



WAVERTON
INVESTMENT MANAGEMENT

EUROPEAN INCOME FUND A GBP

FUND FACTSHEET - AS AT 31 OCTOBER 2017

OBJECTIVES

FUND AIM

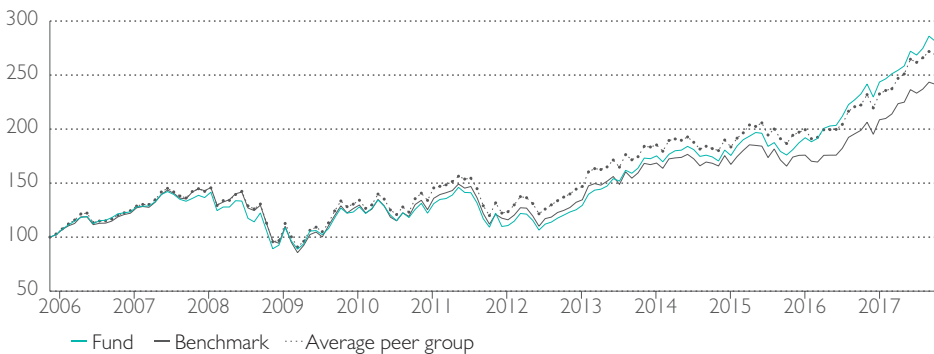
The investment objective is to generate income and capital growth by investing in a concentrated portfolio of equities selected from European markets. Overwhelmingly, but not exclusively, the managers invest in companies that are at the larger end of the capitalisation scale.

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	YTD	1 Year	3 Years	5 Years	Inception Nov 05
Portfolio (%)	0.6	3.1	16.3	17.1	66.1	129.7	183.2
Benchmark (%)	1.5	3.4	17.4	18.7	47.7	92.3	145.0
Morningstar Peer Group (%)	1.7	2.9	17.7	18.1	51.9	96.0	181.5
Quartile	4	3	3	3	1	1	2

DISCRETE CALENDAR YEAR PERFORMANCE

Period	2016	2015	2014	2013	2012
Fund (%)	26.8	9.4	0.2	35.4	16.9
Benchmark (%)	18.6	5.1	-0.7	25.3	16.0

STANDARDISED PERFORMANCE

Period 1 year to	31/10/2017	31/10/2016	31/10/2015	31/10/2014	31/10/2013
Fund (%)	17.1	33.6	6.2	-1.5	40.5

PORTFOLIO SUMMARY

COUNTRY		SECTOR		TOP 10 HOLDINGS	
Sweden	13.7%	Industrials	21.4%	Loomis AB Series 'B'	3.4%
France	12.5%	Consumer Staples	16.9%	Topdanmark AS DKK1	3.4%
Germany	12.0%	Materials	15.3%	Linde AG NPV (ASD 24/10/2017)	3.4%
Other	10.6%	Health Care	12.5%	LafargeHolcim Ltd CHF2 (Regd)	3.2%
Spain	8.7%	Financials	9.9%	Energias de Portugal SA €1 (Regd)	3.1%
Denmark	8.7%	Consumer Discretionary	7.3%	Deutsche Telekom AG (Regd)	3.1%
Portugal	8.5%	Energy	6.9%	British American Tobacco Ord 25p	3.1%
Switzerland	8.0%	Utilities	3.8%	Novo Nordisk AS DKK0.2 Series B	3.0%
Norway	6.8%	Telecommunication Services	3.1%	Air Liquide €5.50	3.0%
Italy	5.4%	Cash	2.9%	Wartsila Oyj ABP	2.9%
Finland	5.0%	Total	100.0%	Total	31.7%
Total	100.0%				

Eramet was added to the portfolio this month at €62. We met the new management in the summer and kept it on our watch list awaiting a trigger to purchase. The company is a mix of largely 2 businesses. They operate one of the world's largest and most profitable manganese mines in Africa that should make an estimated operating profit of more than €600m in 2017, even with the price of manganese averaging \$5.9 per pound. For most of this millennium the price has been north of this figure. Manganese is an important metal in the production of steel alloys (as well as in many new battery technologies for electric vehicles). The other part of the business is nickel mining in New Caledonia (a French territory). Largely as a result of poor management and labour relations, these world class mines have some of the highest costs of production causing losses of €100m in the first half of 2017. The new CEO's plan is simple; Improve efficiency to quickly reduce the mine's average cost or close it (eliminating the losses). The trigger for purchase came in October as a combination of rising metal prices coincided with indications that the staff will agree to modernisation of the mines. While the company does not currently fulfil many of our 5 attributes, we can see it achieving a number of them through its own self help. Eramet ranks among one of our higher risk/reward situations and is not typical of the portfolio. The French government could sell its shares soon (which would be positive for corporate governance and better ordinary shareholder alignment) while dividends should start again with the expected profit improvement.

Linde (one of the Fund's largest holdings): The Linde-Praxair merger got shareholder approval at the end of October. With Praxair's management running the combined company we think Linde's margins and shareholder returns will rise significantly. This will drive a re-rating and become one of our classic wealth creating growth stocks derived from both increased rating on increased earnings. Industrial gases fulfil 4 of our 5 key investment requirements – earnings visibility, cash generative, pricing power and high returns on capital. The only negative is that the company has not really been run for shareholders in the past. For example, the US medical gases business (Lincare - 21% of group sales) has seen declining profitability despite Linde having bought the business relatively recently (2012). We think they bought largely as they didn't want to return excess cash to shareholders. The new management team will no doubt be reviewing the business potential with little emotional attachment. Finally Linde's industrial gas business has significantly lower margins than Praxair's and this can be addressed through cost cutting and rational pricing. The US management has set a \$1bn synergy target.

The icing on the cake is that the combined Linde-Praxair group will have a solid balance sheet with strong free cash flow. We estimate an average FCF yield of 5-6% and the group's balance sheet should ensure that Linde-Praxair can balance growth opportunities as well as returning excess cash to shareholders. The latter could come quickly should the mandated anti-trust disposals be returned to shareholders. The first share buyback programme could be 13% of the combined market capitalisation.

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	£35.5m
No. of Holdings	40
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 (%)	10.5
Index Volatility (%)	11.7
Sharpe Ratio	1.6
Information Ratio	1.0
Tracking Error	4.5
Alpha (%)	0.7
Beta	0.8
Active Share (% - Current)	86.6

FUND INFORMATION

Share class	ISIN	Minimum	AMC	INC/ACC	NAV	Historic yield (%)	Ongoing charge (%)
A GBP	LU0968447606	1,000,000 GBP	0.75%	INC	1.95	2.44%	1.45%
L GBP	LU0968447515	500,000 GBP	1.00%	INC	1.85	2.41%	1.41%

CONTACT DETAILS

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Marketing Contact
Charles Scott Plummer
csp@waverton.co.uk
www.waverton.co.uk

CONTACT DETAILS

Marketing Contact
Jonno Ross
jross@waverton.co.uk
www.waverton.co.uk

AUTHORISED CORPORATE DIRECTOR

Casa4 Funds
www.casa4funds.com

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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