



**WAVERTON**  
INVESTMENT MANAGEMENT

# EUROPEAN INCOME FUND A GBP

FUND FACTSHEET - AS AT 30 SEPTEMBER 2017

## OBJECTIVES

### FUND AIM

The investment objective is to generate income and capital growth by investing in a concentrated portfolio of equities selected from European markets. Overwhelmingly, but not exclusively, the managers invest in companies that are at the larger end of the capitalisation scale.

### INVESTMENT STYLE

The Fund invests in wealth creating companies at attractive valuations. Building concentrated portfolios from the bottom up, unconstrained by the composition of the fund's benchmark index, the managers seek to make a small number of long-term investments, primarily in growing companies, with strong management and operating in favourable business environments.

## PERFORMANCE

### PERFORMANCE SINCE INCEPTION



**Risk Warning:** Past performance is no guide to future performance. The value of holdings may fall as well as rise and investors may not get back their initial investment.

Important information: Performance displayed is for the Retail Share Class. Performance is calculated on a NAV to NAV basis and does not take into account any initial fees. Performance is displayed net of fees and assumes income is reinvested.

Period	1 Month	3 Months	YTD	1 Year	3 Years	5 Years	Inception Nov 05
Portfolio (%)	-1.6	4.8	15.5	21.0	61.5	133.8	181.4
Benchmark (%)	-0.8	3.5	15.8	21.4	43.4	93.6	141.5
Morningstar Peer Group (%)	-0.9	2.8	15.7	21.1	47.8	96.6	176.5
Quartile	4	1	3	2	1	1	2

### DISCRETE CALENDAR YEAR PERFORMANCE

Period	2016	2015	2014	2013	2012
Fund (%)	26.8	9.4	0.2	35.4	16.9
Benchmark (%)	18.6	5.1	-0.7	25.3	16.0

### STANDARDISED PERFORMANCE

Period 1 year to	30/09/2017	30/09/2016	30/09/2015	30/09/2014	30/09/2013
Fund (%)	21.0	32.1	1.0	6.3	36.2

## PORTFOLIO SUMMARY

COUNTRY		SECTOR		TOP 10 HOLDINGS	
Sweden	14.1%	Industrials	20.0%	Loomis AB Series 'B'	3.4%
Germany	11.9%	Consumer Staples	17.2%	Energias de Portugal SA €I (Regd)	3.4%
France	11.6%	Materials	12.9%	Topdanmark AS DKK I	3.3%
Spain	9.5%	Health Care	12.8%	Wartsila Oyj ABP	3.2%
Other	9.4%	Financials	10.0%	Deutsche Telekom AG (Regd)	3.2%
Denmark	8.8%	Consumer Discretionary	7.6%	British American Tobacco Ord 25p	3.0%
Portugal	8.8%	Energy	7.1%	Novo Nordisk AS DKK0.2 Series B	3.0%
Switzerland	8.0%	Utilities	4.1%	Roche Holdings Ag CHF I (br)	3.0%
Norway	6.7%	Telecommunication Services	3.2%	Air Liquide €5.50	2.9%
Netherlands	5.6%	Cash	5.1%	Deutsche Post AG	2.8%
Finland	5.5%	<b>Total</b>	<b>100.0%</b>	<b>Total</b>	<b>31.2%</b>
<b>Total</b>	<b>100.0%</b>				

The Fund was down 1.6% in Sterling terms driven by the euro's strength (up 4.5% against the pound); the market was up 0.4%. The underperformance was a result of not owning the month's strongest performing industrials; Siemens, Daimler and BASF (up between 3 and 5% in euros) and having the retailers Pandora (-10%) and DIA (-11%).

Over the quarter the fund rose 4.79%; the index rose 3.53%

We mentioned Dia and Pandora, both retailers, last month. It is always an interesting investment conundrum when a sector with earnings growth is hugely out of favour and lowly rated. We took the decision to keep the former and sell the latter.

With Pandora the market seems convinced that its very high EBIT margin of 36% is not sustainable when even Hermes only achieves 32%. The shares continued to de-rate to 11x 2017's earnings. Our original investment thesis was that the industry's heavily fragmented nature, Pandora's amazing manufacturing efficiency and impressive cash flow underpinning shareholder returns would drive the share price further. The share price fall would usually be a trigger for us to buy more, the truth is however that the earnings visibility has become much less clear to us. It is for this reason that the decision was made to sell.

One of our best stocks last month was Loomis (+5%), the cash management firm. Since it came to the stock market in 2008 EBITA margins have doubled to 12%. At its recent Capital Markets Day it targeted a further improvement to 12-14% by 2021. Should there be no acquisitions the target is 14%. Management have initiated many interesting growth initiatives. One of them, Safepoint, is the cash management service for retailers which has high profitability and growth rates. Every time we re-visit management we are inclined to add to the holding as we feel it is a compelling story; it is now one of the Fund's largest holdings. If it were not for the market's fear that cash in society will go the way of the Yellow Pages very soon, Loomis' stock would trade at a significant premium to the market as opposed to the current slight premium. In Sweden, cash in circulation has fallen significantly in recent years but Loomis' profits have held up as a shrinking market has encouraged banks to outsource more of their cash management operations. Interestingly in other regions, euro and dollar cash levels in circulation do nothing but increase.

Last month we saw numerous companies where the mood is generally upbeat, despite the euro appreciation against the dollar. We remain overweight industrials, materials and consumer staples, adding to BATS after significant recent underperformance. We maintain the fund's significant underweight in financials, most of whom in Europe remain besotted with volume gains in non-growth markets; not a recipe for value creation. The moment the share price of a non-Scandinavian European bank recovers shares tend to be issued like confetti to fund acquisitions, and the like. YTD the anti-bank stance has cost the fund 2% of performance; however bank share price have become becalmed since the explosive moves of 4Q16 and 1Q17. Stocks like Loomis are much more attractive longer term, we are confident of it.

## FUND MANAGER



Charles Glasse

## FUND MANAGER



Chris Garsten

## ANALYST



John Buckland

## FUND DETAILS

## FUND FACTS

Launch Date	14th November 2005
Morningstar Category	Europe Ex-UK Large Cap Equity
Benchmark	MSCI Europe ex UK TR
Fund Size	£34.8m
No. of Holdings	40
Domicile	Luxembourg
Sedol	BD5NVQ7
Bloomberg Code	ZENEINR:LX
Fund Type	SICAV
Base Currency	GBP
Other Currencies	None
Ex Dividend Dates	20-Feb 2017 (1.02p), 19-Jul 2017 (3.75p)

## FUND INFORMATION

Share class	ISIN	Minimum	AMC	INC/ACC	NAV	Historic yield (%)	Ongoing charge (%)
A GBP	LU0968447606	1,000,000 GBP	0.75%	INC	1.94	2.46%	1.45%
L GBP	LU0968447515	500,000 GBP	1.00%	INC	1.84	2.42%	1.41%

## CONTACT DETAILS

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**Risk Warning:** past performance is no guide to future performance. The value of holdings may fall as well as rise. All financial investments involve an element of risk. The level of income from the investment may fluctuate in value. Currency movements may also affect the value of the investment. If the currency in which the past performance is displayed differs from the currency of the country in which you reside, then you should be aware that due to exchange rate fluctuations the performance shown may increase or decrease if converted into your local currency.

For full details of investment risks please refer to the Prospectus. A copy of the full prospectus and the KIID is available from Waverton Investment Management or ACD, Casa4 Funds. Sources: Waverton, Morningstar.

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