



WAVERTON
INVESTMENT MANAGEMENT

EUROPEAN CAPITAL GROWTH FUND I EUR

FUND FACTSHEET - AS AT 30 JUNE 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 (%)	-2.0	2.6	0.8	7.0	22.4	75.2	211.0
Benchmark (%)	-0.6	2.3	-1.3	1.1	9.6	54.7	91.4
Morningstar Peer Group (%)	-1.3	2.9	-0.5	2.2	10.9	58.9	126.5
Quartile	4	3	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	30/06/2018	30/06/2017	30/06/2016	30/06/2015	30/06/2014
Fund (%)	7.0	12.6	1.5	15.1	24.4

PORTFOLIO SUMMARY

COUNTRY		SECTOR		TOP 10 HOLDINGS	
Germany	22.4%	Industrials	26.4%	Linde AG NPV (ASD 24/10/2017)	4.1%
Sweden	18.6%	Health Care	18.5%	Novo Nordisk AS DKK0.2 Series B	4.0%
France	14.1%	Materials	15.3%	Swedish Match AB SEK 1.2	3.8%
Denmark	10.5%	Consumer Staples	14.1%	Elekta Instrument AB	3.4%
Switzerland	6.0%	Financials	7.4%	Novartis AG CHF0.50 (Regd)	3.3%
United Kingdom	5.9%	Consumer Discretionary	6.2%	Deutsche Post AG	3.2%
Norway	5.3%	Energy	5.7%	Deutsche Telekom AG (Regd)	3.2%
Spain	4.8%	Telecommunication Services	3.2%	LivaNova plc Ord £1	3.1%
Finland	4.7%	Cash	3.3%	Eramet €3.05	3.1%
Portugal	2.9%	Total	100.0%	Loomis AB Series 'B'	3.0%
Other	4.8%			Total	34.1%
Total	100.0%				

COMMENTARY

Last month the market started to take the threats to global trade more seriously, knocking the share prices of many perceived cyclicals hard. Our view is that a full blown trade war is unlikely on the basis that the main participants are more rational than their Twitter accounts make them appear. Eramet, the French miner, was hit particularly hard knocking 1% off the portfolio. Given that it had tripled since purchase last year it was vulnerable to profit taking. Our investment thesis is based not on an outlook of the underlying commodity, but on the significant changes being implemented by the new management which will boost earnings dramatically in the long term; we remain very happy holders. Deutsche Post and Heidelberger Druck were also weak, detracting a combined 0.4% from performance. There was better news from Elekta, the medical technology company. It has been awarded a CE mark for its most important innovative product, the Unity MRI linac machine. It is not only us that have great expectations for this product; the Medical Director of the National Centre for Tumour Diseases in Heidelberg, a highly respected leader in his field, recently predicted that the Unity MRI linac could be represented in half of all radiotherapy installations globally in ten years' time. The market had anticipated this good news with the stock up 68% this year, having been one of the laggards in 2017. We believe it has a long way still to go.

Novo Nordisk

European pharmaceutical companies are not dissimilar to oil companies. Oil wells run dry after 7 to 10 years and need to be replaced. Likewise, pharma products go off patent, losing profitability and need to be replaced. Often management resort to acquisitions, paying large premiums to other companies' shareholders and issuing shares. Novo is an exception. It has all of the five key attributes we look for in a wealth creating company, the most important being that management's interests are aligned with shareholders. Novo has historically replaced expiring products from home grown research allowing management to be able to use free cash flow to cancel shares and pay dividends.

Novo is the epitome of a stock we describe as a Steady Grower (it has all five attributes of a wealth creating company) so when the stock collapsed in 2016 on the back of weakening insulin prices - going from a PE of 30x to 14x - it provided the trigger for us to invest. The stock has recovered and now trades on a PE of 19x and is one of our top 5 holdings. The company's newest anti-diabetes GLP1 drug Ozempic (semaglutide) has launched extremely well. Trial results not only lowered blood sugar (HbA1c) levels dramatically, but also brought about the added benefit of 4kg weight loss over one year with no significant side effects except nausea in limited cases. An oral version of the drug is also being trialled; early indications are that results are as good as the injected version, a result that neither we nor the market anticipated. It would appear that they could have stumbled upon the first effective weight loss pill, and are planning new trials on non-diabetic obese people. In terms of potential upside, they may have hit the jackpot. There are about 300 million obese and near-obese people in the US and Europe, many of which are in danger of becoming diabetic. If only 1% of these people are prescribed the Novo pills at, for example, \$6,000 a year (based on similar product prices), it would become the world's largest drug with sales of \$18bn. This is more than Novo's entire sales of 'big products' (those with over \$500m sales). If the trials continue to go well we expect a further doubling of the shares, at least.

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	€195.0m
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

FUND INFORMATION

Share class	ISIN	Minimum	AMC	INC/ACC	NAV	Historic yield (%)	Ongoing charge (%)
I EUR	LU0968447358	1,000,000 EUR	0.75%	INC	2.72	0.88%	1.01%
L EUR	LU0968447275	500,000 EUR	1.00%	INC	2.64	0.57%	1.30%
I GBP	LU0968447432	1,000,000 GBP	0.75%	INC	1.97	0.96%	1.01%
R GBP	LU0986115417	10,000 GBP	1.25%	INC	185.05	0.24%	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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