



WAVERTON
INVESTMENT MANAGEMENT

EUROPEAN CAPITAL GROWTH FUND I EUR

FUND FACTSHEET - AS AT 31 MARCH 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 (%)	-1.7	-1.8	-1.8	6.4	13.7	75.8	203.0
Benchmark (%)	-2.3	-3.6	-3.6	0.5	2.4	49.9	87.1
Morningstar Peer Group (%)	-2.3	-3.3	-3.3	2.6	5.0	54.0	117.5
Quartile							

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	31/03/2018	31/03/2017	31/03/2016	31/03/2015	31/03/2014
Fund (%)	6.4	13.7	-6.0	23.5	25.2

PORTFOLIO SUMMARY

COUNTRY		SECTOR		TOP 10 HOLDINGS	
Germany	20.7%	Industrials	27.1%	Linde AG NPV (ASD 24/10/2017)	3.7%
Sweden	17.4%	Materials	15.6%	Eramet €3.05	3.6%
France	15.4%	Health Care	14.8%	Novartis AG CHF0.50 (Regd)	3.6%
Denmark	7.7%	Consumer Staples	14.1%	Swedish Match AB SEK1.2	3.6%
Switzerland	7.6%	Financials	8.5%	Loomis AB Series 'B'	3.2%
Finland	6.7%	Consumer Discretionary	6.9%	British American Tobacco Ord 25p	3.1%
Norway	5.8%	Energy	5.9%	Marine Harvest ASA NOK7.5	3.0%
Spain	4.8%	Telecommunication Services	2.3%	Gaztransport Et Techniga SA €0.01	3.0%
United Kingdom	3.2%	Cash	4.9%	Novozymes A/S Series 'B' DKK2	3.0%
Portugal	3.0%	Total	100.0%	Galp Energia SGPS SA €1	2.9%
Other	7.6%			Total	32.6%
Total	100.0%				

COMMENTARY

The Fund fell by 1.7% in March and the market by 2.3%. Linde and Eramet, both in the Materials sector, were the fund's greatest detractors over the month, suffering from profit taking after strong runs. These investments represent two of our top Margin Improvement stories and we remain committed long term holders. Our underweight in financials contributed a full percent of the relative performance; on the whole, European banks fail to meet the five key criteria of a wealth creating business that we look for. Most importantly they suffer from very low earnings visibility and are generally shareholder unfriendly / indifferent. Moreover, the internet is adding new waves of competition further reducing visibility, and any prospect of better pricing and higher interest rates boosting margins.

As an example of how the banking industry is changing, a new Swedish mortgage company called Enkla.com has just announced the intention to grow its mortgage book from nothing to £8.5bn (3% market share) over an 18 month period. Enkla.com is offering three year fixed rates more than half a percent below the average market pricing (i.e. 0.95%). Enkla.com is able to offer these rates by funding its mortgages through residential mortgage backed securities offered directly to institutional investors. Enkla.com is not a bank and will not carry the mortgages on its own balance sheet therefore bypassing the banking system and its capital requirements. This is similar to the situation in Holland where 10% of new mortgages are bought by insurance companies.

We saw the new LafargeHolcim CEO, Jan Jenisch. We know him from our time as (successful) investors in Sika, the Swiss chemical company. The investment was a fine example of a Margin Improver investment for the fund.

The thesis is that Lafarge has enviably strong global market positions in cement, but a very poor record of generating earnings. Mr Jenisch has signalled that he wants the company's focus to be on profitability. He has reduced the number of KPI's to a simple focus on EBITDA growth, cash conversion, EPS growth and ROIC. For those aware of our five key attributes, the fact that Mr Jenisch is actively targeting three of them is constructive. To underscore this cultural change he has changed many divisional heads and has appointed Géraldine Picaud Chief Financial Officer. She comes with an excellent track record as Group CFO at Essilor International (global leader in ophthalmic optics company).

Large value destructive M&A deals are firmly off the agenda, just bolt-on acquisitions in existing markets that add value. Jenisch believes centralisation cannot work for a company operating in 54 countries at 2,300 production sites. Each country's management will be empowered to make pricing and acquisition decisions. In parallel, admin costs can be reduced by 20%, generating CHF400m in savings from Q1 2019. Significant profit improvement opportunities exist in aggregates and ready mix concretes and should be achieved through better benchmarking. Although Lafarge appears to have a higher valuation rating than Heidelberg Cement (based on consensus estimates), we are happy to pay up for a company with greater potential for shareholder value creation.

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	€153.8m
No. of Holdings	37
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	2.65	0.90%	1.01%
L EUR	LU0968447275	500,000 EUR	1.00%	INC	2.57	0.58%	1.30%
I GBP	LU0968447432	1,000,000 GBP	0.75%	INC	1.91	1.00%	1.01%
R GBP	LU0986115417	10,000 GBP	1.25%	INC	179.05	0.25%	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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