liquid Assets
Net liquid assets comprise current assets less current liabilities, excluding borrowings.

Discount/Premium (APM)
As stockmarkets and share prices vary, an investment trust's share price is rarely the same as its NAV. When the share price is lower than the NAV it is said to be trading at a discount. The size of the

discount is calculated by subtracting the share price from the NAV and is usually expressed as a percentage of the NAV. If the share price is higher than the NAV it is said to be trading at a premium.

	2022 NAV (book)	2022 NAV (fair)	2021 NAV (book)	2021 NAV (fair)
Closing NAV	86.5p	91.9p	154.0p	154.5p
Closing share price	79.5p	79.5p	152.4p	152.4p
Discount	**8.1%**	**13.5%**	**1.0%**	**1.3%**

Total Return (APM)

The total return is the return to shareholders after reinvesting the net dividend on the date that the share price goes ex-dividend.

		2022 NAV (fair)	2022 Share price	2021 NAV (fair)	2021 Share price
Closing NAV/share price	(a)	91.9p	79.5p	154.5p	152.4p
Dividend adjustment factor†	(b)	1.0024	1.0025	1.0025	1.0024
Adjusted closing NAV/share price	(c = a x b)	92.1p	79.7p	154.9p	152.8p
Opening NAV/share price	(d)	154.5p	152.4p	125.0p	122.0p
Total return (expressed as a %)	(c ÷ d)-1	**(40.4%)**	**(47.7%)**	**24.0%**	**25.2%**

† The dividend adjustment factor is calculated on the assumption that the dividend of 0.35p (2021 – 0.35p) paid by the Company during the year was reinvested into shares of the Company at the cum income NAV/share price, as appropriate, at the ex-dividend date.

Ongoing Charges (APM)

The total expenses (excluding borrowing costs) incurred by the Company as a percentage of the average net asset value with borrowings at fair value. The ongoing charges have been calculated on the basis prescribed by the Association of Investment Companies.

A reconciliation from the expenses detailed in the Income Statement on page 37 of the Annual Report and Financial Statements is provided below.

		2022	2021
Investment management fee		£2,059,000	£2,872,000
Other administrative expenses		£572,000	£636,000
Total expenses	(a)	£2,631,000	£3,508,000
Average net asset value (with borrowings deducted at fair value)	(b)	£439,950,000	£525,380,000
Ongoing charges ((a) - (b) expressed as a percentage)		**0.60%**	**0.67%**

Gearing (APM)

At its simplest, gearing is borrowing. Just like any other public company, an investment trust can borrow money to invest in additional investments for its portfolio. The effect of the borrowing on shareholders' funds is called 'gearing'. If the Company's assets grow, shareholders' funds grow proportionately more because the debt remains the same. But if the value of the Company's assets falls, the situation is reversed. Gearing can therefore enhance performance in rising markets but can adversely impact performance in falling markets.

Equity gearing is the Company's borrowings adjusted for cash and cash equivalents expressed as a percentage of shareholders' funds. Potential gearing is the Company's borrowings expressed as a percentage of shareholders' funds.

Leverage (APM)

For the purposes of the Alternative Investment Fund Managers (AIFM) Regulations, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a ratio between the Company's exposure and its net asset value and can be calculated on a gross and a commitment method. Under the gross method, exposure represents the sum of the Company's positions after the deduction of sterling cash balances, without taking into account any hedging and netting arrangements. Under the commitment method, exposure is calculated without the deduction of sterling cash balances and after certain hedging and netting positions are offset against each other.

Active Share (APM)
Active share, a measure of how actively a portfolio is managed, is the percentage of the portfolio that differs from its comparative index. It is calculated by deducting from 100 the percentage of the portfolio that overlaps with the comparative index. An active share of 100 indicates no overlap with the index and an active share of zero indicates a portfolio that tracks the index.

Automatic Exchange of Information

In order to fulfil its obligations under UK Tax Legislation relating to the automatic exchange of information, the Company is required to collect and report certain information about certain shareholders.

The legislation requires investment trust companies to provide personal information to HMRC on certain investors who purchase shares in investment trusts. As an affected company, Baillie Gifford European Growth Trust will have to provide information annually to the local tax authority on the tax residencies of a number of non-UK based certificated shareholders and corporate entities. Shareholders, excluding those whose shares are held in CREST, who come on to the share register will be sent a certification form for the purposes of collecting this information.

For further information, please see HMRC's Quick Guide: Automatic Exchange of Information – information for account holders **gov.uk/government/publications/exchange-of- information-account-holders.**

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