



**WAVERTON**  
INVESTMENT MANAGEMENT

# EUROPEAN INCOME FUND A GBP

FUND FACTSHEET - AS AT 31 DECEMBER 2017

## OBJECTIVES

### FUND AIM

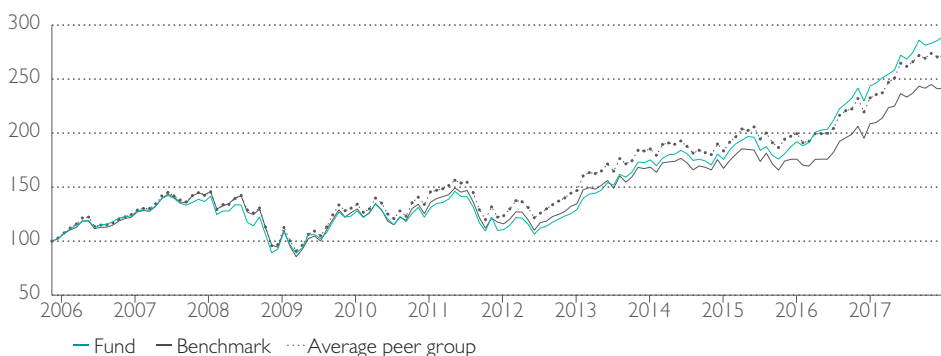
The investment objective is to generate income and capital growth by investing in a concentrated portfolio of equities selected from European markets. Overwhelmingly, but not exclusively, the managers invest in companies that are at the larger end of the capitalisation scale.

### 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	1 Year	3 Years	5 Years	Inception Nov 05
Portfolio (%)	1.4	2.9	18.9	64.9	123.7	189.5
Benchmark (%)	0.3	0.1	15.8	44.4	79.6	141.7
Morningstar Peer Group (%)	0.4	0.9	16.9	47.9	85.3	179.6
Quartile	1	1	1	1	1	2

### DISCRETE CALENDAR YEAR PERFORMANCE

Period	2017	2016	2015	2014	2013
Fund (%)	18.9	26.8	9.4	0.2	35.4
Benchmark (%)	15.8	18.6	5.1	-0.7	25.3

### STANDARDISED PERFORMANCE

Period 1 year to	31/12/2017	31/12/2016	31/12/2015	31/12/2014	31/12/2013
Fund (%)	18.9	26.8	9.4	0.2	35.4

## PORTFOLIO SUMMARY

COUNTRY		SECTOR		TOP 10 HOLDINGS	
Sweden	14.7%	Industrials	21.2%	Linde AG NPV (ASD 24/10/2017)	3.4%
France	14.4%	Consumer Staples	16.9%	Loomis AB Series 'B'	3.3%
Germany	11.6%	Materials	13.5%	Topdanmark AS DKK1	3.3%
Denmark	9.0%	Health Care	12.2%	Swedish Match AB SEK1.2	3.3%
Spain	8.6%	Financials	7.4%	Orange €4	3.1%
Portugal	8.1%	Consumer Discretionary	7.4%	Novo Nordisk AS DKK0.2 Series B	3.1%
Switzerland	7.8%	Energy	6.8%	British American Tobacco Ord 25p	3.0%
Other	7.3%	Telecommunication Services	5.9%	LafargeHolcim Ltd CHF2 (Regd)	3.0%
Norway	7.2%	Utilities	3.6%	Kongsberg Gruppen ASA NOK 1.25	2.9%
United Kingdom	6.0%	Cash	5.1%	Energias de Portugal SA €1 (Regd)	2.8%
Italy	5.4%	<b>Total</b>	<b>100.0%</b>	<b>Total</b>	<b>31.2%</b>
<b>Total</b>	<b>100.0%</b>				

## COMMENTARY

The Fund outperformed by 1.1% in December, with most sectors adding value. The strongest stocks included Eramet, GTT and BATS, but LivaNova (a recent star) succumbed to profit taking. The Fund's strong run in recent months means that it finished just ahead of the index for the year.

In our view the key to successful investing is to keep the mandate wide (style agnostic), broadly ignore both the index and macroeconomic forecasts and back wealth creating management. Our mantra, broadly speaking can be summed up as "Profit is sanity; volume growth is vanity". We tend to steer clear of CEO's with ambitions 'just to get bigger'. Some of our best investments have been in companies with minimal sales growth but with a policy of returning excess cash flow to shareholders, either through share buybacks or dividends. By no means do we eschew all growth companies, but only favour those with a differentiated product that can continue to grow without compromising pricing power.

The foe of pricing power is the internet. Generally speaking, the increased pricing transparency that the internet brings sector fragmentation. For this reason we are broadly with consensus in our negative view of the general retail sector, but against the consensus with our significant underweight to banking stocks. For the most part, banking stocks in Europe fall down against all five key attributes of a wealth creating company that we look for. In the US, for instance, the Wall Street Journal reports that in recent quarters half of all mortgages are now issued by non-banks! By contrast, development of digital technology can help industrial manufacturers protect pricing power by offering differentiated service package solutions, rather than selling cheap products in isolation (e.g fork lift trucks included in an integrated warehouse solution). Indeed for many industrials digitalisation / IT software spend is becoming one of their biggest cost centres. It is in providing this integrated offering where the Chinese are currently lagging and Europe excels. This is one of the reasons for our overweight to European industrials.

Despite being overweight, we remain largely sceptical towards telcos where price wars are common and the regulators are aggressive. Only this month Spain's regulator lowered wholesale prices 18%, even more than indicated initially. Finally, we are overweight energy shares now after we see changes to the sector's habit for value destroying capital expenditure. There are more positive signs of managements' attitude to shareholder returns. Even Royal Dutch Shell has gone onto our watch list.

We go into 2018 with enthusiasm for the prospects of European equities. For us, the biggest driver of investment returns from European equities over the next decade will be not only the much discussed macro positives, but the quiet revolution amongst European listed companies making the positive transition to focus on shareholder returns.

### FUND MANAGER



Charles Glasse

### FUND MANAGER



Chris Garsten

### ANALYST



John Buckland

## FUND DETAILS

### FUND FACTS

Launch Date	14th November 2005
Morningstar Category	Europe Ex-UK Large Cap Equity
Benchmark	MSCI Europe ex UK TR
Fund Size	£37.7m
No. of Holdings	39
Domicile	Luxembourg
Sedol	BD5NVQ7
Bloomberg Code	ZENEINR:LX
Fund Type	SICAV
Base Currency	GBP
Other Currencies	None
Ex Dividend Dates	20-Feb 2017 (1.02p), 19-Jul 2017 (3.75p)

### RISK STATISTICS

#### 3Y Annualised

Fund Volatility (%)	9.9
Index Volatility (%)	11.0
Sharpe Ratio	1.7
Information Ratio	1.1
Tracking Error	4.6
Alpha (%)	1.3
Beta	0.8
Active Share (% - Current)	86.7

### FUND INFORMATION

Share class	ISIN	Minimum	AMC	INC/ACC	NAV	Historic yield (%)	Ongoing charge (%)
A GBP	LU0968447606	1,000,000 GBP	0.75%	INC	2.00	2.39%	1.45%
L GBP	LU0968447515	500,000 GBP	1.00%	INC	1.89	2.36%	1.41%

## CONTACT DETAILS

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### DOMICILIARY AGENT

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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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