



GBP Class I Dist | ISIN: IE00BWX5D287

**NAV per Share**

GBP Class I Dist      £8.82

**Fund Details**

Fund Size	£106.2 m
Base Currency	EUR
Denominations	EUR/GBP
Fund Structure	UCITS
Domicile	Ireland
Listing	Euronext Dublin
Launch Date	30 June 2015
Investment Manager	Polar Capital LLP

**Historic Yield (%)<sup>1</sup>**      **4.07**
**Fund Manager**

**Nick Davis**
**Fund Manager**

Nick has managed the fund since launch. He joined Polar Capital in 2014 and has 14 years of industry experience.

**Fund Profile**
**Investment Objective**

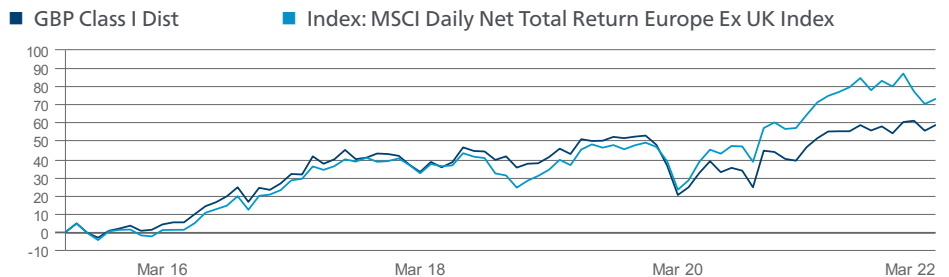
The Fund's investment objective is to deliver strong, long-term risk-adjusted returns to achieve both income and capital growth by investing in companies that are incorporated, headquartered, or exercise a significant part of their economic activities (greater than 20%) in European markets/countries (excluding the United Kingdom).

**Key Facts**

- Clear investment philosophy focused on compounding power of dividend yield and growth
- High conviction approach with 25-50 positions
- Disciplined, consistent, transparent and repeatable investment process
- Bottom up stock selection with long term horizon

**Fund Ratings**


Ratings are not a recommendation. Please see below for further information.

**Share Class Performance**
**Performance Since Launch (%)**


	1m	3m	YTD	1yr	3yrs	5yrs	Since Launch	
							Cum.	Ann.
GBP Class I Dist	1.99	-1.05	-1.05	8.26	12.48	20.41	58.73	7.08
Index	1.63	-7.47	-7.47	5.32	29.05	34.90	73.15	8.46

**Discrete Annual Performance (%)**

12 months to	31.03.22	31.03.21	31.03.20	29.03.19	29.03.18
GBP Class I Dist	8.26	21.90	-14.77	6.14	0.85
Index	5.32	33.46	-8.19	1.48	3.01

**Performance relates to past returns and is not a reliable indicator of future returns.**

Performance for the GBP Class I Dist. The class launched on 30 June 2015. Performance data is shown in GBP. Source: Northern Trust International Fund Administration Services (Ireland) Ltd. Benchmark performance shown in GBP. Source: Bloomberg.

If this is not your local currency, exchange rate fluctuations may cause performance to increase or decrease when converted into your local currency.

Performance data takes account of fees paid by the fund but does not take account of any commissions or costs you may pay when subscribing for or redeeming shares or any taxes or securities account charges that you may pay on your investment in the fund. Such charges will reduce the performance of your investment. Performance data assumes that any income has been reinvested.

1. Historic yield is based on a NAV per share of £8.82 and income of £0.3590 per unit paid in the last 12 months, based on GBP Institutional distribution units. **WARNING: Investors should note that historic yield does not measure the overall performance of a fund. It is possible for a fund to lose money overall but to have a positive historic yield. Historic yield cannot be considered as being similar to the interest rate an investor would earn on a savings account.**

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## Portfolio Exposure

As at 31 March 2022

### Top 10 Positions (%)

Novartis	4.5
Sanofi	4.5
TotalEnergies SE	4.4
Roche	4.3
Air Liquide SA	4.0
Unilever	3.6
Vinci	3.6
Siemens AG	3.5
Deutsche Telekom	3.5
Danone SA	3.5

**Total 39.4**

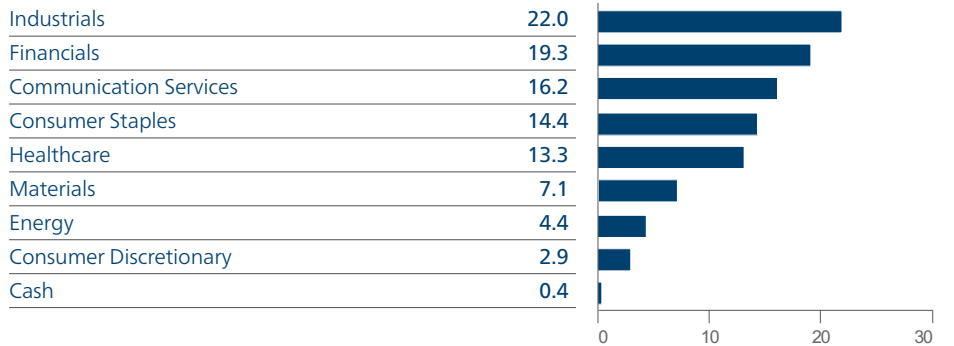
**Total Number of Positions 31**

**Active Share 78.39%**

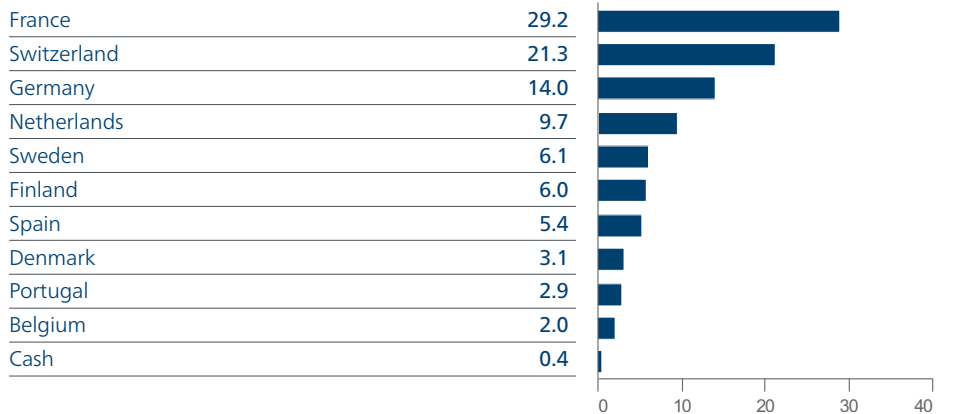
### Market Capitalisation Exposure (%)

Large (>€10bn)	85.3
Medium (€3 to 10bn)	6.4
Small (<€3bn)	8.2

### Sector Exposure (%)



### Geographic Exposure (%)



Note: Totals may not sum due to rounding. It should not be assumed that recommendations made in future will be profitable or will equal performance of the securities in this document. A list of all recommendations made within the immediately preceding 12 months is available upon request.

## Share Class Information

Share Class	Bloomberg	ISIN	SEDOL	Minimum Investment	OCF <sup>†</sup>	Ann. Fee	Perf. Fee <sup>**</sup>
EUR I Acc	POEXIEA ID	IE00BWX5D170	BWX5D17	EUR 1m	0.74%	0.65%	N/A
GBP I Acc	POEXIGA ID	IE00BWX5D394	BWX5D39	EUR 1m	0.74%	0.65%	N/A
GBP I Dist	POEXIGI ID	IE00BWX5D287	BWX5D28	EUR 1m	0.74%	0.65%	N/A
GBP I Acc Hdg	POEXIHA ID	IE00BWX5D519	BWX5D51	EUR 1m	0.74%	0.65%	N/A
GBP I Dist Hdg	POEXIHI ID	IE00BWX5D402	BWX5D40	EUR 1m	0.74%	0.65%	N/A

<sup>†</sup>Ongoing Charges Figure (OCF) is the latest available, as per the date of this factsheet.

<sup>\*\*</sup>Performance Fee This Fund does not have a performance fee.

## Fund Manager's Comments

### Market review

March was one of the most thought-provoking months for investors we have seen. The wall of worry certainly felt steeper in the month. Markets performed strongly against rising geopolitical tensions (further signs of foreign policy realignments), further central bank hawkish messages (including further yield curve flattening and inversions), signs of Marine Le Pen closing the gap on Emmanuel Macron in the French presidential election polls and some deterioration in the Covid situation.

While we explained in February's fact sheet commentary why we were still constructive on the outlook despite the shock and uncertainty, we have been a little surprised by the extent of financial markets marking up both stocks and bond yields. Some of the price action was reminiscent of short squeezes during the global financial crisis, but we can see good reasons why the asset class might continue to benefit on a medium-term view from an asset allocation switch from bonds.

Notwithstanding the risk of short and sharp drawdowns in equities, for those investors able to take a longer time horizon, the broader outlook for the asset class looks as favourable relative to bonds as it has for a very long time. That said, there are two key risks to be considered for equities: (1) the risk of bond yields putting pressure on valuations, and (2) managing the risk of a recession to profits. Taking as little duration risk (ie not overpaying for profit streams) and as little cyclical risk (making sure you actually get consensus profit streams) as possible within equities will give those allocations the best chance to offer the inherent inflation protection that comes from inflation driving earnings and dividends up. On a medium-term view, European dividend stocks look set to benefit from two massively depressed sentiment unwinds – the merits of Europe relative to other regions and of dividends relative to capital gains.

The market's attention is now turning to Q1 earnings over the coming weeks. Unsurprisingly, the combination of supply disruptions and input inflation is already producing profit warnings. We expect both choppy markets (volatility across asset classes) and choppy macros (increasing stagflation worries) to continue to support a re-assessment of both out of favour defensive sectors and of dividends' sentiment relative to capital gains. While much of the recent investment commentary has focused on bond yield curve inversion as a predictor of recession, we believe the key point is that the broad reflation theme has been undermined by recent events. The period of all cyclicals performing strongly is behind us, in our view – and should favour a more bottom-up approach to picking resilient companies in an increasingly challenging macro environment.

### Performance and strategy

Europe remains the highest dividend payout market. From a fundamental standpoint, corporate balance sheets have never been this cash-rich. Subdued capex and the focus on financial deleveraging during the most recent cycle had already pushed utilisation of funds to record lows. At the same time, the arrival of Covid led many firms to pause their capital return programmes. Meanwhile, after the dip in 2020, free cash flow (FCF) levels have recovered strongly and hovered near the highs. Telecoms, utilities, real estate, consumer staples and insurance sectors offer the highest payout ratios (more than 50%). The cost of debt is set to rise for most companies, and while European dividends are well covered by FCF at the aggregate level, we note there will be pressure on companies that have been borrowing to pay dividends. We classify such companies as those where FCF is less than the dividends. Our Fund's yield is around

4%, and our holdings have good dividend coverage ratios (median portfolio 2022e (estimated) FCF yield of 6.5% and dividend yield 4.3%), making the payouts relatively safer.

We attended several conferences in the month focused on financials, capital goods, telecoms infrastructure and a Swiss company's conference. A financial sector conference confirmed our relative preference for the non-life insurance and reinsurance subsectors. The Berkshire Hathaway\* acquisition of Alleghany\* is supportive of our positive view. We like the gearing of the short-duration floats to rising interest rates, the fact that insurance prices are in a hardening cycle and relatively lower asset gearing versus other subsectors of financials. Capital goods companies are facing near-term challenges around further supply-chain disruptions, continuing weakness in Chinese real estate, worries around the inflation impact on volumes and margins, and the potential impact of disruption to Russia energy supplies. European telecom infrastructures is seeing an improving outlook after two decades of regulatory pressure that has seen returns fall below the cost of capital. There is now a clear pathway to falling capex and opex, both of which have been a core part of the near universal negativity towards the sector. The conference confirmed our view that the sector must be viewed on a market-by-market basis given the risks of overbuilds (multiple competing fixed networks) and excessive competition in some markets. It is worth adding that some of the private equity transactions have been at valuations that look high to us. The Swiss conference was a timely reminder of the quality of stocks available to European investors in that market. We expect investor interest in Swiss equities to increase if macro uncertainty persists.

We attended supportive capital market events for Danone (staples), Air Liquide (industrial gases) and TotalEnergies (energy). The Danone event was new management laying out their new strategy to improve the organic growth of the group and returns on invested capital. We see Danone as a good company that is out of favour and expect performance to improve over time. Air Liquide announced their new Advance strategy targeting mid-single digit top-line growth, margin expansion and improving returns on capital employed. They provided a credible strategy to tap into growth from the energy transition with a particular focus on hydrogen mobility. TotalEnergies' event was focused on their climate initiatives and continued to reassure us that they are well positioned for the long-term structural changes in the energy industry.

We bought back Brenntag (German chemical distributor). The shares have pulled back and we have become more confident in management's ability to execute its strategy to boost growth and restructure. The ongoing Project Brenntag initiative has upside. Despite pandemic headwinds, the company has demonstrated its resilient business model and strong pricing power. In addition, strong FCF generation (6% 2022e FCF yield) prompted the group to continuously increase dividends (2.2% 2022e dividend yield) since its listing. We also think there is value in its local/regional presence as it continues with its bolt-on M&A strategy. From a supplier perspective, it is essential to have a solid local distribution partner with high safety standards, excellent supply-chain management and effectively manage swings in demand.

### ESG

The implications of the war in Ukraine for defence and energy sectors in our view highlights the need to have a robust ESG process that rigorously analyses issues on a bottom-up, stock-by-stock basis. We have never owned a defence stock, nor are we likely to given the

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options in a Europe ex-UK investment universe, but do not have an exclusion approach to sectors because we do not know what the future will hold. This requires a great deal of work thanks to the regulation (both EU wide and national) skews towards exclusion approaches. If the energy sector starts to deliver its transition ahead of expectations, formal exclusions could lead to inertia in re-assessing the ESG merits of these stocks. Similarly, if Europe starts to take its defence policy much more seriously, at what point should a defence exclusion be re-assessed once it is recognised that defence spending is central to protecting a way of life? Our bottom-up process currently only sees TotalEnergies as having a sufficiently credible energy transition plan, but we much prefer to continue to search for change at a stock level within sectors rather than use exclusions that we consider a passive tool inconsistent with our bottom-up, active approach. It is also worth adding that firm-wide exclusions would have very divergent effects on different funds given differences in the index composition across different markets. Our argument is that there is no need for an exclusion list if you clearly articulate what you do, are transparent and act with integrity.

Our approach to ESG has been to try to integrate ESG characteristics in a way that identifies how they will directly lead into financial variables (eg cost of capital risk to potentially stranded assets or medium-term top-line evolution). We think the approach of starving the fossil fuel industry of capital without a sufficiently robust plan being executed to replace that energy has left Europe painfully exposed to the consequences of this capital cycle (ie capex has been much lower for nearly seven years). If ESG strategies are structurally ignoring out of favour sectors and always chasing crowded ones, they risk being constantly on the wrong side of the capital cycle. The wide outperformance of oil over renewables of the past few months is not a one-off when considered through this lens.

### Outlook

The investment outlook has been fundamentally altered by policy responses to both the pandemic and the war in Ukraine. In an elevated inflation environment, the key challenge for all investors is to deliver positive real returns in a highly uncertain world with many assets at expensive starting valuations. Stability of sales growth and margins will be more appreciated than very high unprofitable growth. Valuation discipline will be more important in the post-quantitative easing policy era.

Stocks with defensive business models and resilient dividend yields look increasingly appealing in the current backdrop against overvalued growth stocks, vulnerable deep value sectors and other asset classes with little yield.

\* not held

Nick Davis

6 April 2022

## Risks

- Capital is at risk and there is no guarantee the Fund will achieve its objective. Investors should make sure their attitude towards risk is aligned with the risk profile of the Fund.
- Past performance is not a reliable guide to future performance. The value of investments may go down as well as up and you might get back less than you originally invested.
- The value of a fund's assets may be affected by uncertainties such as international political developments, market sentiment, economic conditions, changes in government policies, restrictions on foreign investment and currency repatriation, currency fluctuations and other developments in the laws and regulations of countries in which investment may be made. Please see the Fund's Prospectus for details of all risks.
- The Fund may enter into a derivative contract. The Fund's use of derivatives carries the risk of reduced liquidity, substantial loss and increased volatility in adverse market conditions, such as failure amongst market participants.
- The use of derivatives will result in the Fund being leveraged (where market exposure and the potential for loss exceeds the amount the Fund has invested) and in these market conditions the effect of leverage will magnify losses. The Fund makes extensive use of derivatives.
- If the currency of the share class is different from the local currency in the country in which you reside, the figures shown in this document may increase or decrease if converted into your local currency.

## Important Information

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A decision may be taken at any time to terminate the marketing of the Fund in any EEA Member State in which it is currently marketed. Shareholders in the affected EEA Member State will be given notification of any decision and provided the opportunity to redeem their interests in the Fund, free of any charges or deductions, for at least 30 working days from the date of the notification.

Further information and any associated risks can be found in the Fund's Key Investor Information Document ("KIID"), the Prospectus, the Articles of Association and the annual and semi-annual reports. These documents are available free of charge at Polar Capital Funds PLC, Georges Court, 54-62 Townsend Street, Dublin 2, via email by contacting [Investor-Relations@polarcapitalfunds.com](mailto:Investor-Relations@polarcapitalfunds.com) or at [www.polarcapital.co.uk](http://www.polarcapital.co.uk). The KIID is available in Danish, Dutch, English, French, German, Italian, Spanish and Swedish; the Prospectus is available in English.

A summary of investor rights associated with investment in the Fund is available online at the above website, or by contacting the above email address.

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**Benchmark** The Fund is actively managed and uses the MSCI Daily Net Total Return Europe Ex UK Index as a performance target and to calculate the performance fee. The benchmark has been chosen as it is generally considered to be representative of the investment universe in which the Fund invests. The performance of the Fund is likely to differ from the performance of the benchmark as the holdings, weightings and asset allocation will be different. Investors should carefully consider these differences when making comparisons. Further information about the benchmark can be found <http://www.msci.com/>. The benchmark is provided by an administrator on the European Securities and Markets Authority (ESMA) register of benchmarks which includes details of all authorised, registered, recognised and endorsed EU and third country benchmark administrators together with their national competent authorities.

## Administrator Details

Northern Trust International Fund Administration Services (Ireland) Ltd

Telephone	+(353) 1 434 5007
Fax	+(353) 1 542 2889
Dealing	Daily
Cut-off	15:00 Irish time

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**Spain** The Fund is registered in Spain with the Comisión Nacional del Mercado de Valores ("CNMV") under registration number 771.

**Switzerland** The principal fund documents (the prospectus, KIIDs, memorandum and articles of association, annual report and semi-annual report) of the Fund may be obtained free of charge from the Swiss Representative. The Fund is domiciled in Ireland. The Swiss representative and paying agent is BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, CH-8002 Zurich, Switzerland.

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