JPMorgan European Discovery Trust

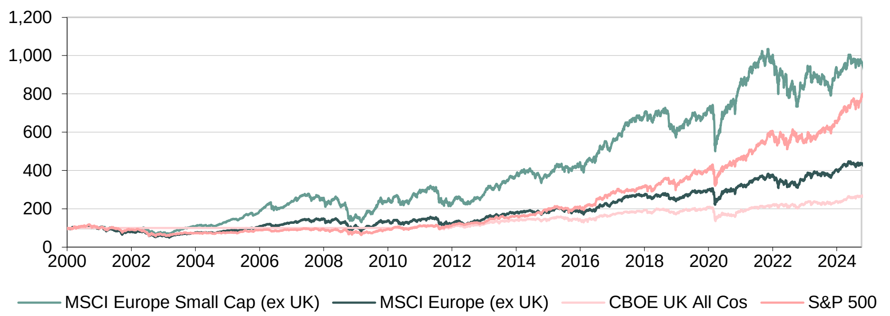
Set to benefit from Europe's reawakening

Investment companies
European Smaller Companies

3 July 2025

JPMorgan European Discovery Trust (JEDT) invests in European small-cap companies (excluding UK). Its objective is to identify and invest early in smaller companies demonstrating improving operational performance and strong growth prospects. In the year since their appointment, JEDT's new managers, Jon Ingram, Jack Featherby and Jules Bloch, have made some portfolio changes to reduce exposure to potentially unfavourable geopolitical and macroeconomic shocks. These changes have seen performance improve markedly. As at 30 June 2025, the trust outpaced the market over one, three and five years, and was the top performer among its peers over the year. JEDT's managers believe that Germany's infrastructure investment plans, combined with a big boost to European defence spending, are likely to be 'profoundly positive' for European small caps over the long term. And with investors showing increasing appreciation of the value offered by European smaller caps, the managers are very optimistic about the outlook for the sector and their portfolio.

Exhibit 1: European small caps are among the world's best long-term performers



Source: Morningstar, Edison Investment Research

The analyst's view

- European small caps have outperformed most other major markets over the long term, as illustrated by Exhibit 1. The sector experienced a period of underperformance over 2022–23, but history suggests small caps are due for a substantial re-rating, especially now that interest rates have begun to decline.
- JEDT offers investors diversified access to this world-beating market and potential investors may appreciate its recent, more balanced investment approach and consequent improved performance. They may also like the managers' increasing focus on smaller, less liquid companies. These tend to be under-researched by most investors but are fast-growing, offering potentially significant multiple expansion over time, and JEDT's holdings of these 'hidden gems' are now making a meaningful contribution to overall returns.
- Although the trust's share price discount to NAV has narrowed, the discount has scope to narrow further if performance continues to improve and/or the recent resurgence in interest in European small caps continues.

Price		**564.00p**
Market cap		**£537m**
Discount to NAV		5.0%
Shares in issue		95.9m
Code/ISIN		JEDT/GB00BMTS0Z37
Primary exchange		LSE
AIC sector		European Smaller Companies
Financial year end		31 March
52-week high/low	556.0p	429.6p

Fund objective

JPMorgan European Discovery Trust (JEDT) aims to provide capital growth from a diversified portfolio of smaller European companies (excluding the UK).

Bull points

- European small caps offer investors access to a range of dynamic companies including many 'hidden gems' that will be the winners of tomorrow.
- The trust's new investment management team is having a favourable impact on performance, while also reducing downside exposure.
- Valuations of European small caps are low relative to both history and European large caps, and history suggests a rebound is due soon.

Bear points

- JEDT has, in the past, tended to underperform when macroeconomic factors, rather than bottom-up fundamentals, drive markets. However, recent portfolio adjustments have reduced downside risk.
- JEDT's emphasis is on capital growth rather than income, so dividends will vary from year to year depending on portfolio income.
- Gearing increases exposure to any unexpected market downturn.

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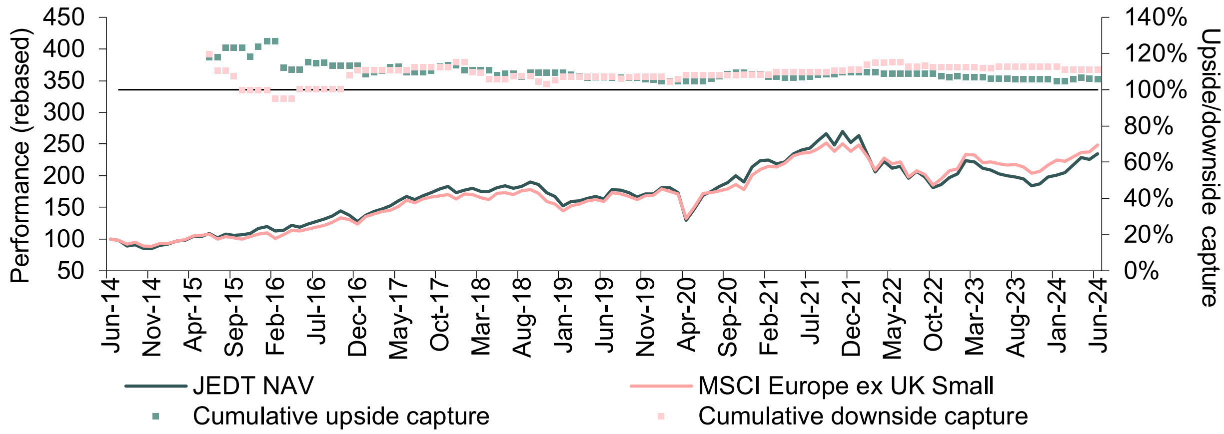
NOT INTENDED FOR PERSONS IN THE EEA

Strategic enhancements intended to reduce risk and lift performance

JEDT's strategy is to invest in companies with improving performance and strong growth prospects. This strategy works best, capturing market upside, when volatility is low and markets are trending higher, but it has tended to struggle during periods of high volatility. For example, the trust underperformed during 2022–23 as a result of significant sectoral bets, which left it underweight oil and metals when these sectors surged in response to Russia's invasion of Ukraine. Exhibit 2 shows JEDT's cumulative upside and downside capture over the last decade. The trust's growth focus is highlighted by its more than 100% capture rates for both upside and downside risks, which are very similar, with both currently hovering above the 100% rate. (A 100% upside/downside indicates that the fund's total return was in line with the benchmark's during months with positive/negative returns). These suggest that JEDT is likely to outperform by a few percentage points in rising markets and underperform by a similar magnitude in falling markets. The trust's downside capture peaked at 115% during 2022, for the reasons mentioned above.

Exhibit 2: JEDT's upside/downside capture over the last decade



Source: LSEG Data & Analytics, Edison Investment Research. Note: Calculated as the geometric average NAV total return (TR) of the fund during months with positive/negative benchmark returns, divided by the geometric average benchmark TR during these months.

With geopolitical tensions and macroeconomic developments now generating fresh uncertainties, the managers have drawn lessons from the past and have decided to reduce exposure to potential shocks and related downside risks by cutting sector bets, as they believe they do not have expertise in these areas, and should focus instead on their core strengths as bottom-up stock selectors. Specifically, they are now more focused than ever on finding companies driven by idiosyncratic, stock-specific factors, and businesses reliant on domestic economic activity, which gives them immunity against the risk of hefty US tariffs.

The managers stress that this shift in focus towards a greater emphasis on bottom-up stock selection is aimed at delivering the same alpha, more consistently, and thus sparing shareholders the discomfort of short-term volatility. The shift is *not* a change in the trust's investment strategy, but rather an enhancement to the risk management process, to minimise downside risk during periods of volatility.

As an illustration of this revised approach, the managers cite the case of the oil services sector. They are 'not big fans' of the sector as a whole, due to its exposure to oil prices, which are highly unpredictable. Yet in their view, the sector nonetheless includes some good companies, with the potential for outperformance. For example, Saipem is an Italian engineering and construction company specialising in the oil and gas industry, providing services such as offshore and onshore drilling, pipeline installation and energy transition projects. The stock is outperforming due to strong order intake, improved financial delivery and strategic repositioning towards higher-margin offshore projects and energy transition initiatives. Banks are another example. In the past, JEDT did not hold any banks, but with interest rates unlikely to return to the extremely low levels seen over the past 20 years, the portfolio now owns several smaller-cap regional banks, including Italian bank BAWAG, one of the trust's top holdings (Exhibit 11). These banks are performing strongly and paying very attractive dividends, and holding these names has significantly reduced the portfolio's underweight to financials (Exhibit 9).

Smaller companies can offer great potential returns

The managers' greater focus on stock selection has also intensified their interest in smaller, less liquid companies. Their analysis of past performance has shown that long-term returns are driven by just a few stocks that do extremely well, rising tenfold or more over a decade. For example, Fortnox, a Swedish financial and business software provider, has risen 300x since its IPO in 2007. The common theme among these mega performers is that they all started as very small businesses, with market caps below €1bn. These stocks tend to grow very fast for a couple of years, eventually attracting the attention of investors, which lifts valuations dramatically. The multiples paid for these stocks are usually well below those of larger stocks offering the same growth, and early investors can make handsome gains from this multiple expansion.

Yet smaller, less liquid stocks are an under-researched area of the market, as sell-side research is scant, and these businesses tend not to do roadshows or have consensus forecasts for performance, so they are missed by screening based on forward-looking financials. However, JEDT's managers have set up a simple screen based on historical financials to identify these 'hidden gems'.

Some investors may avoid such smaller-cap stocks as they tend to be less liquid, but this is not a concern for JEDT, due to its investment trust structure, which eliminates the need for forced sales to fund divestments. The trust currently has about 10 smaller-cap holdings (up from six in October last year), where the managers see very good long-term potential for share prices to increase by several multiples. Position sizes are small, around 0.50–1.0% of portfolio value, and holdings include two Swedish names: AQ Group, an electrical equipment producer, and Raysearch, a medical technology company. JEDT's recent performance has been underpinned by some of these stocks, although their contribution to returns is less obvious because of the relatively small size of the positions. The managers expect this good performance to 'snowball over time' and they are keen to find more of the same kind of small, fast-growing, quality businesses.

Recent changes and a supportive backdrop have lifted performance

Portfolio changes made in the past eight months are already having a positive impact on returns. The investment environment was also helpful, as inflation and interest rates declined, and wages and consumer sentiment rose. The market has been further supported as investors have begun to appreciate the efficiency gains offered by the rapid spread of artificial intelligence (AI), and the significant capex that will be needed to harness AI's potential. On the political front, the anti-NATO rhetoric of the new US administration was seen by many as a turning point in post-war trans-Atlantic relations, making it clear that Europe needs to step up its defence spending, while the new German government, elected in February 2025, has promised a very significant increase in government investment. This package includes greater defence spending and infrastructure spending worth €500bn (more than 11% of GDP), which is five times the amount Germany spent during the pandemic. These funds will be used for projects across several sectors including transport, healthcare, energy, research and digitalisation. In addition, borrowing constraints on Germany's state governments have been eased. These initiatives represent a profound shift in Germany's fiscal policy, and while this money will take time to flow into the real economy, markets have already begun to factor in its impact on activity, especially for domestically focused smaller caps; this sector of the market has outperformed European large caps since Germany announced its fiscal policy initiatives.

In the year to end June 2025, the portfolio has returned 25.8% on an NAV basis and 23.7% in share price terms, well ahead of the trust's benchmark, the MSCI Europe ex-UK Small Cap Index, which rose by 14.0% over the period (see Performance section for details). This outperformance has boosted JEDT's already solid longer-term track record. The company has made absolute gains and outperformed the market over three- and five-year periods to end-June 2025, and it has chalked up annualised returns of 10.6% on an NAV basis over 10 years, in line with the benchmark (see Exhibit 6).

Furthermore, JEDT's downside capture characteristics have improved, meaning returns are less responsive to market declines. In recent months its downside exposure has declined to 109%, from its 2022 peak of 115%. Its upside capture has also improved slightly, to 107% from 106% over the same period. This is further evidence that the managers' recent portfolio adjustments are having their intended effect to reduce downside risk and smooth returns.

Managers are very bullish about the outlook for European smaller caps

JEDT's managers believe Germany's massive fiscal boost, combined with higher regional defence spending, will be 'profoundly positive' for European small caps over the longer term. Their domestic focus provides investors with a better way to play the German stimulus story than via larger German companies with exposure to the US and Asia, where the benefit of the stimulus will be diluted. Domestically focused companies have the additional benefit of being much more insulated from threatened US tariff increases than their larger counterparts, as mentioned above. Smaller caps will also be helped by falling interest rates, as many small businesses are financed by floating rate debt.

For the managers, the appeal of European small caps is further enhanced by the fact that valuations are still cheap in absolute terms and versus European large caps and US equities. And history suggests the sector is overdue for a rebound, as we discussed in our last note. Indeed, this rebound may already be underway. The trust's managers have noted a decisive shift in the mood of investors, who they believe are finally coming to appreciate the value offered by European small caps. Recent portfolio adjustments mean that JEDT is strategically positioned to capitalise on these favourable developments, while being more protected from the unwelcome consequences of unpredictable macroeconomic and political events.

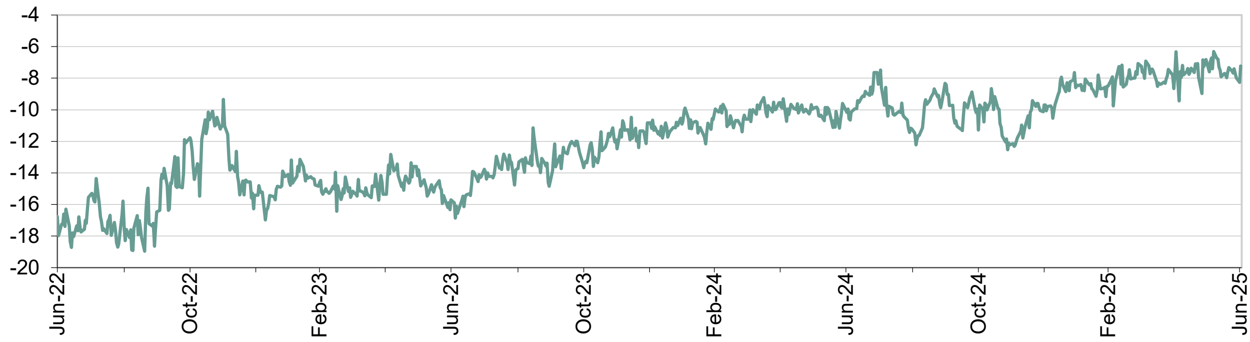
Discount

JEDT's board monitors the level of the share price discount to NAV carefully and seeks to use its ability to repurchase shares to minimise the short-term volatility and the absolute level of the discount when appropriate. During the financial year ended 31 March 2025 (FY25), the company repurchased 14.7m shares. In addition, 21.2m shares were repurchased via a tender offer for up to 15% of issued share capital. The tender price was equal to a 2% discount to the prevailing NAV per share as at the calculation date, less the costs of implementing the offer, and the tender was completed in early September 2025. Since end FY25, the board has repurchased a further 16.4m (as at 1 July 2025).

During FY25, the board also introduced a performance-related tender offer for up to 15% of the issued share capital of the company if its NAV total return does not equal or exceed the benchmark total return over the five-year period beginning 1 April 2024 and ending 31 March 2029. This conditional tender offer will be subject to shareholder approval and will be made on the same terms as the recently completed tender offer.

This programme of share buybacks and tenders, combined with the recent improvement in performance, appear to have supported JEDT's share price over the past eight months or so. The discount has narrowed to around 5%, compared to a 10-year average of around 12.5% (Exhibit 3). However, in our view, the discount has scope to narrow further if the company's performance continues to improve and/or the recent resurgence in interest in European small caps continues.

Exhibit 3: Share price discount to NAV (including income) over three years (%)



Source: LSEG Data & Analytics, Edison Investment Research

Performance

Exhibit 4: Five-year discrete performance data

12 months ending	Total share price return (%)	Total NAV return (%)	MSCI Europe ex UK Small (%)	MSCI Eur ex-UK (%)	CBOE UK All Companies (%)
30/06/21	45.0	38.9	36.0	22.6	21.1
30/06/22	-20.3	-19.1	-15.9	-9.8	2.2
30/06/23	5.2	3.5	10.0	20.0	8.3
30/06/24	19.5	11.4	10.1	13.0	12.8
30/06/25	25.8	23.7	14.0	9.6	11.6

Source: LSEG Data & Analytics, Edison Investment Research

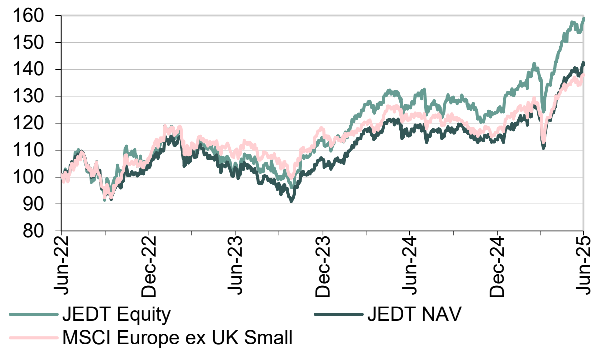
The trust's recent performance has benefited from both stock selection and asset allocation decisions. One recent star performer at the stock level was Bilfinger, a German industrial services provider that is one of JEDT's largest positions (Exhibit 11). News of Germany's fiscal initiatives boosted the stock, as the company is likely to be a direct beneficiary of the higher public investment spending, as German industrials will start to invest again. In addition, the business has been delivering strong results and good cash flow generation, which has allowed it to initiate a share buyback programme. Unipol, an Italian general insurer and one of JEDT's top performers during FY24, continued its run of 'stellar performance' in FY25, while another Italian company, Lottomatica, a gaming company, did well due to the growing trend towards online gambling, which has improved margins, and increased market penetration. This is another of JEDT's largest holdings. The managers like the company because it operates in a sector that is mostly immune to macroeconomic fluctuations. The trust's holdings in two regional banks, Italy's BPER Banca and Austria's BAWAG Group, were other notable contributors.

Another Italian bank, BFF, was one of the main detractors over the year to end March 2025. French market researcher Ipsos also detracted, but the managers have retained both these positions on the view that recent adverse influences on their share prices would resolve themselves with time. However, they opted to sell another poor performer, Fugro, a Dutch geological data specialist, which has struggled in the face of uncertainties about US energy policy. Its clients have delayed or cancelled projects and JEDT's managers exited the stock on the view that these problems are likely to persist for the foreseeable future.

At the sector level, the company's overweight to consumer discretionary was the most significant contributor to relative returns over the year to end March 2025, with Irish housebuilder Cairns Homes and Swedish school operator AcadeMedia being notable contributors. Cairns Homes is doing well thanks to the strong demand for housing in Ireland. AcadeMedia is Northern Europe's largest provider of private education. The managers added this stock in December 2024 due to its attractive valuation and positive return profile, which is independent of short-term macroeconomic fluctuations, thanks to the multi-year nature of its services. Since the acquisition, the company announced an increase in the reimbursement it receives from local governments.

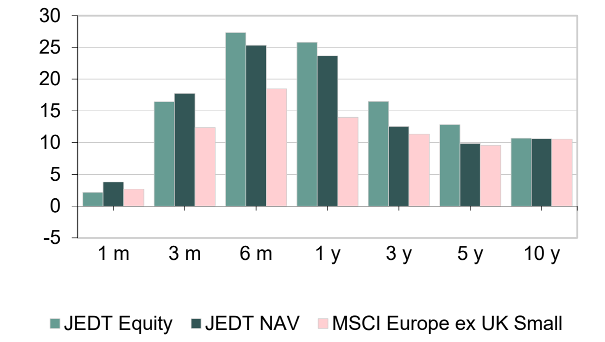
An overweight to communications services and a modest underweight to consumer staples also supported relative returns. An overweight to industrials was the most significant detractor at the sector level, due to the underperformance of holdings with exposure to electrification and other green energy characteristics, which have come under pressure due to President Trump's opposition to net zero emission targets. Fears that this will result in delays or cancellations to green energy projects hurt positions in France's Nexans, a global leader in high-voltage cables needed to connect renewable energy sources to the grid, and Arcadis, a Dutch environmental consultancy. However, the managers have maintained these and other holdings related to the renewable energy theme, as they believe the move to electrification is inexorable and these businesses will be among the long-term winners.

Exhibit 5: Price, NAV and index total return performance, three years, rebased



Source: LSEG Data & Analytics, Edison Investment Research

Exhibit 6: Price, NAV and index total return performance (%)



Source: LSEG Data & Analytics, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised.

Peers

Exhibit 7: AIC European Smaller Companies sector (as at 1 July 2025)

% unless stated		1 year	3 year	5 year	10 year					
Group/investment	Latest market cap (£m)	NAV TR (Cumulative)	NAV TR (Cumulative)	NAV TR (Cumulative)	NAV TR (Cumulative)	Latest Ongoing Charge Ex Perf Fee	Performance Fee	Latest Discount (Cum Fair)	Latest Net Gearing (Ex Par)	Income Only Yield (Price) - UK
JPMorgan European Discovery Ord	537.0	20.1	34.2	55.6	154.7	0.9	No	-5.0	106.2	2.3
European Assets Ord	334.9	3.1	18.9	25.6	71.0	1.0	No	-7.7	104.0	5.9
The European Smaller Companies Trust PLC	588.6	13.6	43.0	92.0	214.9	0.7	Yes	-5.4	98.0	2.3
Montanaro European Smaller Ord	277.0	19.5	36.0	54.4	262.4	1.0	No	-7.2	105.0	0.7
Simple average	**434.4**	**14.1**	**33.0**	**56.9**	**175.8**	**0.9**		**-6.3**	**103.3**	**2.8**
Weighted average		**14.5**	**34.5**	**61.9**	**176.1**	**0.9**		**-6.0**	**102.8**	**2.7**
Rank	2	1	3	2	3	3		1	1	2

Source: Morningstar, Edison Investment Research. Note: Performance as at 27 June 2025 based on cum-fair NAV. TR, total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

JEDT distinguishes itself from its peers within the AIC European Smaller Companies sector by its focus on smaller, less liquid companies, as discussed above. The recent improvement in its performance has improved its ranking against its peers (Exhibit 7). JEDT was the top performer on a total return basis over the year to end June 2025 and returns have also exceeded or almost matched the average of its peers over three and five years, respectively. This performance probably accounts for the fact that the trust's share price discount is now narrower than the cohort's average, although as mentioned above, we see scope for it to narrow further. JEDT's ongoing charge is in line with the average of its peers, while its dividend yield is lower (see further discussion below). The trust's gearing level is the highest in the peer group, a reflection of the managers' very upbeat view.

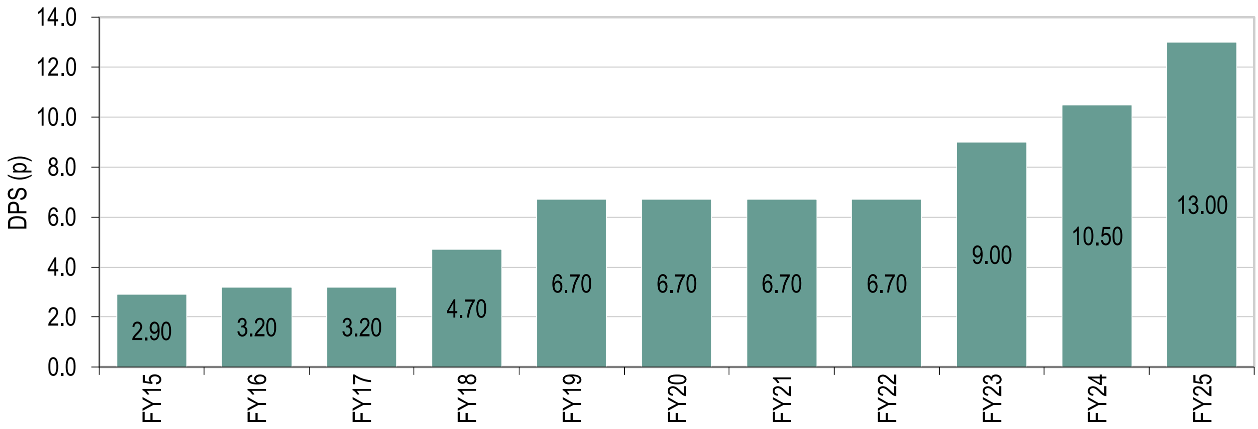
Dividends

JEDT's dividend policy aims to pay out the majority of revenue available each year, although the company's objective is to maximise capital growth, so the managers are not constrained to deliver income in any one financial year, and the dividend will vary from year to year, as it is a function of portfolio dividend income.

An interim dividend for FY25 of 3.0p per share was paid in February 2025 (FY24: 2.5p/share). This rise reflected increased portfolio income during the first six months of the financial year, compared to the previous one. After taking into account the income received and the level of the company's revenue reserves, and subject to shareholder approval at the forthcoming AGM, scheduled for 23 July 2025, a final dividend of 10.0p per share will be paid in August 2025, taking the total dividend for FY25 to 13.0p. This represents an increase of 24% on the total dividend of 10.5p per share for FY24. The dividend level is influenced by the share buybacks conducted since the year-end, while allowing the company to fulfil the distribution requirement of section 1158 of the Corporate Tax Act 2010 and maintain its investment trust status. The FY25 dividend equates to a yield of 2.3% based on the current share price.

The FY25 dividend will be partially funded from reserves, as portfolio revenue for the year totalled 12.4p per share. Following this dividend payment, the company's revenue reserves will total £12.3m, compared to £24.47m at 30 September 2024.

Exhibit 8: Dividend history since FY15



Source: JPMorgan, Edison Investment Research

Current portfolio positioning

Exhibit 9: Portfolio sector exposure (% unless stated)

	Portfolio 30 April 2025	Portfolio 31 August 2024	Change (pp)	Benchmark %	Active weight vs benchmark (pp)
Industrials	26.2	24.8	1.4	25.7	0.5
Financials	14.5	10.4	4.1	15.2	-0.7
Consumer discretionary	11.7	8.5	3.2	8.6	3.1
Telecommunications	8.2	5.7	2.5	5.1	3.2
Healthcare	7.4	7.5	-0.1	8.6	-1.2
Basic materials	6.5	3.7	2.8	8.5	-2.0
Information Technology	6.2	5.4	0.8	8.0	-1.8
Real estate	5.6	5.4	0.2	8.6	-3.0
Energy	5.3	5.5	-0.2	4.1	1.2
Consumer staples	2.5	2.6	-0.1	4.3	-1.8
Utilities	1.7	1.7	0.0	3.4	-1.7
Cash*	4.2	18.7	-14.5	0.0	4.2
Total including cash	**100.0**	**100.0**		**100.0**	

Source: JEDT, Edison Investment Research. Note: *The cash position was unusually high in August 2024 in preparation for the tender of 15% of shares, conducted in September 2024.

The managers' decision to adopt a more balanced approach across sectors, to reduce exposure to unforeseeable macroeconomic and political developments, is evident in Exhibit 9, as active weights are now generally lower than previously. The most notable shifts since our last report include the reduction in previously more significant underweights to financials, IT, basic materials, healthcare and real estate. A prior, more modest underweight to industrials is now a minor overweight. An overweight to telecommunications has increased, but not significantly.

Industrials remains the largest sectoral position, as many positions in this sector, including Bilfinger, mentioned above, have company-specific drivers that should support their performance regardless of the economic environment. Positioning within this sector also reflects the managers' conviction that the move to renewable energy and electrification is inevitable and unavoidable, despite the US administration's opposition, as Europe needs to reduce its dependence on Russian oil and gas. A key holding allied to this theme is SPIE, which is seeing enormous growth in Germany, and was JEDT's largest position at end-April 2025 (latest available figures). The most significant sectoral underweights remain real estate, consumer staples and utilities, as the managers view these sectors as either exposed to economic or political variables, or lacking stock-specific alpha-generating opportunities.

Notable recent acquisitions include German speciality chemical producer Alzchem Group. This holding is intended to add exposure to increasing European defence spending, as Alzchem produces munitions propellants that are expected to see a surge in demand not just from Europe, but also from the US and the UK. The managers have also purchased

Buzzi, an Italian cement and construction material supplier, which should benefit from higher European infrastructure spending and the eventual reconstruction of Ukraine. These new positions have helped to reduce the portfolio's underweight to materials.

Exhibit 10: Portfolio geographic exposure (% unless stated)

Country/region	Portfolio 30 April 2025	Portfolio 31 August 2024	Change (pp)	Benchmark weight	Active weight vs index
Germany	16.6	12.6	4.0	13.0	3.7
Italy	15.0	11.9	3.1	9.8	5.2
Sweden	14.6	11.4	3.2	15.9	-1.3
France	11.4	15.3	-3.9	10.0	1.4
Norway	6.6	4.1	2.5	5.8	0.8
Austria	6.5	4.8	1.7	3.7	2.8
Netherlands	5.7	6.3	-0.6	4.0	1.7
Spain	3.8	2.9	0.9	5.7	-1.9
Denmark	3.6	4.2	-0.6	5.6	-2.0
Finland	3.5	1.4	2.1	3.5	0.0
Others	8.2	6.4	1.8	23.0	-14.8
Cash*	4.5	18.7	-14.2	0.0	4.5
Total including cash	**100.0**	**100.0**		**100.0**	

Source: JEDT, Edison Investment Research. Note: *The cash position was unusually high in August 2024 in preparation for the tender of 15% of shares conducted in September 2024.

Within JEDT's investment process, stock selection drives country allocations, but the managers do monitor exposure on this basis. Since our last report, the trust's overweights to Germany and Italy have increased notably, while the overweight to France and the underweight to Sweden have both been pared back (Exhibit 10).

Exhibit 11: Top 10 holdings

Company	Country	Industry	Portfolio weight (%) 30-Apr-25	Portfolio weight (%) 31-Aug-24	Change in portfolio weight (pp)
SPIE	France	Engineering and construction	3.1	2.3	0.8
Lottomatica	Italy	Online gaming	2.9	N/A	N/A
Bilfinger	Germany	Engineering and construction	2.8	2.0	0.8
Bawag	Austria	Banks	2.4	N/A	N/A
Storebrand	Norway	Asset management	2.4	N/A	N/A
CTS Eventim	Germany	Media and entertainment	2.2	1.9	0.3
Banco Comercial Portugues	Portugal	Banks	2.1	1.9	0.2
Unipol Gruppo	Italy	Insurance	2.0	N/A	N/A
Gaztransport & Technigaz	France	Energy	1.9	N/A	N/A
Heijmans	Netherlands	Capital goods	1.8	N/A	N/A
Top 10 (% of holdings)			**31.7**	**21.8**	

Source: JEDT, Edison Investment Research. Note: N/A where not in end August 2024 top 10.

Investment process: A focus on quality, value and momentum

Following a strategy review, the trust is managed by Jon Ingram, Jack Featherby and Jules Bloch, who replaced Francesco Conte and Edward Greaves with effect from 1 March 2024. However, the trust's investment objective and investment process remain unchanged. The team are all generalists and have some latitude to follow opportunities where they present themselves, regardless of sector or country.

The managers aim to generate long-term capital growth from a diversified portfolio (50–75 holdings) of small-cap European ex-UK equities. The portfolio is built from the bottom up. Initially, the managers use a proprietary multi-factor model to screen the investment universe, which is made up of c 780 small-cap European stocks. Companies passing the screen undergo thorough fundamental analysis. There are three characteristics that the team looks for: quality businesses, companies available at attractive valuations and those whose shares are displaying price momentum. The portfolio will have a positive bias to these factors through time, which the team believes should give the trust an ability to perform consistently in varying market environments.

Businesses categorised as 'quality' are likely to be leaders in niche markets, with robust balance sheets, high and sustainable returns on equity, disciplined and proven management ability to allocate capital effectively and high barriers to entry. Examples of current portfolio holdings in this category include Scout24, a leading German tech company known for its real estate platform, ImmoScout24. The company has shown consistent growth, expanding from €100m in revenues in 2008 to over €600m this year. It excels through its three-sided marketplace strategy, focusing on interconnectivity between B2B customers, private consumers and homeowners. Scout24's competitive edge is strengthened by its unique data and AI-driven content, successful M&A strategy and resilient business model, with over

70% recurring revenue, making it a high-quality business in the German real estate market.

When assessing valuations, the team puts a lot of emphasis on free cash flow yield, as it sees this as the highest-quality valuation metric. Companies identified as possessing this characteristic tend to be robust and cash-generative entities that may be out of favour with investors, but, in the team's view, possess a catalyst for a re-rating. Such companies may operate in cyclical end-markets or where investor sentiment is weak. Current holdings in this category include SAF-Holland, a German manufacturer of high-quality components and systems for commercial vehicles, including trucks, trailers, buses and recreational vehicles. The company aims to achieve gross sales of more than €3.0bn by 2030, with a strong adjusted EBIT margin of between 10% and 12%. SAF-Holland's stock is attractively valued due to current weakness in the truck market, but investors are overlooking the high resilience and profitability of its service and aftermarket business. They have also failed to appreciate that synergies from recent acquisitions are poised to drive high earnings growth once the market recovers.

Share price momentum is the other key factor. The market rewards companies that consistently exceed market expectations through effective execution, faster-than-anticipated growth in their underlying markets, or the introduction of disruptive technologies. Current examples within the portfolio include CTS Eventim, a German business specialising in ticketing and live entertainment. The company consistently delivers as spending on live events continues to be stronger than expected due to a combination of high demand for experiential luxury such as concerts, and the resilience of consumer spending, supported by post-COVID-19 excess household savings in Europe. Additionally, the strong line-up of artists and events, along with strategic pricing and marketing efforts, have contributed to sustained consumer interest and spending in this sector. Strategic acquisitions like See Tickets and investments such as the development of a major venue in Milan further bolster CTS Eventim's market position and contribute to its ability to exceed expectations.

Each prospective company is also assessed against three additional criteria:

1. Economics: Does the company generate value (ie is the return on capital above the cost of capital)?
2. Duration: Will the company continue to generate added value in the future (ie does the company have a strong economic moat)?
3. Governance: Will minority shareholders be able to benefit from this added value or might it be wasted by management, for instance through poorly conceived acquisitions?

Position size is determined by the managers' level of conviction and the liquidity of a company's shares. Except in the case of smaller, less liquid stocks, where position sizes tend to be smaller, as discussed above, new positions are typically c 1% of the portfolio and are generally trimmed when they reach above c 3%. Holdings will be sold if there is a fundamental deterioration in business conditions, or if the company becomes too large or expensive. The team will also exit positions if better investment opportunities emerge. Portfolio turnover is currently running at c 70% a year, which is broadly in line with the historical average.

The management team does not operate within a vacuum. They draw on the broad resources of J.P. Morgan Asset Management's European equity team, and its state-of-the-art quantitative analysis and risk management tools. This includes a range of proprietary tools including an AI data model that sifts through vast amounts of published information to unearth nuanced messaging from companies' management teams and assess broad market sentiment. The team also utilises an Equity Failure Model that optimises 170 different inputs (such as short interest and balance sheet anomalies) for more than 10,000 stocks globally. This model ranks companies on a scale of potential stock failure and identifies companies with the highest probability of underperforming. The team find it a very useful negative screen, which protects against bad investment choices.

In the past six months or so, the managers have also begun using Spectrum GPT, which is an interrogative AI tool that draws on the latest and historical transcripts of analyst briefings and press statements to answer questions about a company's strategy and future plans. The managers find this AI tool helpful in recognising quantitative signals related to their key quality and value characteristics. While momentum signals tend to be more volatile and thus difficult to identify, the model is being refined to make these signals more robust and useful.

Gearing employed to boost returns

The company can be geared up to 20% or hold 20% in cash. The board believes gearing can be beneficial to performance and a long-term driver of returns, as markets tend to appreciate over time. The board sets the overall strategic gearing policy and guidelines, and reviews these at each board meeting. Gearing is an investment decision made at the direction of the portfolio managers rather than in concert with or directed by the board. Gearing is arranged via a revolving credit facility of €125m, which was completely drawn down at end FY25. The level of gearing at 27 June 2025 was 6.2%, which is close to the medium-term average and reflects the managers' positive view of the prospects of

European small caps.

An integrated approach to ESG within the investment process

J.P. Morgan fully integrates ESG considerations into its investment process and stock analysis. The company uses third-party data providers, albeit on a diminishing basis, as it fully develops its own internal proprietary scoring system (SPECTRUM). ESG is integrated across 450 strategies and around $2.3tn of assets. Sustainalytics scores the trust's portfolio four out of five globes on ESG considerations. The trust also scores particularly well on emitting less carbon than the market average.

Fund profile: Diversified European small-/mid-cap exposure

The trust was launched in April 1990. It aims to generate long-term capital growth from a diversified portfolio of European ex-UK small-cap equities. In June 2021 the fund changed its name from JPMorgan European Smaller Companies Trust to JPMorgan European Discovery Trust. This change was intended to reflect the fact that the trust invests in opportunities in European smaller companies of up to a market cap of €6–7bn (£4–6bn) at the time of investment. With an average market cap of around €4bn (£3.4bn), there is a range of company sizes within the portfolio, including a growing number of smaller caps, as discussed above.

The trust is benchmarked against the MSCI Europe (ex UK) Small Cap Net Total Return Index, which contains about 780 companies with market caps from £100m to over £7.0bn (average £1.3bn), spread across 14 developed markets. At the time of investment, a maximum 5% of the portfolio is permitted in a single stock and no more than 15% may be invested outside the benchmark. Currency exposure is not hedged.

JEDT consists of a single class of ordinary shares (95.9m shares in issue) with no fixed life.

Fees and charges

During the past year the board agreed with the manager to reduce the investment management fee. With effect from 1 April 2025, the fee is charged on a tiered basis at an annual rate of 0.7% of net assets on the first £300m and at 0.65% of net assets above this amount. This compares to a previous fee of 0.75% of net assets. This new fee structure means the fees charged are comparable to the average of the trust's peer group (Exhibit 7), consolidating JEDT's competitive edge and its status as a core holding in the asset class. The trust's ongoing charge (which includes management and other expenses but excludes finance costs) is 0.92%, virtually unchanged over the past few years.

The board

JEDT's board comprises five independent non-executive directors. Nicholas Smith retired from the board in July 2024, having served as a director since 2015. Arun Sarwal succeeded Smith as audit chair and Sarah Watters has taken over the role of senior independent director. In anticipation of Smith's retirement, in June 2024 it was announced that James Will was appointed as a director of the board, effective from July 2024. Will has extensive investment company experience. His other non-executive directorships include a directorship of Invesco Asia Dragon Trust, and he was senior independent director for Herald Investment Trust.

As is clear from these recent changes, the board is careful to manage its succession planning. In the normal course of events, the current chair, Marc van Gelder, would have stepped down at the forthcoming AGM. However, in view of the changes to the management team over the past 18 months, and the recent changes to the board, after discussions with major shareholders, the board believes it is in the company's best interests that he postpones his retirement until the 2026 AGM. The board has commenced the search for a new non-executive director.

In terms of board diversity, the current gender balance of three men and two women directors exceeds the target of 33% of women on UK 350 company boards set under the Hampton-Alexander Review. The board also complies with the recommendations of the Parker Review in respect of board diversity.

Exhibit 12: JEDT's board of directors

Board member	Date of appointment	Remuneration FY25, £	Shareholding at end FY25
Marc van Gelder (chairman)	Aug-16	48,500	110,000
Arun Sarwal (audit committee chair)	Jun-23	40,000	11,600
Sara Watters (senior independent director)	Jul-21	32,500	5,000
Suzy Ross	Mar-22	32,500	3,000
James Will	Jul-24	32,500	N/A

Source: JEDT

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