

Investment Rationale

Charter European Trust aims to deliver capital and income growth for investors looking for exposure to a handpicked portfolio of continental European stocks. Managed by Neil Dwane, CIO for RCM Europe.

Aim

The Trust's objective is to deliver capital and income growth through investment in a focused portfolio of European securities.

History

The Trust was formed as part of the reorganisation of its predecessor, Charter European Trust plc in 2002. It was launched primarily to enable existing shareholders to rollover their investment and it follows a similar investment strategy. On 5th January 2007 shareholders voted to adopt a new benchmark index, the FTSE World Europe (ex UK) (£), and to change the Trust's name from Charter Pan-European Trust plc to Charter European Trust plc.

Fund Manager's Review

Neil Dwane



December was an eventful month for Europe with another cut in the ECB rate along with the announcement of a new 3yr refinancing operation for financials. The latter is a response to the freezing up of wholesale bank financing markets and while the banks do not trust each other we find it hard to remain anything but underweight the sector.

During the period the Trust's NAV (+0.87%) performed ahead of its benchmark (-1.62%).

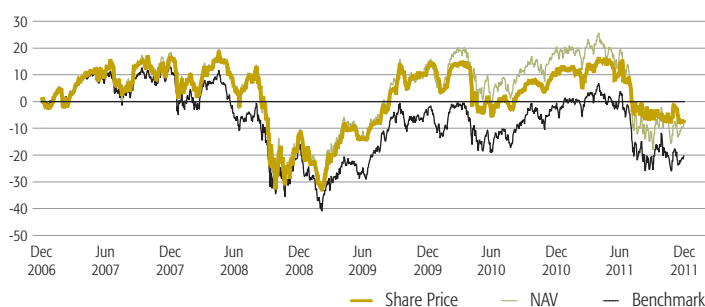
The eagerly anticipated EU summit was a disappointment overall. The UK vetoed proposed changes to the Treaty which is causing a split in Europe at a time when unity is required to solve the crisis. With this backdrop the market actually proved surprisingly resilient and particularly towards the month end, there was much less talk of sovereign debt burdens and euro crisis than we had expected.

Petroceltic was a strong contributor, as its farm out to Enel was finally ratified by the Algerians. The stock became very oversold during the drawn out process and going forward we are hopeful that it will continue to trade up with the negative story squashed.

Continental was a weak performer as industrials underperformed in general. We think the stock specific story is very compelling despite our lacklustre outlook on the market in the near term. The valuation implies continued earnings downgrades despite the self-help story in the powertrain division.

While the outlook is weak, we continue to find very attractive investments on a stock specific level. The current pessimism surrounding the euro is very consensual and severe which suggests to us that it is overdone. European equities remain attractively valued and are well placed to benefit from the remaining areas of global growth.

Performance (%)



Cumulative Performance (%)

	3 Months	6 Months	1 Year	3 Years	5 Years
Share Price	-1.58	-15.41	-15.60	6.52	-6.67
NAV	6.45	-22.65	-22.65	5.75	-8.38
Benchmark	2.93	-22.33	-17.78	-2.96	-20.13

Standardised Past Performance (%)

From	29.12.06	31.12.07	31.12.08	31.12.09	31.12.10
To	31.12.07	31.12.08	31.12.09	31.12.10	30.12.11
Share Price	16.35	-24.69	28.40	-1.71	-15.60
NAV	17.68	-26.38	29.34	5.70	-22.65
Benchmark	12.44	-26.80	15.38	2.28	-17.78

Source: Lipper, share price calculation percentage growth, mid to mid, capital return to 30.12.11.

Benchmark: FTSE World Europe (ex UK) Index (£).

Past performance is not a reliable indicator of future performance. You should not make any assumptions on the future on the basis of performance information. The value of an investment and the income from it can fall as well as rise as a result of market fluctuations and you may not get back the amount originally invested. This investment trust charges 75% of its annual management fee to the capital account and 25% to revenue. This could lead to a higher level of income but capital growth will be constrained as a result. Your capital could also decrease if income paid out of capital exceeds the growth rate of the trust.

Capital Structure

Total Assets:	£46.2m
Shares in Issue:	22,094,517 (Ordinary 1p)
Share Price ¹ :	196.0p
Net Asset Value ² :	206.7p
Premium/-Discount to NAV ³ :	-5.2%
NAV Frequency	Daily
Dividend Yield ² :	2.09%

1. Source: Lipper as at 30.12.11, market close mid price.

2. Source: Datastream as at 30.12.11. Calculated using the latest full year dividend divided by the current share price.

3. A trust's net asset value (NAV) is calculated as available shareholders' funds divided by the number of shares in issue, with shareholders' funds taken to be the net value of all the company's assets after deducting liabilities. It is the capital NAV that is shown, which excludes any income.



Key Information

Launch Date:	April 2002
Continuation Vote:	2014
AIC Sector:	Europe
Benchmark:	FTSE World Europe (ex UK) Index (€)
Annual Management Charge:	0.50%
Performance Fee: ²	0.75%
Total Expense Ratio: ¹	1.30%
Year end:	30 November
Annual Financial Report:	Final posted in February, Half-yearly posted in July
AGM:	March
Dividends:	April, August
Price Information:	Financial Times, The Daily Telegraph, www.rcm.com/investmenttrusts
Board of Directors:	Giles Weaver (Chairman), Richard Bernays (Chairman of the Audit Committee and Senior Independent Director), Vicky Hastings, Dr Elizabeth Vallance, Nigel Simon
Company Secretary	Peter Ingram
Investment Manager	Neil Dwane, CIO for RCM Europe
Codes:	RIC: CPE SEDOL: 3148639 ISIN: GB0031486391

1. Source: Annual Financial Report - year ending 30 November 2010 (excluding performance fee)

2. Aggregate of base management fee and performance fee capped at 1.25%.

Risks & Features

Investment trusts are quoted companies listed on the London Stock Exchange. Their share prices are determined by factors including the balance of supply and demand in the market, which means that the shares may trade below (at a discount to) or above (at a premium to) the underlying net asset value.

The Trust seeks to enhance returns for its shareholders through gearing, in the form of bank borrowings. Gearing can boost the Trust's returns when investments perform well, though losses can be magnified when investments lose value.

Portfolio Analysis

Top Ten Holdings	(%)	(%)	
Sanofi-Aventis	4.7	Koninklijke DSM	3.8
Novatis	4.3	BASF	3.8
Roche Holdings	4.1	ASM International	3.5
Bayer	3.9	Fresenius	3.3
bwin.party	3.8	Ryanair	3.3
Total Number of Holdings			36

Geographic Breakdown (%)

Germany	20.39	
United Kingdom	18.90	
Switzerland	11.44	
Norway	8.43	
France	7.73	
Netherlands	7.37	
Portugal	4.77	
Belgium	4.01	
Ireland	3.31	
Poland	3.25	
Other	6.37	
Cash	4.03	

HOW TO INVEST?

The Trust is a UK public limited company traded openly on the stock market. You can purchase shares through a stock broker. Shares in the Trust can be held within an ISA and/or savings scheme and a number of providers offer this facility. A list of suppliers is available on our website or from the AIC at www.theaic.co.uk

CONTACT US

To download the Annual Financial Report, Trust brochure or watch an interview with the fund manager, please visit us online at www.rcm.com/investmenttrusts



If you have any queries regarding our investment trusts our Investor Services team can be contacted on:

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All data source RCM (UK) Limited as at 30.12.11 unless otherwise stated.

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