



WAVERTON

INVESTMENT MANAGEMENT

EUROPEAN CAPITAL GROWTH FUND I EUR

FUND FACTSHEET - AS AT 31 MARCH 2021

OBJECTIVES

FUND AIM

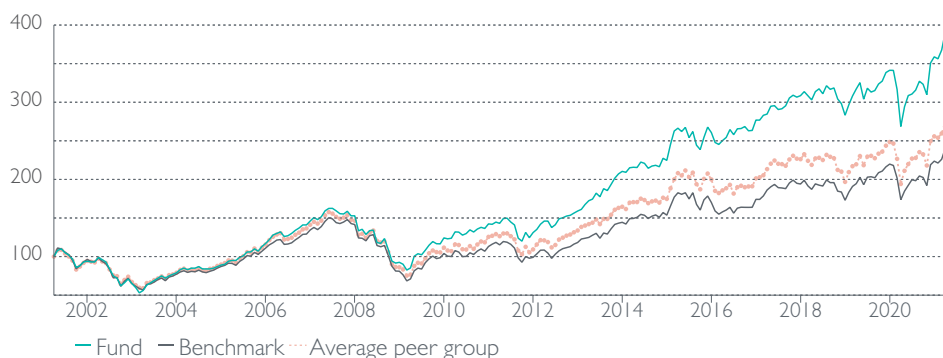
The investment objective is to generate capital growth by investing in a concentrated portfolio of equities selected from European markets. Overwhelmingly, but not exclusively, the managers invest in companies that are at the larger end of the capitalisation scale.

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 (%)	6.5	9.1	9.1	45.7	29.2	56.4	291.4
Benchmark (%)	6.6	7.7	7.7	38.7	28.8	52.6	140.9
Morningstar Peer Group (%)	6.0	7.6	7.6	42.7	26.8	50.3	187.7
Quartile	2	1	1	2	2	2	1

DISCRETE CALENDAR YEAR PERFORMANCE

Period	2020	2019	2018	2017	2016
Fund (%)	5.1	20.6	-8.2	11.4	6.2
Benchmark (%)	1.7	27.1	-10.9	11.4	2.4

STANDARDISED PERFORMANCE

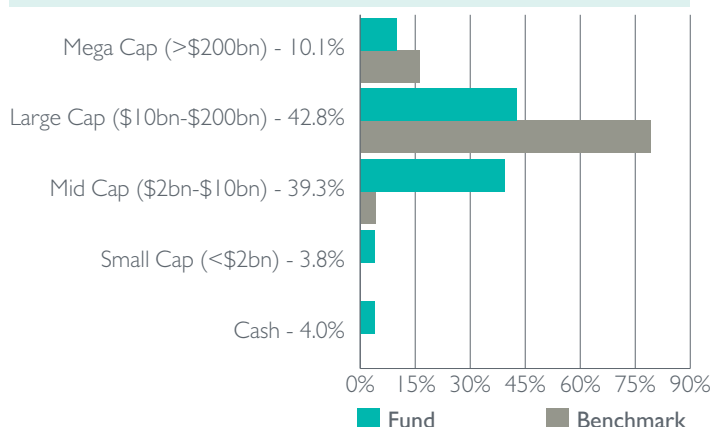
Period 1 year to	31/03/2021	31/03/2020	31/03/2019	31/03/2018	31/03/2017
Fund (%)	45.7	-15.3	4.7	6.4	13.7

PORTFOLIO SUMMARY

TOP 10 HOLDINGS

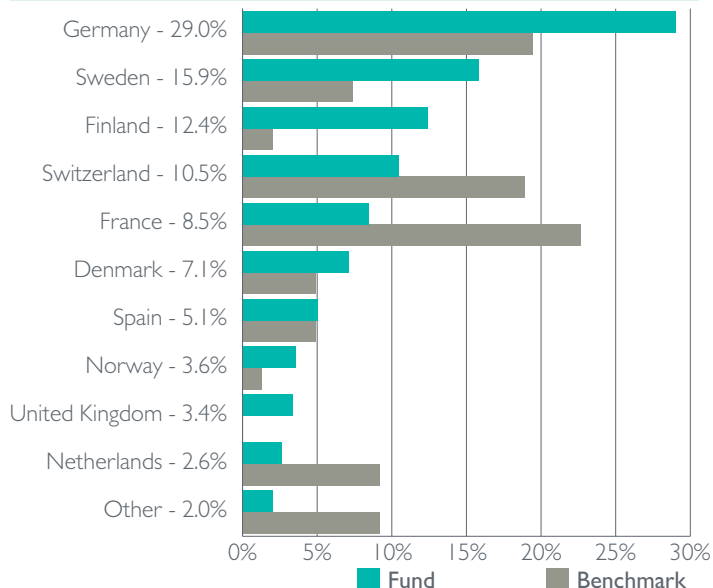
Nestle	5.3%
Novartis	4.7%
Linde	4.7%
Deutsche Post	4.6%
Siemens	4.5%
Cargotec	4.2%
Air Liquide	4.1%
Konecranes	4.1%
Deutsche Telekom	4.1%
Husqvarna	4.1%
Total	44.7%

MARKET CAP

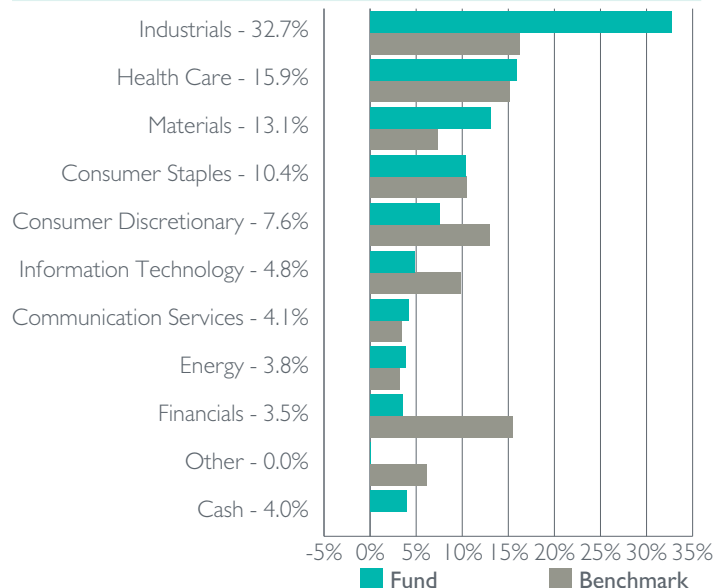


PORTFOLIO SUMMARY - CONTINUED

COUNTRY



SECTOR



PORTFOLIO ACTIVITY

Purchase

Siemens
Boliden

Month

Jan - Mar 2021

Sale

Aena
Lafarge Holcim

MARKET REVIEW

Equities rose 7.9% despite a material 80bp move up in US bond yields. The headline figures suggested that it was relatively easy to make money in equities over the last quarter. However, the best performers were the most cyclical and possibly highest risk plays – such as oil stocks, banks and airlines. Financials accounted for about a quarter of the market's rise. Many of the compounders with proven long-term business models and consistently high returns on capital, on the other hand, struggled. Consumer staples, utilities and real estate were the worst performing sectors over the last quarter.

Investors largely ignored Continental Europe's slow progress with the vaccine rollout. Whilst frustrating, in reality it probably means that the economies are only losing 3-6 months of recovery. Perhaps more importantly it could affect Germany's September election. Before the pandemic, Merkel's CDU comfortably enjoyed polls in the "mid-30s" but given the chaotic vaccination and party infighting this has melted to "mid-20s", fairly close to the incumbent Green party. In contrast to Europe, optimism about the US economic recovery continues to rise. A key benefit for Europe is that the resurgent US economy is generating a robust rise in imports. Indeed, January trade figures showed US import volume up by over 8% YoY and are now above pre pandemic levels.

PERFORMANCE REVIEW

The Fund's Q1 total return in euros was 9.1% versus Europe ex UK index of 7.7%. Industrials performed very strongly, in aggregate giving half of the Fund's performance. Cargotec, Konecranes, Husqvarna, Deutsche Post and GEA were all very strong. The biggest stock detractor, by some margin, was ASML that cost the Fund 0.8% of performance. We have written about this before. Whilst we fully recognise that the current trading outlook is extremely strong, we are reluctant to purchase the stock on 50x 2021 P/E when EBIT margins are at a record 30%.

We lagged the booming bank sector. After last year's strong underperformance, it was reasonable to expect a rally but we continue to avoid the sector. Although the ratings are low news from Credit Suisse highlighted some of the risks. Few other sectors can see losses accumulate so quickly and so dramatically. In March two trading scandals (Archegos and Greensill) are likely to result in losses of around \$6.5billion. This compares to a current

market cap of \$25billion. Regarding Archegos, a \$4.7bn charge for one client in the Prime Brokerage business compares to estimated annual revenues of less than CHF 1bn for the entire business unit. At a wider level despite the booming economy this year's sector EPS is still forecast to be about 30% below 2019 levels for the biggest 26EU banks. The main reason is a combination of two factors. First a circa 50% increase in provisions versus 2019 and a 3% revenue drop. The first is cyclical but the second mostly structural with deposits growing faster the loan demand so net interest margin pressure.

STOCK EXAMPLE

Heineken is held in both our European Funds. It is one of our covid-cyclical recovery stocks, so called because it is a traditional defensive that has had a huge jolt from the pandemic. EBIT margins, previously stable at 16.8% in 2019, fell to 12.3% last year as the highly profitable bar/ restaurant trade shut. Margins are expected to only partially recover to just over 14% this year.

The new CEO has launched project "Evergreen" to shake things up. He thinks he has found €2bn of gross savings. This is not only from a headcount reduction of 8,000 (9% of the workforce!!) but also complexity reduction, including a one third reduction in stock keeping units in some markets and a focus on digitisation. The company is reinvesting the main gains into sales and marketing to offset COGS inflation. The guidance is for around 17% operating margins by 2023 i.e. a 20 bps expansion on 2019. This left many investors scratching their heads. The guidance of around €2 billion in gross cost savings, applied to the 2019 revenue base, implies 840bps of margin expansion. Gross cost savings never totally filter through to the bottom line but this is an enormous gap. We think management have been very conservative - it would be unappealing to forecast a big profit leap just as they are making so many people redundant. Street analysts hate forecasting profitability that is way out of kilter with guidance and we think that a potent mix of economic recovery, a leaner cost base and a sales boost from enhanced advertising spend will lead to a stronger than expected profit recovery.

OUTLOOK

We are always seeking industries benefiting from strong pricing tailwinds. Capital cycle analysis, that is looking at the supply demand balance, helps. Booming demand alone does not necessarily drive profit growth. The wind turbine manufacturer Vestas is a classic example. Over the last five years sales have doubled but operating margins have halved with the results that EPS has been flat. The reason for this disappointing operating performance is that each of the three major wind turbine manufacturers has been dissatisfied with its market share, aggressively tendered for new business and been able to easily ramp up production. Oddly the shares have been strong performers on the expectation that pricing discipline will improve but we cannot see any change in industry behaviour.

Despite very strong global GDP growth it is surprisingly difficult to find supply constrained industries. Capitalism often works in favour of the purchaser... We like copper/automation/decarbonisation themes but even here caution is often needed. Demand for metals is undoubtedly high but miners appear better prepared than in the last boom, so it appears the outlook favours a capex supercycle rather than a price supercycle. In our mining universe, we believe Boliden offers good leverage to the copper price, while Metso is our core holding in mining equipment companies. Decarbonisation super cycle winners should include Kongsberg, Cargotec and Siemens.

The travel play is clearly delayed in Europe so we have pulled back here a bit by selling the Spanish airport operator Aena. We don't play the domestic consumer stocks with the exception of Heineken, discussed above. Our golden rule is to keep it all very stock specific – everyone has been getting the top down wrong.

To conclude markets have been very strong over the last year and money has flooded in. It is possible we now have a correction or a period of consolidation. For a Fund that is mandated to stay fully invested the only really defensive stock is the one that can grow its earnings. In sell offs optically cheap value situations get derated and stay down because there is no earnings growth. Long duration highly valued stocks are also vulnerable as even after their correction they are still expensive relative to history. The Fund is navigating the middle ground buying stocks at a modest P/E premium to the market but big ROE premium and better EBITDA margins. We believe this growth portfolio should do also well in a rising market but (by being in relatively uncrowded but interesting segments of the market) should offer downside protection.

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	€238.5m
No. of Holdings	30
Domicile	Ireland
Sedol	BF5KTG8
Bloomberg Code	WAVECIE
Fund Type	OEIC
Base Currency	EUR
Other Currencies	GBP
Ex Dividend Dates	30th April

RISK STATISTICS

3Y Annualised

	FUND	AVERAGE PEER GROUP
Fund Volatility (%)	17.2	15.4
Index Volatility (%)	16.9	-
Sharpe Ratio	0.5	0.6
Information Ratio	-	-
Tracking Error	4.5	4.7
Alpha (%)	0.3	-0.6
Beta	1.0	1.0
Active Share (% - Current)	86.1	-

FUND INFORMATION

Share class	ISIN	Minimum	AMC	INC/ACC	NAV	Historic yield (%)	Ongoing charge (%)
I EUR	IE00BF5KTG81	1,000,000 EUR	0.75%	INC	3.304	1.16%	0.95%
L EUR	IE00BF5KTD50	500,000 EUR	1.00%	INC	3.196	0.95%	1.20%
I GBP	IE00BF5KTH98	1,000,000 GBP	0.75%	INC	2.299	1.19%	0.95%
R GBP	IE00BF5KTF74	10,000 GBP	1.25%	INC	215.736	0.77%	1.45%

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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 Administrator, RBC Investor Services (Ireland).

Sources: Waverton, Morningstar.

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