EUROPEAN CAPITAL GROWTH FUND I EUR

FUND FACTSHEET - AS AT 30 SEPTEMBER 2018

OBJECTIVES

FUND AIM

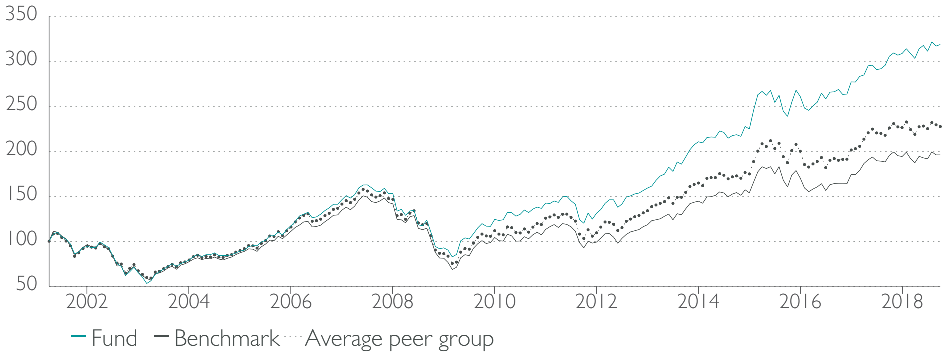
The investment objective is to generate capital growth by investing in a concentrated portfolio of equities selected from European markets. Overwhelmingly, but not exclusively, the managers invest in companies that are at the larger end of the capitalisation scale.

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 (%)	**0.6**	**2.4**	**3.2**	**4.3**	**33.5**	**64.7**	**218.5**
Benchmark (%)	0.0	2.3	0.9	0.3	22.2	44.0	95.8
Morningstar Peer Group (%)	-0.8	1.0	0.6	0.7	21.6	48.0	128.6
Quartile	1	1	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

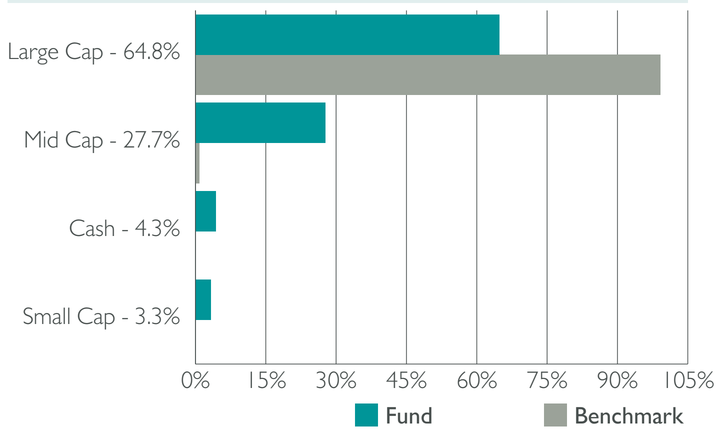
Period 1 year to	30/09/2018	30/09/2017	30/09/2016	30/09/2015	30/09/2014
Fund (%)	**4.3**	**13.8**	**12.5**	**9.3**	**12.8**

PORTFOLIO SUMMARY

TOP 10 HOLDINGS

Novartis	4.7%
Linde	3.9%
Novo Nordisk	3.8%
Swedish Match	3.7%
Loomis	3.4%
Gaztransport Et Techniga	3.3%
Deutsche Post	3.3%
Elekta Instrument	3.3%
Safran	3.3%
Bayer	3.2%
Total	**35.9%**

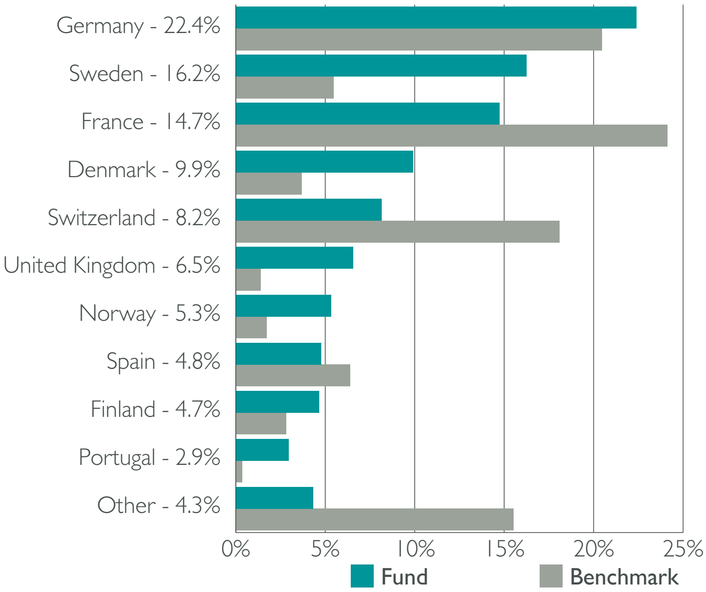
MARKET CAP



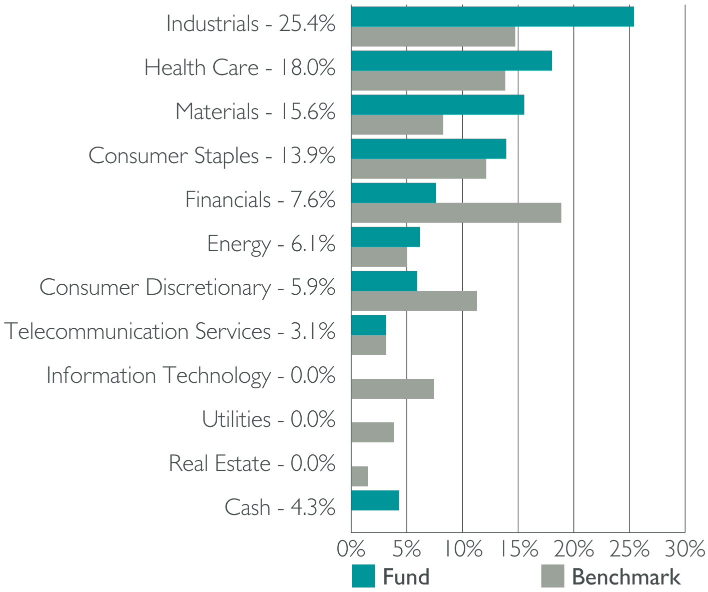
Sources: Waverton Investment Management, Morningstar.

PORTFOLIO SUMMARY - CONTINUED

COUNTRY



SECTOR



SIGNIFICANT PORTFOLIO ACTIVITY

Purchase	Month	Sale
Deutz Autoliv	**Jul - Sep 2018**	Continental AG Securitas

MARKET REVIEW

The MSCI Europe Ex UK index delivered a total return of 2.3% in Q3. High oil prices and a strong USD supported earnings revisions in the Energy sector, which has been the best performing sector this year (+24%) and up 5.9% in Q3. Other strong sectors in Q3 were Healthcare (+5.5%) and Consumer Staples (+2.3%) whilst the de-rating of cyclical stocks was indicative of investors taking on a more defensive stance.

Financials (banks in particular) have until recently been by far the worst sector this year, although insurance companies have performed well. Banks staged a mini recovery in September, until the Italian government budget spat brought that to an end. Overall the Financials sector was up 2.4% in Q3, but down 5% YTD or 12% from its January peak when some investors had the mistaken belief that European banks were about to start benefitting from a rising interest rate cycle.

PERFORMANCE REVIEW

The biggest positive return to Funds aggregate quarterly outperformance of 0.44% was LivaNova, which added 0.74% to performance after announcing superb quarterly results and possible reimbursement funding for consumers taking their depression treatment. At the end of the quarter we halved the holding as it is no longer cheap but management are doing all the right things. Unfortunately, in Health Care this was more than offset by Ambu (-0.48%), Bayer (-0.36%) and not having Roche (-0.24%). We have added to both Bayer and Ambu on their weakness. In the case of Bayer we feel that investors have dramatically over reacted to the potential Round Up cancer liability. At its worst Bayer had lost $26 billion of market cap and we struggle to find many examples of a liability exceeding $1 billion. In the case of Ambu it is still an expensive stock (at the current price of DKK125) on a P/E of 42x 2020. But this assumes that they only get 1% of the potential 100 million annual procedures for endoscopy by then. Already in the first area they have attacked, pulmonary, they have quickly gained 11% of the 5 million procedure market.

We also had poor stock selection in the Industrials and Consumer Discretionary sectors, primarily lead by Kion (-0.27%), Husqvarna (-0.23%), Loomis (-0.2%) and Kongsberg (-0.19%). Husqvarna came out with disappointing results on a number of fronts but importantly have now really grasped the nettle in the worst performing division by largely closing it down. This may sound extreme but it was only at break even. The cash handler Loomis is a slightly more difficult one. It is on any reasonable valuation matrix absurdly cheap and is only expensive if the view is taken that cash will go the way of yellow pages, that is, disappear. Intriguingly although it feels as though ever less cash is being used, the FED and ECB statistics show the volume of cash in circulation continues to rise.

Finally GTT (0.71%) was a great stock. They are specialists in membranes needed in both natural gas carriers and increasingly for natural gas powered general shipping. These membranes hold the cooled liquefied gas in place and GTT virtually controls the market. They have been benefitting mightily from the secular rise in gas as an increasingly popular fuel.

STOCK EXAMPLE

A change of management is one of the main triggers for us to purchase a Margin Improver. LafargeHolcim was certainly in need of change, as over the last 20 years its share price is unchanged. This is not due to the industry being unattractive. In a good year operating margins have historically peaked at 18% to fall briefly to break even in an exceptionally bad year.

We recently met the new CEO of LafargeHolcim, previous CEO of the stunningly successful Sika, and added to our position. He is turning the organisation upside down. Six corporate offices have been collapsed into a low cost single operation. Country management will be allowed to take decisions on pricing and bolt-on acquisitions. Critically M&A deals, which have historically destroyed huge value by essentially buying high and selling low, will now be much smaller and funded by disposals. Essentially the company will do their own DCF for each operation and if they can get a higher price from someone else than their DCF, a sale is possible. It is tricky to know when to buy this stock as earnings estimates are slowly falling, thanks to many emerging market currencies taking a bath and operating weakness in some key markets. However, it seems credible that next year the well run stock will be on a P/E of 12.5, in line with its historical average, but much better run. This seems very good value to us and we have currently settled for a 3% position.

OUTLOOK

For many years following the 2007 global financial crisis, GDP recovery was anaemic by the standards of past cycles but corporate profit growth fine. Why? Sluggish corporate sales growth within an environment of ample capacity (both labour and capital) meant that costs were squeezed and profit margins expanded. The issue now is that, particularly in the US, this has changed. Sales growth is booming as are supply costs.

Probably the US economy was tightening before Trump came to power. He then introduced mega tax cuts and tariffs, the impact of the latter being stock building ahead of expected price rises. This has added a bucket load of fuel to the fire. The United States' NFIB Small Business Optimism index has just set a new record in its 45 year history. A corporate example is the truck manufacturer Volvo. September ACT Class 8 truck orders in the USA were 42,800 units. This is up 90% YOY and according to ACT, the backlog is about 297,000 which is the highest backlog since 1986. Volvo reports indications of panic buying by dealers, an interesting concept in trucks.

It is hardly surprising that uppermost in investor minds is that orders are so strong that they cannot get any better and quite possibly a lot worse. In the short term one of our key investment criteria, Earnings Visibility, is getting hard to achieve. We are avoiding US orientated companies with large, low skilled workers, vulnerable to cost pressures. We sold Securitas on this basis. However, at these moments it is very easy to get 'pulled around' by markets, to shape the portfolio in a way that doesn't really fit our criteria but currently in vogue. We think this is a correction, similar to the taper tantrum in 2013, so have not made many changes. So far the rotation has occurred into defensive value sectors such as Telcos and Utilities. These sectors are also two of the most highly indebted sectors and in a market where investors are worried about rising interest rates, we are not rotating into them.

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	€206.0m
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

RISK STATISTICS	FUND	AVERAGE PEER GROUP
3Y Annualised		
Fund Volatility (%)	8.8	11.3
Index Volatility (%)	10.9	-
Sharpe Ratio	1.2	0.6
Information Ratio	0.7	-
Tracking Error	4.8	4.5
Alpha (%)	5.6	0.2
Beta	0.7	1.0
Active Share (% - Current)	87.3	-

FUND INFORMATION

Share class	ISIN	Minimum	AMC	INC/ACC	NAV	Historic yield (%)	Ongoing charge (%)
I EUR	LU0968447358	1,000,000 EUR	0.75%	INC	2.79	0.86%	1.01%
L EUR	LU0968447275	500,000 EUR	1.00%	INC	2.7	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	190.64	0.23%	1.55%

CONTACT DETAILS

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