EUROPEAN CAPITAL GROWTH FUND I EUR

FUND FACTSHEET - AS AT 30 JUNE 2019

OBJECTIVES

FUND AIM

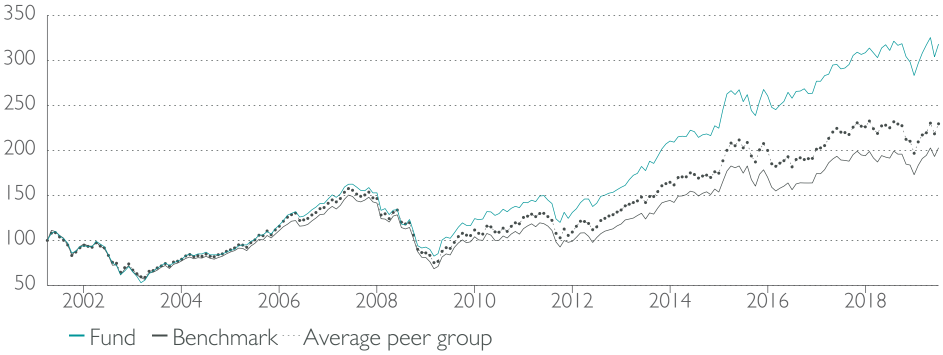
The investment objective is to generate capital growth by investing in a concentrated portfolio of equities selected from European markets. Overwhelmingly, but not exclusively, the managers invest in companies that are at the larger end of the capitalisation scale.

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 (%)	**4.7**	**0.3**	**12.4**	**2.3**	**23.3**	**44.1**	**218.2**
Benchmark (%)	5.1	4.3	17.3	6.0	29.8	32.2	102.9
Morningstar Peer Group (%)	5.1	4.5	16.7	2.1	26.7	33.1	132.8
Quartile	3	4	4	2	3	1	1

DISCRETE CALENDAR YEAR PERFORMANCE

Period	2018	2017	2016	2015	2014
Fund (%)	**-8.2**	**11.4**	**6.2**	**16.0**	**6.8**
Benchmark (%)	-10.9	11.4	2.4	10.7	6.4

STANDARDISED PERFORMANCE

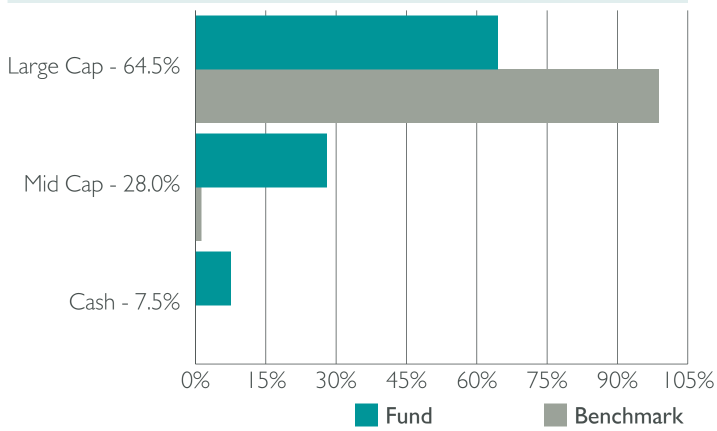
Period 1 year to	30/06/2019	30/06/2018	30/06/2017	30/06/2016	30/06/2015
Fund (%)	**2.3**	**7.0**	**12.6**	**1.5**	**15.1**

PORTFOLIO SUMMARY

TOP 10 HOLDINGS

Novartis AG	4.9%
Linde Plc	4.7%
Air Liquide	4.1%
Novo Nordisk AS DKK0.2 Series B	4.0%
Orange	4.0%
Deutsche Telekom AG	3.9%
Unilever	3.6%
Loomis AB Series 'B'	3.5%
Munich Reinsurance Company	3.3%
Elekta Instrument AB	3.3%
Total	**39.2%**

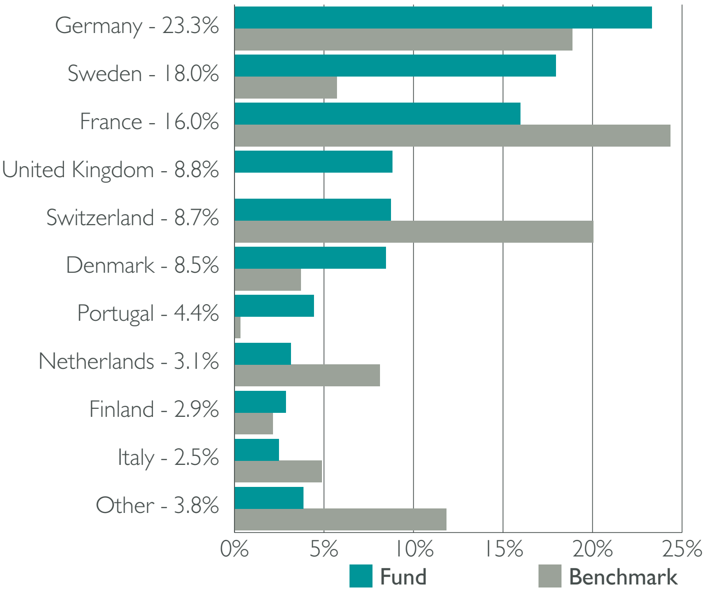
MARKET CAP



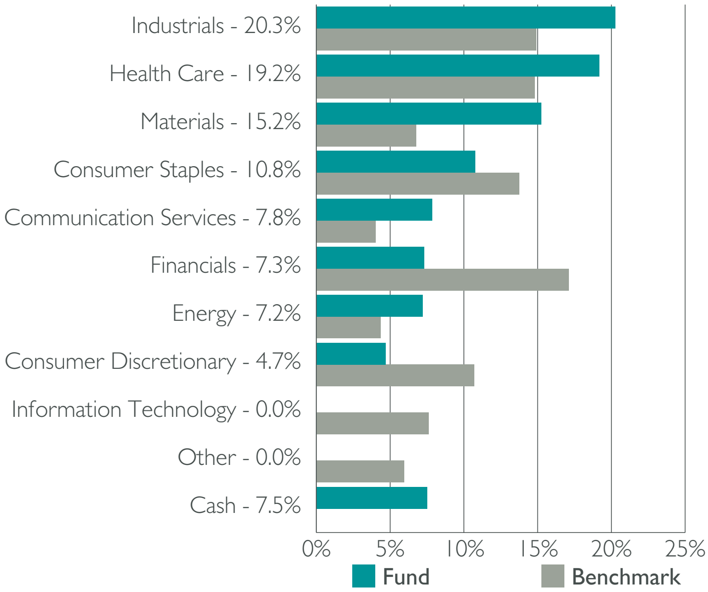
Sources: Waverton Investment Management, Morningstar.

PORTFOLIO SUMMARY - CONTINUED

COUNTRY



SECTOR



PORTFOLIO ACTIVITY

Purchase	Month	Sale
Royal Dutch Navigator	**Apr - Jun 2019**	Michelin Alcon Wartsila Zardoya Otis Novozymes

MARKET REVIEW

Major indexes continued their first quarter rally, with the Fund's benchmark total return index rising 4.3% in euro terms, almost reaching its 2018 highs. US 10-year treasury yields fell from 2.4% to 2%, the latter being roughly the core US inflation rate. This is about double the core Eurozone inflation rate.

Economic news remains mixed. G7 consumer spending and confidence remains robust (low unemployment and interest rates presumably helping), but manufacturing sentiment soft. This divergence has occurred before; in recent years consumer confidence has been more stable than manufacturing sentiment. Trump's trade tariffs have accelerated manufacturing plans to either relocate out of China into other Asian countries or live off buffer inventories built up as insurance against uncertainty. Some companies are simply doing nothing. We recently met the management of Autoliv that has 14,200 employees in Mexico and 5,200 in the US, asking them if they were considering moving any manufacturing capacity northwards. The answer was a firm 'no' effectively saying that with consistency and coherency being absent in Trump policy they were doing nothing. His recent decision to allow American companies to supply components to Huawei, albeit partially and provisionally, is another example of a U-turn having only days earlier invested considerable energy in attempting to persuade America's allies not to invest in Huawei systems. Probably very few jobs created in the US thanks to Trump's trade policies.

Last quarter Industrials and Consumer Discretionary led the way. With bond yields collapsing this slightly surprising outcome is stock specific rather than a general expectation that global growth is set to accelerate.

PERFORMANCE REVIEW

In euros the MSCI Europe ex UK index delivered a total return of 4.3% in the second quarter while the fund returned 0.3%. Stock selection played an important in role in this underperformance.

On the positive side, the continued recovery of material and industrial stocks (e.g. Linde +13.8%, Air Liquide

+11.1%, Eramet +19.4%, Deutz +16.9%, Metso+14.4% and Kion +20.9%) boosted returns. However, some of our health care and consumer staple stocks performed particularly poorly in the period (e.g. Ambu -39.6%, Livanova -27%, Viscofan -16%, Swedish Match -16.6% and BATs -15.6%).

Uncertainty concerning FDA's regulatory approach to new generation products (will they be granted less harmful status?) as well as more competition in the area, continues to weigh on the sentiment for the tobacco segment. In health care, specific management and product issues impacted Ambu (see below) and Livanova, although we still see substantial long-term upside potential. Good results from Elekta (+14.9%) and its Unity (MRI –Linac) product excited the market.

STOCK EXAMPLE

One of our worst stocks this year has been the Danish single use disposable endoscope manufacturer Ambu. The first big share price lurch down occurred in May 2019 when the CEO was suddenly replaced. Lars Marcher had been the main driver behind the company's transformation, but his replacement, Juan-José Gonzalez, is highly impressive and comes with a strong pedigree having previously run Johnson & Johnson's med-tech operations.

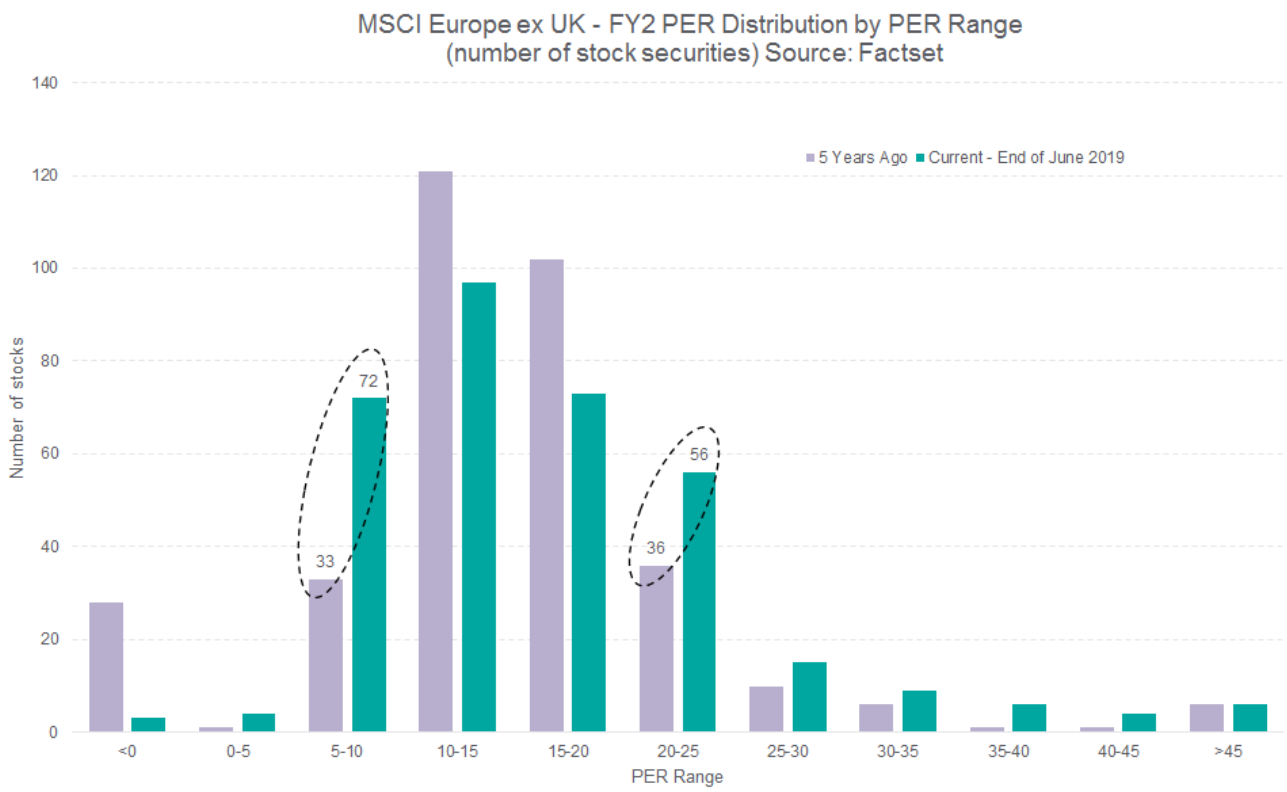
A month later a further shock was the new CEO's quick decision to delay, but broaden, its endoscopy offerings, boost R&D and marketing and to ditch a previously perceived important product (the SC210 colonoscope), which had been in the last stages of development and was about to be launched. Consequently, he also trimmed the 2020 EBIT margin target of 26-28% to 20% given the cost of recruiting a much bigger sales force and scrapping the SC210. This resulted in another share sell off.

We were impressed that following these announcements the entire management team came to London the next day to explain the updated story. The new CEO argued that he was excited by Ambu's prospects for the following reasons:
1) it is rare to find a company with first/early mover advantage, having been in the single use endoscopy market for 10 years
2) the total addressable market could grow from 3m units to 100m units per annum. Key competitor Boston Scientific recently mentioned it expects more than 50% of the duodenoscope market in the US to convert to single-use within 5 years, with capacity as a main constraint
3) Ambu has a superior R+D and manufacturing capability in the single-use endoscope space.

We are 100% certain that technology developments, miniaturisation of electronics and lower product / procedure costs will mean the market moves from reusable to disposable. How much market share Ambu takes remains to be seen, but every one percentage point gained doubles the current Visualisation business (1/3 of group sales last year). Post the meeting and new product demonstration we became more confident in Ambu's ability to address the needs of the hospitals and clinics (risks of contamination, control & flexibility, mobility, HD optics, system integration etc.) all of which will speed up the adoption single-use endoscopes. The new CEO bought 92,000 shares personally as did three other board members on the day of the announcement. Interestingly one of the buyers was Christian Sagild, previous CEO of Topdanmark who knows a thing or two about creating shareholder value. Whilst following management buying shares is not a foolproof way of making money, we followed the directors by buying a further 100,000 shares taking our position back to 2%.

OUTLOOK

High quality, safe, disruption free, great earnings visibility, good top-line growth, high ESG score - these have been the characteristics to own in Europe. Stocks that have failed these tests, particularly earnings visibility have been massively de-rated. Comparing current P/E multiples in our benchmark to five years ago the number of stocks on a P/E between 5-10 has risen from 33 to 72. Likewise, the number in the 20-25 band has risen from 36 to 56. Conversely, those in the middle (10-20x) has fallen sharply.



It does feel a little bit like the new Nifty 50. The Nifty 50 concept was from the 1970s – a group of 50 high-quality growth stocks with stable earnings and low price volatility. In a volatile economic environment marred by domestic political instability, a cold war, and fears of a recession, the enthusiasm for the "future proof" Nifty 50 stocks exploded. This enthusiasm eventually culminated in a bubble, which burst in 1973. And for the remainder of the decade these stocks underperformed the rest of the market by c 40%

Whilst we agree that many in the new Nifty 50 are too expensive, we do have a few where the ratings aren't and are still in line with history, such as selected food and industrial gas stocks. We have just bought Nestle for a number of reasons, but note that the shares yield more in Swiss Francs (2.3%) than Greek 10 year government bonds (2.1%). Another factor in Nestle's favour is that since 1959 the dividend has been either stable or risen.

We have a balanced portfolio. We own some very cheap, deep value stocks like Bayer (3%) and some very cheap out of favour sectors such as oil (5.1%), telcos (7.8%) and tobacco (5.8%). Critically the profit pools in these sectors are rising. We are largely absent from banking and autos. Both are super cheap and attracting interest but the profit pools are declining. For example, probably about 25% of European banks revenues come from payment services that are about to be opened up to heavy competition, notwithstanding competition on many other fronts. They may have a bounce but owning them is analogous to the risk of crossing a motorway on foot.

BIOGRAPHIES

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

Chris Garsten

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.

FUND MANAGER

Charles Glasse

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.

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	€227.7m
No. of Holdings	33
Domicile	Ireland
Sedol	BD5NVN4
Bloomberg Code	ZENECGI:LX
Fund Type	OEIC
Base Currency	EUR
Other Currencies	GBP
Ex Dividend Dates	30th April

RISK STATISTICS	FUND	AVERAGE PEER GROUP
3Y Annualised		
Fund Volatility (%)	9.6	13.2
Index Volatility (%)	10.9	-
Sharpe Ratio	0.8	0.5
Information Ratio	-0.5	0.1
Tracking Error	4.5	4.5
Alpha (%)	-0.4	0.3
Beta	0.8	1.0
Active Share (% - Current)	89.4	-

FUND INFORMATION

Share class	ISIN	Minimum	AMC	INC/ACC	NAV	Historic yield (%)	Ongoing charge (%)
I EUR	IE00BF5KTG81	1,000,000 EUR	0.75%	INC	2.73	2.10%	0.95%
L EUR	IE00BF5KTD50	500,000 EUR	1.00%	INC	2.64	1.68%	1.20%
I GBP	IE00BF5KTH98	1,000,000 GBP	0.75%	INC	2.23	2.37%	0.95%
R GBP	IE00BF5KTF74	10,000 GBP	1.25%	INC	209.73	1.46%	1.45%

CONTACT DETAILS

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