WAVERTON

INVESTMENT MANAGEMENT

EUROPEAN CAPITAL GROWTH FUND I EUR

FUND FACTSHEET - AS AT 30 JUNE 2020

OBJECTIVES

FUND AIM

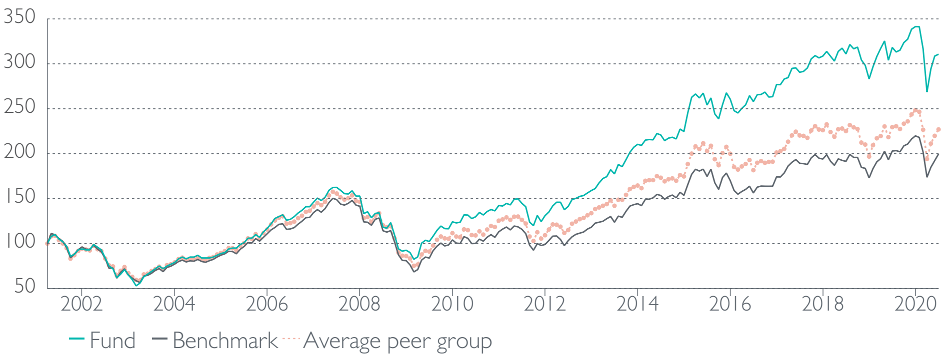
The investment objective is to generate capital growth by investing in a concentrated portfolio of equities selected from European markets. Overwhelmingly, but not exclusively, the managers invest in companies that are at the larger end of the capitalisation scale.

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 (%)	**0.7**	**15.7**	**-9.0**	**-2.4**	**6.9**	**22.2**	**210.6**
Benchmark (%)	3.8	14.9	-9.2	-1.6	5.5	14.3	99.7
Morningstar Peer Group (%)	3.2	16.9	-8.6	-1.1	4.0	13.0	134.7
Quartile	4	4	3	3	2	1	1

DISCRETE CALENDAR YEAR PERFORMANCE

Period	2019	2018	2017	2016	2015
Fund (%)	**20.6**	**-8.2**	**11.4**	**6.2**	**16.0**
Benchmark (%)	27.1	-10.9	11.4	2.4	10.7

STANDARDISED PERFORMANCE

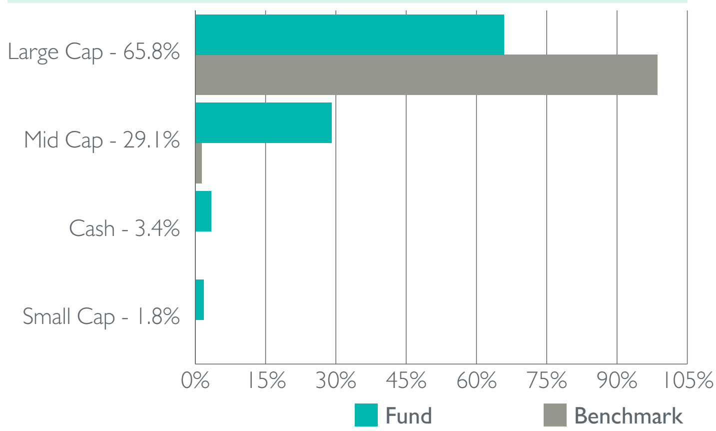
Period 1 year to	30/06/2020	30/06/2019	30/06/2018	30/06/2017	30/06/2016
Fund (%)	**-2.4**	**2.3**	**7.0**	**12.6**	**1.5**

PORTFOLIO SUMMARY

TOP 10 HOLDINGS

Nestle	6.8%
Novartis	6.0%
Linde	5.2%
Novo Nordisk	4.8%
Air Liquide	4.7%
Deutsche Telekom	4.4%
Deutsche Post	4.0%
Munich Reinsurance	3.8%
Bayer	3.6%
Swedish Match	3.3%
Total	**46.5%**

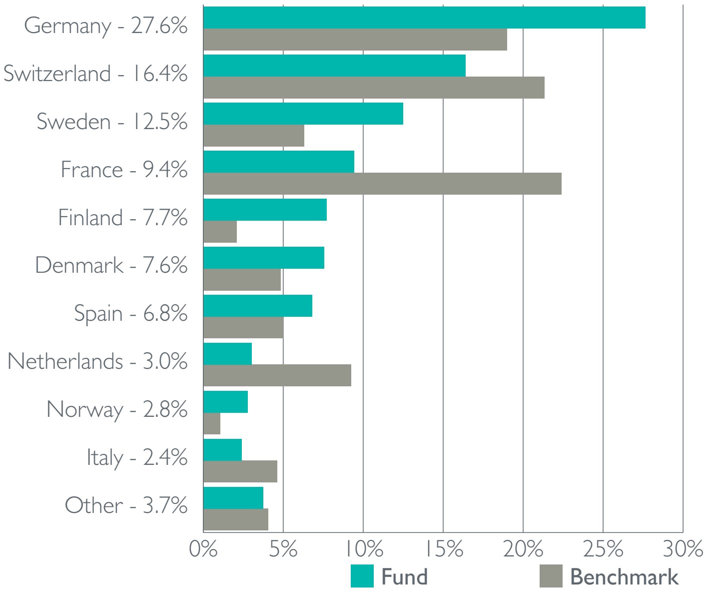
MARKET CAP



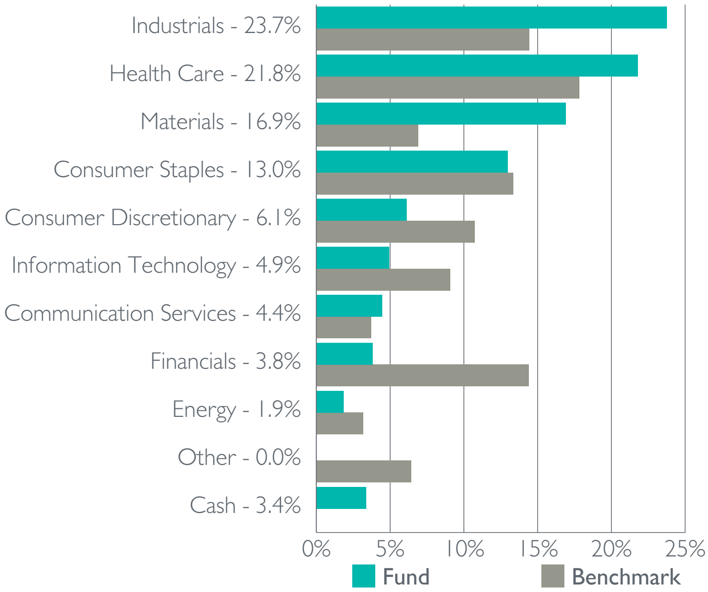
Sources: Waverton Investment Management, Morningstar.

PORTFOLIO SUMMARY - CONTINUED

COUNTRY



SECTOR



PORTFOLIO ACTIVITY

Purchase	Month	Sale
	Apr - Jun 2020	Safran
Amadeus		Royal Dutch
Heineken		MTU
Aena		Galp
		BATS

MARKET REVIEW

The MSCI Europe ex UK Index increased 14.9% in Q2 2020, bouncing hard after the steep decline of the first quarter. Markets are always forward looking and we find it an intriguing coincidence that the index bottomed on Thursday March 19th, only two working days before the UK announced its total lockdown on Monday 23rd. If ever there was a moment to buy at the darkest hour with blanket negative media coverage, then this was the occasion.

PERFORMANCE REVIEW

The Fund's Q2 total return in euros was 15.7% Unsurprisingly, the winners of the first quarter slump, such as Nestle, Novartis and Novo Nordisk, were the second quarter laggards. We have about half the portfolio in these 'defensives'. Not all were laggards though. Industrial gas equities (10% of the Fund via Linde and Air Liquide) share prices continued to power ahead, finishing the quarter at or near year high levels. Early in the quarter we added to the cyclicals. Some perceived early recovery areas such as construction (Lafarge) and consumer (Husqvarna) bounced strongly, but longer-term recovery stocks are still very subdued. Harsh COVID-19 hygiene restrictions have deterred foreign holiday plans, so international travel stocks have been out of favour. We have three; Amadeus, Fraport and Aena, representing 8% of the Fund. We think Amadeus will come out of the crisis stronger than when it went in, thanks to its vastly stronger balance sheet relative to competitors Sabre and Travelport. We also believe Fraport will come out stronger. A rather sleepy utility, it went into the crisis with a 5% ROIC and is now forced to make cost savings (which should be easy). As a measure of its low returns, its market cap is currently only 1X 2019 sales. Industry leader Sydney Airport is 10X. This is unlikely to happen but we would settle for Aena's 3.8x. In short, we believe these companies could well surpass 2019 profits on lower than 2019 sales.

STOCK EXAMPLE

Metso Outotec is an all Finnish merger that really excites us and brings the Fund's Finnish exposure to 8%. Historically these two mining equipment companies have been bitter rivals, only sharing the steep mining cycle downturn after the boom of 2003-8. Both have had to outsource about 80% of their production to survive; amazingly now seeing the shoots of recovery with relatively little debt.

Neither company is involved in underground cutting equipment, focussing entirely in different stages of the above ground rock processing. Here they fit hand in glove. For example, Outotec has an installed base of 1100 grinding machines, but no servicing on them as Metso often made the linings. The machines use €1million of spares a year. Another merger benefit is that Metso is very strong in the large grinding machines (diameter of 40ft) whereas Outotec is very strong in the medium to small. There are numerous other areas giving synergies. Brokers are estimating a 12% EBIT margin next year with 56% of revenues (and presumably far more of profits) coming from service. Asking Metso's CEO if a 15-16% margin was possible the answer seemed a qualified yes - through portfolio divestments in Outotec and further gross margin improvement in Metso Minerals. Metso will now get extra scale through Outotec and will work towards developing more standardized equipment and more pre-engineered products, as seen in Sandvik and Epiroc (industry margin leaders). Margins of this magnitude would lead to the shares doubling. A capital cycle classic with two big companies merging at the bottom of the cycle.

OUTLOOK

Although markets have bounced sharply the outlook is by no means 'normal' or clear. Investors are much happier to buy into 'safe' stocks with valuation risk rather than 'cheap' stocks with earnings risk. This is presumably a derivative off ever-lower bond yields and lingering COVID-19 fears.

Fund managers are in a new space. The previously successful strategy of buying stocks cheap relative to history has been a disastrous course of action. When and how this finishes is impossible to predict. The Fund has some exposure to the less racy end of the 'nifty fifty' and avoids many value stocks vulnerable, thanks to industry fragmentation and poor pricing power, to never-ending earnings downgrades. The strategy is to assess each company / industry of where it is in the capital cycle. In short, relative to the demand outlook, is the number of industry participants rising, falling or about to fall? Linde, Air Liquide, Metso, Konecranes and Cargotec are in the middle category, Amadeus, Deutsche Telekom and possibly Heineken in the last.

We continue to look at the merits of being zero weighted banks. They are certainly cheap but the risks are substantial. First the risk of bad loans is increasing - no one budgeted zero sales for the 2Q. Many, particularly in the private equity space, have leveraged balance sheets making them particularly vulnerable. Secondly, and more importantly as it is not a one off, the cost of 'digitalization' is falling dramatically. Tandem Bank (the old Harrods Bank) with customer loans of about £350 million says it would now need c£5m to replace its entire back end system. Five years ago, the figure would have been £15m. Ten years ago, the cost could have been £0.5-1 billion. In short, rising loan losses and a fragmenting industry thanks to technology change keeps us away, despite the very depressed ratings.

It is interesting that the stock market is stable, despite fears of a second COVID wave. Markets are jolted by the unexpected, not by widely discussed knowns. The first wave caught everyone unaware and caused mayhem. Should we get a second wave, at least this time there will be much more infrastructure in place to fight it. Having said that, we are now expecting markets to move sideways in the coming months.

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 Index
Fund Size	€193.3m
No. of Holdings	31
Domicile	Ireland
Sedol	BF5KTG8
Bloomberg Code	WAVECIE
Fund Type	OEIC
Base Currency	EUR
Other Currencies	GBP
Ex Dividend Dates	30th April

RISK STATISTICS	FUND	AVERAGE PEER GROUP
3Y Annualised		
Fund Volatility (%)	14.8	15.0
Index Volatility (%)	14.5	-
Sharpe Ratio	0.2	0.2
Information Ratio	0.1	-
Tracking Error	4.6	4.7
Alpha (%)	0.5	-0.3
Beta	1.0	1.0
Active Share (% - Current)	84.0	-

FUND INFORMATION

Share class	ISIN	Minimum	AMC	INC/ACC	NAV	Historic yield (%)	Ongoing charge (%)
I EUR	IE00BF5KTG81	1,000,000 EUR	0.75%	INC	2.62	1.46%	0.91%
L EUR	IE00BF5KTD50	500,000 EUR	1.00%	INC	2.54	1.20%	1.16%
I GBP	IE00BF5KTH98	1,000,000 GBP	0.75%	INC	2.14	1.40%	0.91%
R GBP	IE00BF5KTF74	10,000 GBP	1.25%	INC	201.74	0.90%	1.40%

CONTACT DETAILS

MARKETING CONTACT

Charles Scott Plummer
csp@waverton.co.uk
+44 (0)20 7484 7429
www.waverton.co.uk

MARKETING CONTACT

Jonno Ross
jross@waverton.co.uk
+44 (0)20 7484 7491
www.waverton.co.uk

ADMINISTRATOR

RBC Investor Services
Dublin_TA_Customer_Support@rbc.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 Administrator, RBC Investor Services (Ireland).

Sources: Waverton, Morningstar.

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