WAVERTON
INVESTMENT MANAGEMENT

EUROPEAN CAPITAL GROWTH FUND I EUR

FUND FACTSHEET - AS AT 31 DECEMBER 2018

OBJECTIVES

FUND AIM

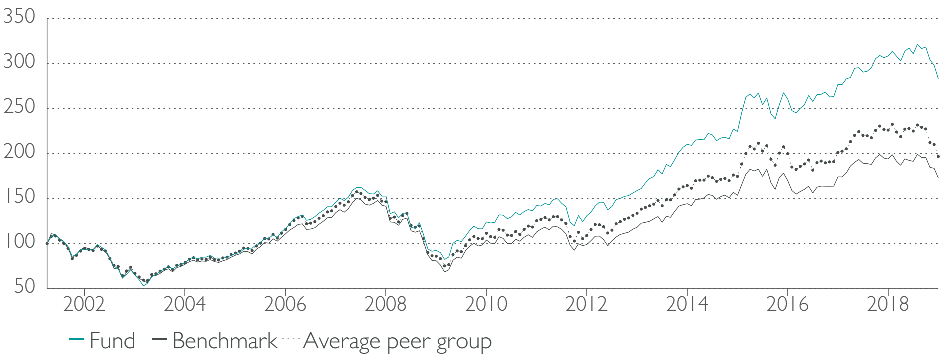
The investment objective is to generate capital growth by investing in a concentrated portfolio of equities selected from European markets. Overwhelmingly, but not exclusively, the managers invest in companies that are at the larger end of the capitalisation scale.

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	1 Year	3 Years	5 Years	Inception Apr 01
Portfolio (%)	**-5.1**	**-11.1**	**-8.2**	**8.6**	**34.6**	**183.1**
Benchmark (%)	-5.8	-11.7	-10.9	1.7	19.8	73.0
Morningstar Peer Group (%)	-6.4	-13.4	-12.9	-1.5	19.7	96.7
Quartile	1	1	1	1	1	1

DISCRETE CALENDAR YEAR PERFORMANCE

Period	2018	2017	2016	2015	2014
Fund (%)	**-8.2**	**11.4**	**6.2**	**16.0**	**6.8**
Benchmark (%)	-10.9	11.4	2.4	10.7	6.4

STANDARDISED PERFORMANCE

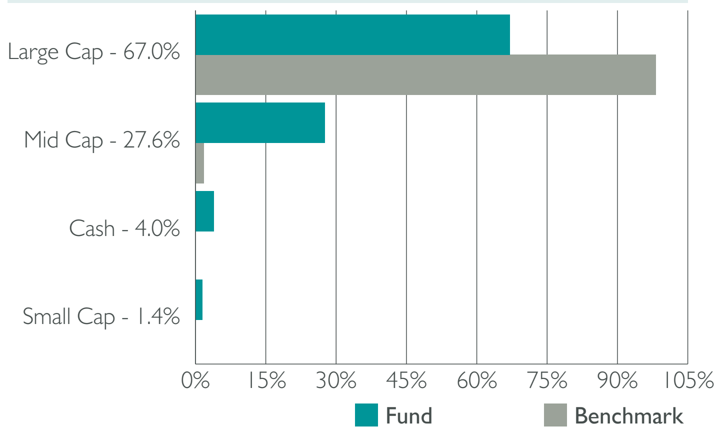
Period 1 year to	31/12/2018	31/12/2017	31/12/2016	31/12/2015	31/12/2014
Fund (%)	**-8.2**	**11.4**	**6.2**	**16.0**	**6.8**

PORTFOLIO SUMMARY

TOP 10 HOLDINGS

Novartis AG	5.1%
Linde Plc	4.4%
Novo Nordisk AS DKK0.2 Series B	4.1%
Loomis AB Series 'B'	3.7%
Deutsche Telekom AG	3.6%
Bayer AG	3.5%
Marine Harvest ASA NOK7.5	3.2%
Munich Reinsurance Company	3.2%
Elekta Instrument AB	3.2%
Swedish Match AB	3.2%
Total	**37.2%**

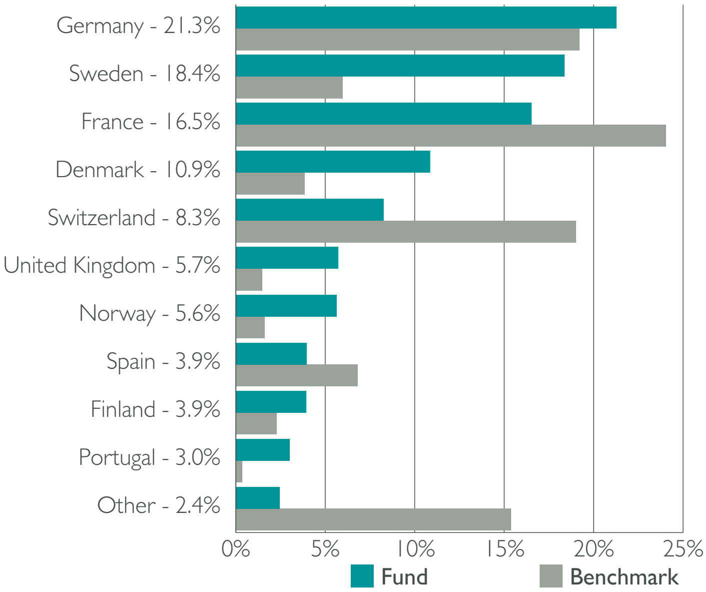
MARKET CAP



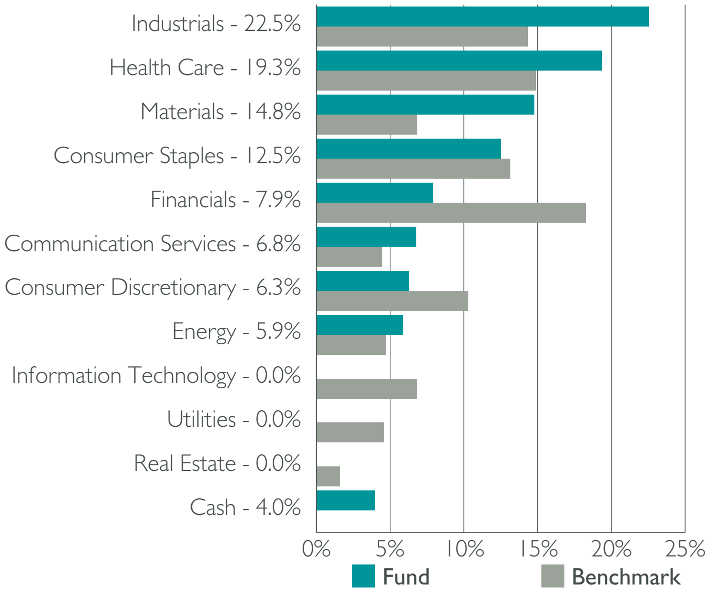
Sources: Waverton Investment Management, Morningstar.

PORTFOLIO SUMMARY - CONTINUED

COUNTRY



SECTOR



PORTFOLIO ACTIVITY

Purchase	Month	Sale
Orange	**Oct - Dec 2018**	Heidelberger Druckmaschinen

MARKET REVIEW

The fourth quarter brought a dramatic change in market sentiment. Up to then, by consensus, the US economy was red hot (aggressive tax cuts on top of an economy that was already doing well), Europe OK and China / Asia reasonable. Where corporate earnings missed, it was down to either suppliers being unable to meet the contracted volumes or employees getting larger than expected wage rises thanks to tight labour markets. Even within this environment, we were surprised to hear Volvo 'complaining' of US dealers panic buying heavy trucks. After 30 years of following markets, we don't remember ever hearing over ordering to the extent that truck manufacturers had to scale back order allocations.

Unfortunately, storm clouds were gathering. It was impossible to know how the Trump trade negotiations would pan out. Either side could have backed down with a fudge resulting in markets rocketing. Instead, positions became entrenched in deadlock. We did not predict that things would turn out this badly, but in the fourth quarter 2018 we fell less than the market having risen by more than the market over the Jan to Sept period. How...?

Experience has taught us that the difference between an extended boom and a bust can be surprisingly small. This is because a boom will, by definition, see a massive rise in product consumption, which needs to be consumed at ever greater amounts for the boom to continue. We totally avoided the heavily owned/loved (by investors) Luxury Goods and Technology sectors for this reason. Both have benefitted hugely from mega booms. We did not predict the downturn but found the risk reward profile unappealing. The consensus view, as espoused by a (nameless) broker in September 2018 was: our thesis on luxury goods has been that investors should not be overly concerned about valuation levels as long as earnings are revised upwards. A more complete explanation of our outperformance is below.

PERFORMANCE REVIEW

In euros the MSCI Europe Ex UK index delivered a total return of -10.9% in 2018, with the fall occurring in the last three months as trade tensions rose. The fund returned -8.2%. Over the year, on a gross basis, we outperformed in 9 of the 11 sectors. These relatively modest falls disguised some major gains and falls at the stock level. Saving readers a rather tiresome list of plusses and minuses we will discuss the 'big picture'.

Our best call was to own only one bank share and to slightly underweight the much better insurance subsector. This means that on a gross basis we rose 0.35% in a sector that contributed 40% of the market decline. Our worst sector positioning by far was to overweight industrials, a sector that fell by 1.95%. We added value in Safran and the recently sold Securitas but had a number of shares that fell heavily. The worst was Deutsche Post that took 1.1% percentage point off performance. Interestingly the most cyclical part, DHL, did the best and the German domestic post business was the problem area. Other industrials that we should have avoided included Kion, Zardoya Otis, Deutz and Heidelberger Druck. The last of these we have now sold.

STOCK EXAMPLE

Autoliv had been on our watch list for many years before we bought the shares in September 2018. It produces airbags, seatbelts and steering wheels, a very profitable and cash generative business. Our problem had been that a large proportion of the cash was being invested into new areas for autonomous driving with very uncertain returns as there are numerous well-funded competitors. Last summer these assets were spun-off into a separate company called Veoneer.

Although Earnings Visibility is slightly compromised by opacity over global auto production, in our view this is more than offset by secular growth opportunities, cash generation and shareholder friendliness. With regard to growth, it currently has 38% global market share for air bags but is getting 50% of the new business thanks to the bankruptcy of Takeda. The company believes that as volumes steadily rise EBIT margins will rise from 10% to 13%. Importantly, once gearing has been reduced to 1x net debt to EBITDA, this cash flow will be mostly returned to shareholders. We bought the shares at just under SEK 800 in September and they are now SEK 660. Clearly this is disappointing and investors are worried about 17% of Autoliv's sales coming from China. However, a highly profitable single digit P/E stock, returning most of its cash to shareholders, can be a very powerful investment. It strikes us as a very similar story to Topdamark, where a highly profitable insurer returned cash to shareholders resulting in 20x stock appreciation over 18 years.

OUTLOOK

As John Kenneth Galbraith famously stated, "There are two kinds of forecasters: those who don't know, and those who don't know that they don't know". We are certainly in the former group, but that does not stop us from trying to read the tea leaves of the future. As always at this time of year, Barron's collected US broker expectations for the S&P500 index move for 2019. Interestingly the average is for a 17% rise this year, which is the second highest expected gain in the last 15 years.

Generally investors are optimistic at the start of the year and Continental European equity markets may fare better in 2019 than in 2018, especially if recent dovish statements on interest rates from the Fed's chairman, Mr. Powell causes the US$ to weaken and interest rates to stop rising. However, the outlook remains unclear. If Trump, Xi and the EU settle their differences there could be an enormous relief rally. Were this to be combined with a weakening US dollar and emerging markets recovery then our European industrials and materials companies would benefit big time. Finally there could well be a switch by US investors into Europe - after 10 years of Europe underperforming the US there is plenty of room for a mean reversion trade to push our lowly rated companies much higher. If trade talks get stuck – then it's all about how earnings develop for the companies we invest in.

Either way, recession or recovery, good pricing power and good visibility become more important supports to stock valuations and that is why we spend our time working on these aspects along with a very keen interest in valuation.

BIOGRAPHIES

FUND MANAGER

Chris Garsten

CHRIS GARSTEN

Chris has managed the European Capital Growth Fund with Charles Glasse since its inception in 2001 and came to Waverton upon the acquisition of 2CG Senhouse which he co-founded in 2001. The first decade of his career was spent as a member of the Europe ex-UK equities team at Credit Suisse Asset Management, where he was Director and Lead Manager of an award winning Netherlands Country Fund. Chris read Business Studies at London Guildhall University, graduating in 1986.

FUND MANAGER

Charles Glasse

CHARLES GLASSE

Charles has managed the European Dividend Growth Fund (formerly named the European Income Fund) with Chris Garsten since its inception in 2005 and came to Waverton upon the acquisition of 2CG Senhouse which he co-founded in 2001. The first 13 years of his career were at M&G (1987-2000) where he ultimately headed the Continental Europe Team and, for over a decade, managed the flagship M&G European Dividend Fund. Charles graduated from Queen's College, Oxford in 1987 with a degree in Chemistry.

ANALYST

John Buckland

JOHN BUCKLAND

John has been the Research Analyst on the European Capital Growth Fund and European Dividend Growth Fund since 2015. John joined Waverton with the acquisition of 2CG Senhouse in May 2016 and is responsible for the investment process and stock selection. He has broad experience in fund management, investment banking and equity broking, having worked for Credit Suisse, Daiwa SMBC, HSBC, MF Global and MainFirst for over 20 years as a well-regarded equity analyst covering the automotive sector and European industrial companies. John has a BSc Honours Degree in Mechanical Engineering and an MBA.

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	€190.2m
No. of Holdings	36
Domicile	Luxembourg
Sedol	BD5NVN4
Bloomberg Code	ZENECGI:LX
Fund Type	SICAV
Base Currency	EUR
Other Currencies	GBP
Ex Dividend Dates	20th February

RISK STATISTICS	FUND	AVERAGE PEER GROUP
3Y Annualised		
Fund Volatility (%)	8.7	11.7
Index Volatility (%)	10.6	-
Sharpe Ratio	0.4	-
Information Ratio	0.5	-0.2
Tracking Error	4.6	4.4
Alpha (%)	2.5	-1.0
Beta	0.7	1.0
Active Share (% - Current)	86.6	-

FUND INFORMATION

Share class	ISIN	Minimum	AMC	INC/ACC	NAV	Historic yield (%)	Ongoing charge (%)
I EUR	LU0968447358	1,000,000 EUR	0.75%	INC	2.48	0.97%	1.01%
L EUR	LU0968447275	500,000 EUR	1.00%	INC	2.4	0.63%	1.30%
I GBP	LU0968447432	1,000,000 GBP	0.75%	INC	1.83	1.04%	1.01%
R GBP	LU0986115417	10,000 GBP	1.25%	INC	170.63	0.26%	1.55%

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