



WAVERTON
INVESTMENT MANAGEMENT

EUROPEAN CAPITAL GROWTH FUND I EUR

FUND FACTSHEET - AS AT 31 AUGUST 2018

OBJECTIVES

FUND AIM

The investment objective is to generate 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 I EUR 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 Apr 01
Portfolio (%)	-1.5	-0.2	2.6	7.2	29.7	70.7	216.7
Benchmark (%)	-1.7	1.7	0.9	4.1	16.8	51.5	95.8
Morningstar Peer Group (%)	-1.1	0.6	1.4	5.4	18.5	54.7	131.2
Quartile	3	3	2	1	1	1	1

DISCRETE CALENDAR YEAR PERFORMANCE

Period	2017	2016	2015	2014	2013
Fund (%)	11.4	6.2	16.0	6.8	32.3
Benchmark (%)	11.4	2.4	10.7	6.4	22.1

STANDARDISED PERFORMANCE

Period 1 year to	31/08/2018	31/08/2017	31/08/2016	31/08/2015	31/08/2014
Fund (%)	7.2	11.1	8.9	12.4	17.1

PORTFOLIO SUMMARY

COUNTRY		SECTOR		TOP 10 HOLDINGS	
Germany	23.1%	Industrials	25.5%	Novartis	4.6%
Sweden	16.0%	Health Care	20.8%	Novo Nordisk	4.0%
France	13.7%	Materials	14.2%	Swedish Match	4.0%
Denmark	10.9%	Consumer Staples	14.2%	Linde	3.8%
United Kingdom	8.8%	Financials	7.4%	LivaNova	3.7%
Switzerland	7.3%	Energy	5.9%	Bayer	3.4%
Norway	5.2%	Consumer Discretionary	3.8%	Deutsche Post	3.4%
Finland	4.9%	Telecommunication Services	3.2%	Elekta Instrument	3.2%
Spain	4.8%	Cash	4.9%	Deutsche Telekom	3.2%
Portugal	3.1%	Total	100.0%	Safran	3.1%
Other	2.3%			Total	36.4%
Total	100.0%				

COMMENTARY

Markets fell a relatively modest 1.7% in euros while the Fund fell by 1.5%. This would imply that the month was quiet but there were a large number of substantial moves triggered by second quarter results, and thin summer trading volumes. We added to Bayer on the share weakness, as discussed below.

In terms of the Fund's positioning, entire sectors fail our Earnings Visibility test i.e. we cannot see how companies will develop over the next three to five years. A current example of this is the Retail sector where we have no investments; the result of a potent mix of rising rents and the disruption caused by the internet. We find much more compelling opportunities elsewhere.

Bayer became one of the fund's top ten positions during August. We were able to take advantage of the fall from an already depressed €95 a share to €80. The latest disappointment came from Monsanto (its US Agrochemical and Seeds subsidiary) which lost a first round US court case; a jury awarded \$39m in damages and \$250m in punitive damages to a man claiming to have developed cancer as a result of exposure to "RoundUp" (Monsanto's successful and widely used weed killer). There are over 8000 cases and counting (including a class action suit) creating a potentially open-ended liability; Bayer's share price fell heavily as a result. Monsanto is appealing the judgement, and whilst a jury decided the first case, a judge will rule on the appeal. The situation reminds us of Saint Gobain, which took a EUR100m asbestosis provision in 2002 prompting a share price collapse despite the provision being less than 5% of operating income. We bought the shares and made a healthy profit as the panic subsided over time. A more recent case is Dupont's C8 case, where it was alleged that components of Teflon caused cancer. The Dupont case involved clear culpability AND a cover up from Dupont, but Dupont eventually settled for a total of US\$670m. With regards to Bayer, most scenarios look relatively benign – especially since the suit singles out "RoundUp" chemical mix, not glyphosate, as being the toxic element. As such, it is quite possible Bayer could pull "RoundUp" from gardening uses, but maintain it for farming perhaps with a revised formulation. Bayer now trades on a P/E of roughly 10 for next year. The company is essentially half Agrochemicals where the average P/E has historically been around 15, and slightly less for the pharmaceuticals division. Whilst Earnings Visibility has undeniably been affected in the short-term by the potential litigation liabilities, the outlook for the core underlying businesses are still reasonable and the sell-off has created an interesting purchase point.

Although not complacent, we remain of the view that an all-out trade war between US and China, or EU, is unlikely but it is the largest current risk to our core constructive view for equities. The European sector most at risk is the Auto sector, another sector to which we have no exposure.

FUND MANAGER



Chris Garsten

FUND MANAGER



Charles Glasse

ANALYST



John Buckland

FUND DETAILS

FUND FACTS

Launch Date	4th April 2001
Morningstar Category	Europe Ex-UK Large Cap Equity
Benchmark	MSCI Europe ex UK TR
Fund Size	€203.6m
No. of Holdings	35
Domicile	Luxembourg
Sedol	BD5NVN4
Bloomberg Code	ZENECGI:LX
Fund Type	SICAV
Base Currency	EUR
Other Currencies	GBP
Ex Dividend Dates	20th February

RISK STATISTICS

3Y Annualised

Fund Volatility (%)	9.0
Index Volatility (%)	11.2
Sharpe Ratio	1.0
Information Ratio	0.8
Tracking Error	5.0
Alpha (%)	5.6
Beta	0.7
Active Share (% - Current)	87.4

FUND INFORMATION

Share class	ISIN	Minimum	AMC	INC/ACC	NAV	Historic yield (%)	Ongoing charge (%)
I EUR	LU0968447358	1,000,000 EUR	0.75%	INC	2.77	0.87%	1.01%
L EUR	LU0968447275	500,000 EUR	1.00%	INC	2.68	0.56%	1.30%
I GBP	LU0968447432	1,000,000 GBP	0.75%	INC	2.04	0.93%	1.01%
R GBP	LU0986115417	10,000 GBP	1.25%	INC	190.6	0.23%	1.55%

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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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