



WAVERTON
INVESTMENT MANAGEMENT

EUROPEAN CAPITAL GROWTH FUND I EUR

FUND FACTSHEET - AS AT 31 JULY 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 (%)	3.3	2.4	4.2	10.2	22.7	70.9	221.4
Benchmark (%)	4.1	2.6	2.7	5.5	9.0	52.6	99.2
Morningstar Peer Group (%)	2.9	2.0	2.5	5.5	11.2	56.3	132.8
Quartile	2	2	1	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	31/07/2018	31/07/2017	31/07/2016	31/07/2015	31/07/2014
Fund (%)	10.2	9.8	1.4	22.2	14.1

PORTFOLIO SUMMARY

COUNTRY		SECTOR		TOP 10 HOLDINGS	
Germany	22.8%	Industrials	25.4%	Novartis AG CHF0.50 (Regd)	4.6%
Sweden	16.1%	Health Care	20.1%	Novo Nordisk AS DKK0.2 Series B	4.1%
France	13.9%	Materials	14.7%	Linde AG NPV (ASD 24/10/2017)	4.0%
Denmark	10.8%	Consumer Staples	14.3%	Swedish Match AB SEK1.2	4.0%
Switzerland	7.4%	Financials	7.4%	Elekta Instrument AB	3.4%
United Kingdom	6.2%	Energy	5.8%	Deutsche Post AG	3.3%
Norway	5.3%	Consumer Discretionary	3.9%	Deutsche Telekom AG (Regd)	3.2%
Finland	5.0%	Telecommunication Services	3.2%	LivNova plc Ord £1	3.2%
Spain	4.7%	Cash	5.1%	Marine Harvest ASA NOK7.5	3.0%
Portugal	3.1%	Total	100.0%	Svenska Handelsbanken Series 'A'	3.0%
Other	4.7%			Total	35.8%
Total	100.0%				

COMMENTARY

PERFORMANCE REVIEW

Markets rose a strong 4.1% in euros while the Fund rose 3.3%. About a quarter of the market's rise last month was a rebound in financials where we are under exposed. Although the Financials sector reported a reasonable number of earnings 'beats', we still have numerous medium term concerns. These range from the deflationary pricing impact of financial products being sold predominately online, to more isolated risks that have up to now been largely ignored, including the European bank owned foreign currency debt that is due to mature in Turkey whilst its currency is plummeting and current account deficit is rocketing. Turkey in general is a major issue for BBVA, who also have a big exposure to a rather volatile looking Mexico.

Well over half of companies by market capitalisation have reported second quarter results. The most noteworthy news to us is the extreme volatility with which they were received. Stock prices moved by +/- 5-10% on relatively small earnings beats or misses, with no obvious sector biases. Thus wherever possible we used price weakness to add to our holdings (Eramet, Loomis and Novartis) and bought Deutz (new holding), selling Securitas and Conti to fund the purchases.

NOVARTIS.

We have just increased Novartis, making it our largest holding. This decision followed our meeting with the new, 42-year-old CEO, who is turning the company upside down. His proposed changes are enhancing the company's ability to deliver the five key attributes we look for in any investment, particularly: Earnings Visibility, Return on Capital as well as management working for shareholders (Interests Aligned). He has only been in the job for six months and has already exited the Glaxo consumer health joint venture deal and has plans to spin off Alcon, (eyecare) and Sandoz, the generics business which is now in a much more difficult market and 'absorbing far too much management time'. We are particularly excited by his approach to cost cutting, which seems to get very little analyst comment. He claims Novartis has \$15.5bn of costs and that he was "bewildered" by the lack of cost discipline. For example, it has twice as many factories as it needs, spends \$1bn per annum on meetings and is a top five customer to all the major management consultancy firms (where there is now a contract freeze). This is a reflection of a historic culture of management not taking decisions and which the CEO believes needs to change in order to improve returns. Their own metric, core-operating earnings, which is effectively EBITDA margin, is currently 25% and they believe they can get it up to 35% over the next few years. The stock reminds us a little of Pharmacia, a Swedish stock that was quoted many years ago. All the analysts rated the stock a 'hold' as it had few exciting products coming through but the shares did very well thanks to cost cutting. Novartis has both interesting products and cost cutting potential giving us strong conviction in the investment case.

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	€204.9m
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 (%)	9.9
Index Volatility (%)	12.3
Sharpe Ratio	1.6
Information Ratio	0.8
Tracking Error	5.0
Alpha (%)	4.9
Beta	0.8
Active Share (% - Current)	88.0

FUND INFORMATION

Share class	ISIN	Minimum	AMC	INC/ACC	NAV	Historic yield (%)	Ongoing charge (%)
I EUR	LU0968447358	1,000,000 EUR	0.75%	INC	2.82	0.85%	1.01%
L EUR	LU0968447275	500,000 EUR	1.00%	INC	2.72	0.55%	1.30%
I GBP	LU0968447432	1,000,000 GBP	0.75%	INC	2.06	0.92%	1.01%
R GBP	LU0986115417	10,000 GBP	1.25%	INC	192.87	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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