SHINING A LIGHT ON THE……
Henderson European Smaller Companies Fund

AT A GLANCE

Investment Objective
To aim to provide capital growth by investing primarily in European smaller companies, excluding the United Kingdom.

Inception Date	28th January 1985
Fund Factsheet Link	http://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=F0GBR04RWD

Management	
Manager Name	**Start Date**
Ollie Beckett	1st August 2015
Rory Stokes	1st August 2015

Investment Style Details	
Equity Style	
Market Capitalisation	**% of Equity**
Giant	0.00%
Large	0.00%
Medium	31.52%
Small	53.99%
Micro	14.50%

Top 10 Holdings		
Total number of holdings	89	
Assets in Top 10 Holdings	16.65%	
Name	**Sector**	**% of Assets**
Van Lanschot Kempen NV	Financial Services	1.91%
Ahlstrom-Munksjo Oyj	Basic Materials	1.82%
Interroll Holding Ltd	Industrials	1.70%
FinecoBank SpA	Financial Services	1.67%
Einhell Germany AG Pref Shs	-	1.66%
Kaufman & Broad SA	Consumer Cyclical	1.62%
Koenig & Bauer AG	Industrials	1.62%
Barco NV	Technology	1.60%
Agfa-Gevaert NV	Industrials	1.55%
Outotec Oyj	Industrials	1.52%

Volatility Measurements	
3-Yr Std Dev (volatility)	11.77%
3-Yr Mean Return (average)	30.59%

FUND PERFORMANCE

Performance from 1st January 2012 to 31st October 2017:

	2012	**2013**	**2014**	**2015**	**2016**	**2017**
Henderson Eurp Smaller Companies Fund	18.38%	36.33%	-3.13%	22.01%	26.78%	34.81%
iShares MSCI Europe ex-UK	14.00%	21.74%	-2.02%	1.99%	16.48%	15.32%

Performance over 12 months, 3 years, 5 years and since manager tenure:

	1 year	**3 years**	**5 years**	**Since manager tenure**
Henderson Eurp Smaller Companies Fund	34.81%	118.67%	187.74%	76.11%
iShares MSCI Europe ex-UK	16.41%	38.62%	73.27%	28.69%

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

UPDATE….

This fund has recently come onto our radar; this meeting with one of the managers was a chance to understand more about the team and the process behind the fund. Rory Stokes is the lead manager and he is supported by Ollie Beckett.

Rory started by giving some background to the team at Henderson and the wider European team, which has a strong focus on small and mid-cap companies. This strong unit means that they can rely on each member of the team rather than external analysts.

The key to the fund is about screening companies and looking for valuation anomalies, then going out and meeting them. We talked about whether CEOs will spin a story and Rory agreed this can be the case. The way they approach any meeting is to be highly prepared, they don't go into the meeting having already decided to buy into it, this is the ground work. The meeting is about listening to what the management say and how that ties back to the numbers.

If they are looking at a turnaround business the big question is whether the CEO has what it takes to make the changes. Will they make the right decisions to turn that business around? When positioning the fund, 10% of the fund is in "rockets"; these are early stage businesses that have the potential to grow fast. 40% are in "quality growth" businesses, for them this is a business which has a high return on cash and can grow this, they are efficient, and they can create value.

25% is in mature businesses which can generate free cash flow and the balance is in turnarounds. 50% of the fund is in a big profit pool and there are real bargains in this area. There is no shortage of bad businesses, but it is about finding the right business and management who are prepared to make the changes required in that business.

We talked about conviction and Rory explained having 80 to 100 names is a sensible way to run money in this space. Smaller companies can be more volatile, and liquidity can be challenging. But having small holdings means that it is easier to unwind when something goes wrong. It is a humbling place to be as you are never far away from a mistake, so protecting on the downside is important. But the businesses they invest in tend to be a lot simpler than something like Royal Dutch Shell, which has many different businesses within one.

In terms of risk, it is important to understand that any stock can go up or down 10% in a day and therefore spreading this risk is important. It can cause the fund to lag, as could fund manager error. As the fund stands, if there was a slowdown in China or the US this would be detrimental.

We talked about some of the holdings they have. Criteo is the Google of online advertising. When you find something, you like, it will follow you around the internet. He used the example of a lawn mower he considered via John Lewis, but didn't buy. Every time he was on the internet, an advert with the lawn mower would come up. It is a French company listed on Nasdaq with 30% growth, but the valuations are cheap.

Interroll make rollers and drives for the likes of Amazon logistics. With conveyor solutions you buy quality because you can't afford for anything to go wrong. They have also developed a pre-emptive maintenance solution. The stock was neglected despite delivering a 15 to 20% return on investor capital. It has re-rated but remains a good stock.

They don't have a specific period for holding stocks. If a stock re-rates in two days, they will sell but equally they can hold for 2 to 4 years. When considering selling they view it on rice, changes to the business etc.

In summary, this seems a good way to gain exposure to European smaller companies. This has the potential to be more volatile, but the managers try to counter this by not allowing a single stock to dominate the fund. The performance is strong through all periods and this has meant that it is the best fund over most time periods. The managers are looking to slow inflows into the fund and therefore the first step will be to stop marketing the fund. Holdings would likely provide diversification against other European funds which are unlikely to have the same stocks.

The source of information in this note has been provided by Henderson and is correct as at November 2017. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. We would also recommend that you receive advice before following up on any decision.