



WAVERTON
INVESTMENT MANAGEMENT

EUROPEAN CAPITAL GROWTH FUND I EUR

FUND FACTSHEET - AS AT 30 NOVEMBER 2017

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 Retail 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 (%) | -0.8 | 3.8 | 10.7 | 16.4 | 34.8 | 96.2 | 206.6 |
| Benchmark (%) | -2.0 | 3.7 | 11.9 | 19.0 | 24.1 | 67.9 | 95.0 |
| Morningstar Peer Group (%) | -1.6 | 4.3 | 12.7 | 18.8 | 28.6 | 72.9 | 125.7 |
| Quartile | 1 | 3 | 3 | 3 | 1 | 1 | 1 |

DISCRETE CALENDAR YEAR PERFORMANCE

| Period | 2016 | 2015 | 2014 | 2013 | 2012 |
|---------------|------|------|------|------|------|
| Fund (%) | 6.2 | 16.0 | 6.8 | 32.3 | 21.3 |
| Benchmark (%) | 2.4 | 10.7 | 6.4 | 22.1 | 19.4 |

STANDARDISED PERFORMANCE

| Period 1 year to | 30/11/2017 | 30/11/2016 | 30/11/2015 | 30/11/2014 | 30/11/2013 |
|------------------|------------|------------|------------|------------|------------|
| Fund (%) | 16.4 | -1.6 | 17.7 | 9.8 | 32.5 |

PORTFOLIO SUMMARY

| COUNTRY | | SECTOR | | TOP 10 HOLDINGS | |
|----------------|---------------|----------------------------|---------------|----------------------------------|--------------|
| Germany | 20.5% | Industrials | 25.9% | Linde AG NPV (ASD 24/10/2017) | 4.4% |
| Sweden | 17.7% | Materials | 16.3% | Loomis AB Series 'B' | 4.0% |
| France | 15.0% | Health Care | 14.3% | Topdanmark AS DKK1 | 3.7% |
| Denmark | 10.5% | Consumer Staples | 13.9% | Novozymes A/S Series 'B' DKK2 | 3.3% |
| Switzerland | 6.9% | Financials | 10.4% | Swedish Match AB SEK1.2 | 3.2% |
| Spain | 6.6% | Energy | 5.8% | Air Liquide €5.50 | 3.1% |
| Finland | 4.3% | Consumer Discretionary | 4.8% | Galp Energia SGPS SA €1 | 3.1% |
| Norway | 3.7% | Telecommunication Services | 2.7% | British American Tobacco Ord 25p | 3.0% |
| Portugal | 3.3% | Cash | 5.8% | Deutsche Post AG | 3.0% |
| United Kingdom | 3.2% | Total | 100.0% | LivaNova plc Ord £1 | 3.0% |
| Other | 8.2% | | | Total | 33.7% |
| Total | 100.0% | | | | |

The Fund outperformed by 1.2% in November, with most sectors adding value. We had a number of strong stocks including Eramet, LivaNova and ENAV, between them adding over a 1% to performance. Our worst stock was Elekta where we lost 0.5% on news that the key product, due to be launched at the end of this year, is delayed by six months. Generally these setbacks are buying opportunities and we are looking to add.

In early November we sold Lundbeck at a 200% profit. The Danish pharmaceutical company ticked our five key attributes of a wealth creating company. The CEO, Kåre Schultz, had announced major restructuring at the Q2 results 2015. Earnings and the share price subsequently rose sharply on the back of the cost cuts, a reinvigorated sales force and a realisation that Lundbeck's depression / Alzheimer products were largely immune from US buyer price erosion. Unfortunately in Sept 2017 both CEO and Chief Commercial Officer resigned. We have decided to sell as (a) the restructuring programme is 95% complete so the 'easy' profit growth has happened, (b) the shares were trading at a big premium to the pharmaceutical sector, being on roughly 20x 2019 P/E and crucially (c) in late October 2017 Lundbeck announced plans to initiate a third clinical phase III study to broaden the sales potential of brexpiprazole, one of its dementia products. This follows the mixed results in the two previously completed phase III studies. We very much doubt whether Schultz would have signed off on an additional third study.

Akzo was sold. We originally invested in March 2017 after the failed bid from PPG when the stock was significantly derated. Earnings growth had consistently failed to be delivered over the preceding five years, largely due to the weak European consumer paint market and the deep cycle in the shipping industry. Meanwhile management was working hard to cut costs. Despite the fact that hostile bids for Dutch companies usually fail because of the prevalence of anti-takeover statutes, we were hopeful that, like the failed bid for Unilever by Kraft, which garnered management to focus on returns, Akzo's management would be similarly motivated by the bid from PPG. We have been disappointed by developments since and believe that with a 2018 P/E of 17 the shares are no longer a compelling proposition. Both the CEO and CFO resigned citing 'stress'; the new management's intention is to split the business in two, but the proposal to merge the coatings business with Axalta was unexpected and unwelcome. With the increased uncertainty and more compelling ideas elsewhere we sold the entire position at profit.

Instead we have bought Munich Re. The yield is solid at 4.7% combined and the company has an admirable record of buying back shares. Since 2006 they have reduced the number of shares from 226 million to the current 157 million; unusual discipline indeed from a European company in the financial sector, and against a backdrop of significant excess in underwriting capacity where premium rates have are under downward pressure. We anticipate the premium market to firm on the back of an active US hurricane season.

We continue to seek out and invest in wealth creating companies; particularly those that are making the transition to being more focussed on shareholder returns.

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 | €148.5m |
| 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

3Y Annualised

| | |
|----------------------------|------|
| Fund Volatility (%) | 11.9 |
| Index Volatility (%) | 13.5 |
| Sharpe Ratio | 1.3 |
| Information Ratio | 0.6 |
| Tracking Error | 5.0 |
| Alpha (%) | 4.7 |
| Beta | 0.8 |
| Active Share (% - Current) | 87.5 |

FUND INFORMATION

| Share class | ISIN | Minimum | AMC | INC/ACC | NAV | Historic yield (%) | Ongoing charge (%) |
|-------------|--------------|---------------|-------|---------|--------|--------------------|--------------------|
| I EUR | LU0968447358 | 1,000,000 EUR | 0.75% | INC | 2.71 | 0.89% | 1.01% |
| L EUR | LU0968447275 | 500,000 EUR | 1.00% | INC | 2.62 | 0.57% | 1.30% |
| I GBP | LU0968447432 | 1,000,000 GBP | 0.75% | INC | 1.96 | 1.02% | 1.01% |
| R GBP | LU0986115417 | 10,000 GBP | 1.25% | INC | 182.75 | 0.55% | 1.55% |

CONTACT DETAILS

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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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