

# Fund Investment Report



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## Fund information

### Investment objective

The Investment objective of the Fund is to achieve long-term capital appreciation.

### Investment policy

The Fund will seek to achieve its objective by investing primarily in a diversified portfolio of equity securities and equity related securities with a European bias (including Russia and Turkey) quoted or traded on Regulated Markets.

### Approach to ESG integration and stewardship

ESG integration and stewardship are integral to delivering sustainable returns. Through quantitative data and fundamental bottom-up research, we assess the absolute and change in ESG performance of companies. Engagement allows us to understand the effectiveness of their approach, the management of strategic issues and to exert positive influence.

## Fund information

|                     |                            |
|---------------------|----------------------------|
| Fund inception date | 21 December 2011           |
| Fund value          | EUR274.54m                 |
| Benchmark           | FTSE World Europe Ex UK TR |
| Lead Fund Manager   | Tim Crockford              |
| Co-Fund Manager     | James Rutherford           |
| Base currency       | Euro                       |

## Market and Performance Review

The FTSE World Europe ex UK Index increased by 0.32% in July. During this time, investors preferred higher multiple areas of the market as the performance spread between growth and value continued. Against this backdrop, the Fund underperformed the benchmark index in this period. The underperformance was driven by allocation, through our underweight position in Consumer Goods and overweight in Oil & Gas. Currency also detracted, due primarily to the underweight position in the Swiss Franc. Elsewhere, contributions from stock selection in Technology, Basic Materials and Utilities were offset by detractions from Industrials, Oil & Gas and Health Care.

ASM International, ASML and Orsted were the largest individual contributors to relative returns in July. ASM International benefited from increased logic spending when reporting earnings ahead of expectations. ASML posted earnings ahead of expectations, driven by strong momentum in logic spending and higher margins. The company also reiterated guidance for 2019. Orsted increased after New York State awarded a contract to supply 850MW of capacity as part of the biggest-ever deal for offshore wind power in US history.

The largest individual detractors to our relative performance were Siemens Gamesa, Sika and KION Group, while not owning Nestle also proved to be a significant detractor. Siemens Gamesa reported disappointing results, reducing its margin guidance due to pricing pressure and logistical issues in Northern Europe and India. Sika fell after reporting results that were below expectations, which led to a bout of profit taking following a strong run. KION fell after rival, Jungheinrich, released disappointing results citing deteriorating market conditions. KION subsequently released above consensus revenues and earnings, driven by its industrial trucks division and also maintained guidance.

## Outlook

The valuation gap between quality Growth and cyclical Value is at extreme levels due to a cocktail of synchronised monetary easing and the ongoing global trade tensions. However, focus has now shifted to Q2 earnings, where we have seen aggregate downgrades: cyclical sectors have experienced the worst downgrades, while defensive, quality Growth sectors have held up much better. Although this was largely expected, it has meant that the style dichotomy has continued apace.

We typically focus on a three-to-five-year view, but we are cognisant that in the near-term the continued outperformance of the quality Growth area of the market leaves some of these stocks vulnerable to even a slight disappointment. Our focus, therefore, will be on managing existing positions to reflect the increasing risk this poses.

## Fund breakdown

### Top 10 relative Fund positions

|                   | Country        | Fund weight (%) | Benchmark weight (%) | Relative weight (%) |
|-------------------|----------------|-----------------|----------------------|---------------------|
| Barrick Gold      | United Kingdom | 3.89            | -                    | 3.89                |
| Wirecard          | Germany        | 3.86            | 0.29                 | 3.56                |
| Lundin Petroleum  | Sweden         | 3.58            | 0.08                 | 3.50                |
| ASM International | Netherlands    | 3.49            | -                    | 3.49                |
| Lonza Group       | Switzerland    | 3.84            | 0.39                 | 3.45                |
| Novo Nordisk      | Denmark        | 4.56            | 1.22                 | 3.35                |
| Euronext          | France         | 3.30            | -                    | 3.30                |
| Adidas            | Germany        | 4.11            | 0.96                 | 3.15                |
| GTT               | France         | 3.11            | -                    | 3.11                |
| Orsted            | Denmark        | 3.28            | 0.21                 | 3.08                |

### Top 10 absolute Fund positions

|                   | Country        | Fund weight (%) | Benchmark weight (%) | Relative weight (%) |
|-------------------|----------------|-----------------|----------------------|---------------------|
| Novo Nordisk      | Denmark        | 4.56            | 1.22                 | 3.35                |
| ASML              | Netherlands    | 4.28            | 1.36                 | 2.92                |
| Adidas            | Germany        | 4.11            | 0.96                 | 3.15                |
| Barrick Gold      | United Kingdom | 3.89            | -                    | 3.89                |
| Wirecard          | Germany        | 3.86            | 0.29                 | 3.56                |
| Lonza Group       | Switzerland    | 3.84            | 0.39                 | 3.45                |
| Lundin Petroleum  | Sweden         | 3.58            | 0.08                 | 3.50                |
| ASM International | Netherlands    | 3.49            | -                    | 3.49                |
| Amadeus IT        | Spain          | 3.34            | 0.49                 | 2.85                |
| Euronext          | France         | 3.30            | -                    | 3.30                |

## Performance attribution - 1 month

## Top 10 contributors to relative return

| Holding               | Country        | Fund weight (%) | Benchmark weight (%) | Fund perf (%) | Total effect (%) |
|-----------------------|----------------|-----------------|----------------------|---------------|------------------|
| ASM International     | Netherlands    | 3.49            | -                    | 29.27         | 0.78             |
| ASML                  | Netherlands    | 4.28            | 1.36                 | 10.37         | 0.26             |
| Orsted                | Denmark        | 3.28            | 0.21                 | 8.50          | 0.24             |
| Ubisoft Entertainment | France         | 3.18            | 0.11                 | 8.60          | 0.23             |
| Barrick Gold          | United Kingdom | 3.89            | -                    | 5.62          | 0.19             |
| Lundin Petroleum      | Sweden         | 3.58            | 0.08                 | 6.01          | 0.19             |
| Adidas                | Germany        | 4.11            | 0.96                 | 6.63          | 0.19             |
| SAP SE                | Germany        | -               | 1.84                 | -             | 0.15             |
| Euronext              | France         | 3.30            | -                    | 4.81          | 0.14             |
| Lonza Group           | Switzerland    | 3.84            | 0.39                 | 4.37          | 0.13             |

## Top 10 detractors to relative return

| Holding        | Country     | Fund weight (%) | Benchmark weight (%) | Fund perf (%) | Total effect (%) |
|----------------|-------------|-----------------|----------------------|---------------|------------------|
| Siemens Gamesa | Spain       | 2.64            | 0.05                 | -13.30        | -0.41            |
| Sika           | Switzerland | 2.60            | 0.31                 | -12.97        | -0.38            |
| KION Group     | Germany     | 2.45            | 0.06                 | -12.32        | -0.34            |
| CIE Automotive | Spain       | 2.63            | -                    | -8.98         | -0.27            |
| AIB Group      | Ireland     | 1.57            | 0.04                 | -13.79        | -0.25            |
| GTT            | France      | 3.11            | -                    | -6.81         | -0.24            |
| Nestlé         | Switzerland | -               | 4.84                 | -             | -0.23            |
| Tomra Systems  | Norway      | 2.73            | -                    | -7.29         | -0.22            |
| Duerr          | Germany     | 1.88            | -                    | -9.48         | -0.20            |
| Cerved Group   | Italy       | 2.02            | -                    | -8.34         | -0.19            |

## Top 10 absolute returns

| Holding               | Country        | Fund weight (%) | Benchmark weight (%) | Fund perf (%) | Total effect (%) |
|-----------------------|----------------|-----------------|----------------------|---------------|------------------|
| ASM International     | Netherlands    | 3.49            | -                    | 29.27         | 0.78             |
| ASML                  | Netherlands    | 4.28            | 1.36                 | 10.37         | 0.26             |
| Ubisoft Entertainment | France         | 3.18            | 0.11                 | 8.60          | 0.23             |
| Orsted                | Denmark        | 3.28            | 0.21                 | 8.50          | 0.24             |
| Adidas                | Germany        | 4.11            | 0.96                 | 6.63          | 0.19             |
| Lundin Petroleum      | Sweden         | 3.58            | 0.08                 | 6.01          | 0.19             |
| Barrick Gold          | United Kingdom | 3.89            | -                    | 5.62          | 0.19             |
| Euronext              | France         | 3.30            | -                    | 4.81          | 0.14             |
| Lonza Group           | Switzerland    | 3.84            | 0.39                 | 4.37          | 0.13             |
| Amadeus IT            | Spain          | 3.34            | 0.49                 | 3.21          | 0.08             |

## Bottom 10 absolute returns

| Holding        | Country     | Fund weight (%) | Benchmark weight (%) | Fund perf (%) | Total effect (%) |
|----------------|-------------|-----------------|----------------------|---------------|------------------|
| AIB Group      | Ireland     | 1.57            | 0.04                 | -13.79        | -0.25            |
| Siemens Gamesa | Spain       | 2.64            | 0.05                 | -13.30        | -0.41            |
| Sika           | Switzerland | 2.60            | 0.31                 | -12.97        | -0.38            |
| KION Group     | Germany     | 2.45            | 0.06                 | -12.32        | -0.34            |
| Duerr          | Germany     | 1.88            | -                    | -9.48         | -0.20            |
| CIE Automotive | Spain       | 2.63            | -                    | -8.98         | -0.27            |
| Cerved Group   | Italy       | 2.02            | -                    | -8.34         | -0.19            |
| Tomra Systems  | Norway      | 2.73            | -                    | -7.29         | -0.22            |
| GTT            | France      | 3.11            | -                    | -6.81         | -0.24            |
| Equinor        | Norway      | 2.33            | 0.27                 | -6.33         | -0.14            |

## Performance attribution - 1 month

## Sector level

|                    | Fund weight (%) | B'mark weight (%) | Relative weight (%) | Relative Return (%) | Currency effect (%) | Allocation effect (%) | Selection effect (%) | Total effect (%) |
|--------------------|-----------------|-------------------|---------------------|---------------------|---------------------|-----------------------|----------------------|------------------|
| Technology         | 11.11           | 6.55              | 4.56                | 11.81               | 0.00                | 0.04                  | 1.16                 | 1.20             |
| Basic Materials    | 5.79            | 5.17              | 0.62                | 5.45                | -0.07               | 0.00                  | 0.36                 | 0.29             |
| Utilities          | 3.28            | 4.68              | -1.40               | 6.67                | 0.00                | -0.02                 | 0.21                 | 0.19             |
| Telecommunications | 1.57            | 3.25              | -1.69               | 2.19                | 0.00                | 0.03                  | 0.03                 | 0.06             |
| Financials         | 13.47           | 19.69             | -6.23               | -0.33               | -0.01               | 0.07                  | -0.03                | 0.03             |
| Consumer Services  | -               | 4.31              | -4.31               | -                   | 0.00                | -0.02                 | -                    | -0.01            |
| Consumer Goods     | 13.48           | 20.63             | -7.15               | -0.69               | -0.03               | -0.14                 | -0.07                | -0.24            |
| Health Care        | 16.01           | 15.18             | 0.84                | -1.81               | -0.03               | 0.00                  | -0.26                | -0.29            |
| Oil & Gas          | 11.66           | 4.87              | 6.80                | -3.57               | -0.06               | -0.11                 | -0.37                | -0.54            |
| Industrials        | 22.99           | 15.67             | 7.32                | -4.42               | 0.00                | -0.09                 | -1.06                | -1.16            |
| Foreign Exchange   | 0.00            | -                 | 0.00                | -                   | -                   | -                     | -                    | -                |
| Cash               | 0.64            | -                 | 0.64                | -                   | 0.00                | 0.00                  | -                    | 0.00             |

## Country level

|                  | Fund weight (%) | B'mark weight (%) | Relative weight (%) | Relative return (%) | Currency effect (%) | Allocation effect (%) | Selection effect (%) | Total effect (%) |
|------------------|-----------------|-------------------|---------------------|---------------------|---------------------|-----------------------|----------------------|------------------|
| Netherlands      | 15.14           | 7.58              | 7.56                | 4.72                | -0.01               | 0.16                  | 0.69                 | 0.84             |
| Sweden           | 3.58            | 5.63              | -2.05               | 7.71                | 0.03                | 0.02                  | 0.26                 | 0.30             |
| United Kingdom   | 3.89            | -                 | 3.89                | -                   | -0.07               | 0.26                  | -                    | 0.19             |
| France           | 10.36           | 23.15             | -12.79              | 1.58                | 0.01                | 0.02                  | 0.16                 | 0.19             |
| Denmark          | 7.85            | 3.65              | 4.19                | 2.00                | -0.01               | -0.03                 | 0.16                 | 0.12             |
| Finland          | -               | 2.60              | -2.60               | -                   | 0.00                | 0.01                  | -                    | 0.01             |
| Poland           | -               | 0.76              | -0.76               | -                   | 0.01                | 0.00                  | -                    | 0.01             |
| Czech Republic   | -               | 0.14              | -0.14               | -                   | 0.00                | 0.00                  | -                    | 0.00             |
| Hungary          | -               | 0.26              | -0.26               | -                   | 0.00                | -0.01                 | -                    | -0.01            |
| Portugal         | -               | 0.33              | -0.33               | -                   | 0.00                | -0.01                 | -                    | -0.01            |
| Austria          | -               | 0.49              | -0.49               | -                   | 0.00                | -0.01                 | -                    | -0.01            |
| Greece           | -               | 0.27              | -0.27               | -                   | 0.00                | -0.01                 | -                    | -0.01            |
| Germany          | 31.14           | 18.65             | 12.49               | 0.42                | -0.01               | -0.17                 | 0.13                 | -0.06            |
| Turkey           | -               | 0.58              | -0.58               | -                   | -0.03               | -0.03                 | -                    | -0.07            |
| Belgium          | 1.90            | 2.30              | -0.40               | -6.92               | 0.00                | -0.03                 | -0.13                | -0.16            |
| Italy            | 2.02            | 5.38              | -3.36               | -9.06               | 0.00                | -0.02                 | -0.20                | -0.21            |
| Ireland          | 1.57            | 0.52              | 1.06                | -8.44               | 0.00                | -0.07                 | -0.15                | -0.22            |
| Norway           | 5.05            | 1.55              | 3.50                | -6.04               | -0.03               | -0.01                 | -0.33                | -0.37            |
| Switzerland      | 6.44            | 19.83             | -13.39              | -5.07               | -0.09               | -0.08                 | -0.35                | -0.51            |
| Spain            | 10.43           | 6.32              | 4.11                | -3.90               | 0.00                | -0.09                 | -0.42                | -0.52            |
| Foreign Exchange | 0.00            | -                 | 0.00                | -                   | -                   | -                     | -                    | -                |
| Cash             | 0.64            | -                 | 0.64                | -                   | 0.00                | 0.00                  | -                    | 0.00             |

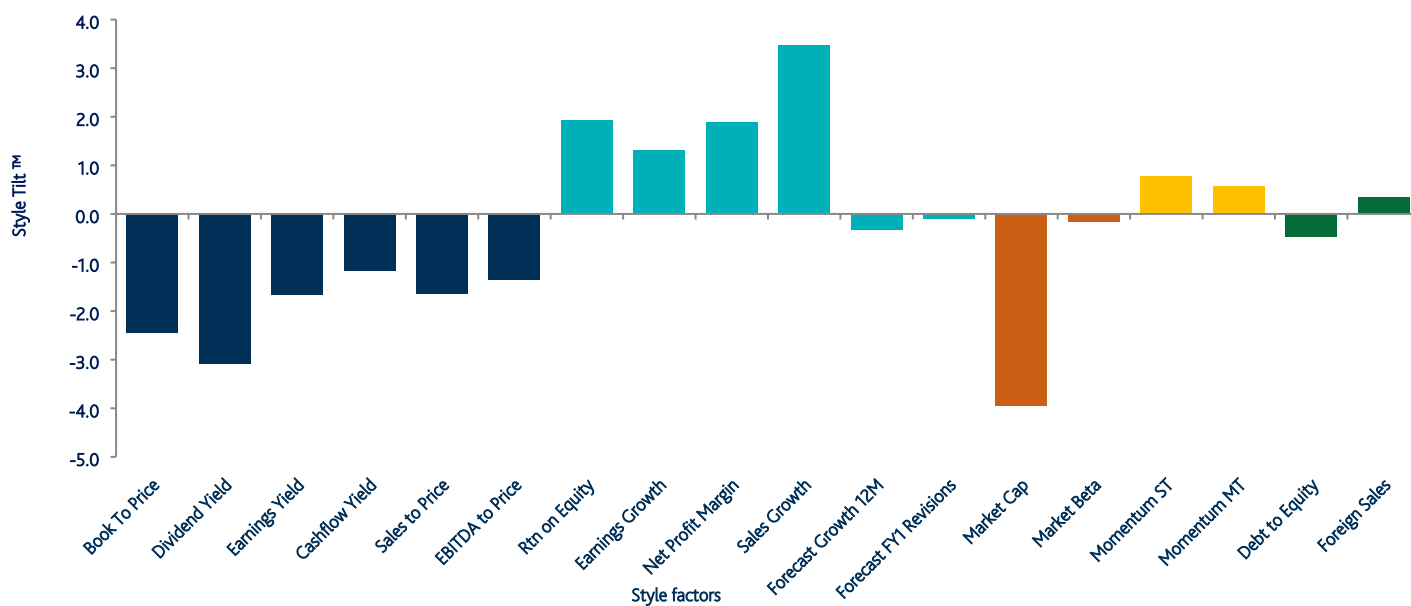
**Market capitalisation**

|                  | Fund weight (%) | B'mark weight (%) | Relative weight (%) | Relative return (%) | Currency effect (%) | Allocation effect (%) | Selection effect (%) | Total effect (%) |
|------------------|-----------------|-------------------|---------------------|---------------------|---------------------|-----------------------|----------------------|------------------|
| 0 - 2B           | 3.63            | 0.18              | 3.45                | -11.45              | -0.01               | 0.08                  | -0.34                | -0.28            |
| 2B - 5B          | 26.11           | 4.39              | 21.72               | 0.58                | -0.05               | -0.21                 | 0.23                 | -0.03            |
| 5B - 10B         | 23.81           | 11.49             | 12.32               | -3.12               | -0.04               | 0.05                  | -0.73                | -0.72            |
| 10B - 25B        | 17.25           | 25.79             | -8.54               | 0.72                | -0.02               | 0.00                  | 0.14                 | 0.12             |
| 25B - 50B        | 13.27           | 15.57             | -2.30               | 1.79                | 0.00                | -0.03                 | 0.10                 | 0.08             |
| 50B +            | 15.28           | 42.57             | -27.29              | 2.15                | -0.06               | 0.05                  | 0.36                 | 0.35             |
| Unclassified     | -               | -                 | -                   | -                   | -                   | -                     | -                    | -                |
| Foreign Exchange | 0.00            | -                 | 0.00                | -                   | -                   | -                     | -                    | -                |
| Cash             | 0.64            | -                 | 0.64                | -                   | 0.00                | 0.00                  | -                    | 0.00             |

Fund characteristics

| Top 10 concentration (%)* | Active share (%)** | Dividend yield (%)*** | Market cap (millions)*** | Earnings yield (%)*** |
|---------------------------|--------------------|-----------------------|--------------------------|-----------------------|
| 38.25                     | 92.09              | 2.17                  | 21,420.34                | 6.42                  |

Fund Style Skyline™



Source: \*Northern Trust. \*\* Barra. \*\*\*Style Research, Market Cap is the Portfolio Weighted Average.



### Risk analysis

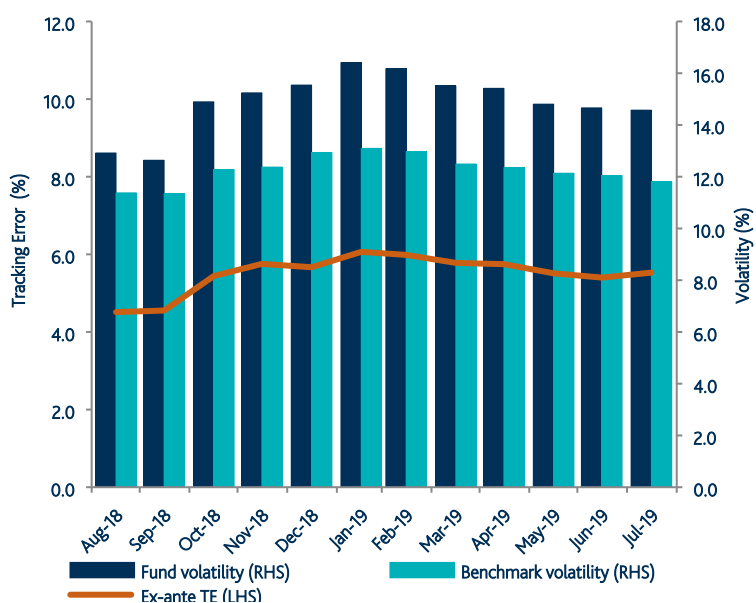
#### Top 10 contributors to risk (ex-ante)

|                       | Country of incorporation | Tracking error (%) |
|-----------------------|--------------------------|--------------------|
| ASM International     | Netherlands              | 9.70               |
| Wirecard              | Germany                  | 8.06               |
| KION Group            | Germany                  | 5.06               |
| Lundin Petroleum      | Sweden                   | 5.04               |
| ASML                  | Netherlands              | 5.01               |
| GTT                   | France                   | 4.90               |
| Nestle                | Switzerland              | 4.85               |
| Hella                 | Germany                  | 4.81               |
| Ubisoft Entertainment | France                   | 4.68               |
| TKH                   | Netherlands              | 4.10               |

### Risk attribution

|         | Tracking error (%) | Fund beta | Fund volatility (%) | Benchmark volatility (%) | Information ratio | Sharpe ratio |
|---------|--------------------|-----------|---------------------|--------------------------|-------------------|--------------|
| Ex-ante | 5.53               | 1.15      | 14.57               | 11.81                    | -                 | -            |
| Ex-post | 5.46               | 1.12      | 12.95               | 10.55                    | 0.28              | 0.82         |

#### Tracking error (TE) and volatility history (ex-ante)



#### Fund statistics

|                               |        |
|-------------------------------|--------|
| Number of stocks (Fund)       | 36     |
| Number of stocks (Benchmark)  | 501    |
| Upside market capture ratio   | 110.19 |
| Downside market capture ratio | 103.49 |

## Contact us

If you have any general questions concerning your investment, or specifically related to the content of this Fund investment report, please let us know using the contact details below.

Hermes Client Services [ClientServices@hermes-investment.com](mailto:ClientServices@hermes-investment.com)

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