



The magic behind investments in Europe's under-the-radar market

INVESTMENT fund Marlborough European Special Situations has had many names over the years, but its focus has always been on making money from overlooked smaller companies.

It's a mission that long-standing manager David Walton has pursued with a mix of zeal and success. Over the past decade, whether labelled European Multi Cap or European Special Situations (ESS), the £247 million fund has comfortably outperformed its peer group.

Over this 10-year period, it has delivered overall returns of 229 per cent. By way of comparison, the average European (excluding the UK) fund has generated a return of 108 per cent.

Yet the fund is in a bit of a trough, primarily because, like smaller companies in the UK, European tiddler stocks are unloved. In calendar years 2022, 2023 and 2024, the fund underperformed the average for its peer group.

Walton is not unduly worried. 'The fund has not suffered catastrophic decline,' he says. 'Indeed in 2023 and 2024, it made gains for investors in difficult market circumstances. What we are not prepared to do is look at what our neighbours and rivals are doing

FUND FOCUS

By Jeff Prestridge

and replicate them. Our investment strategy works and we will stick with it.'

The 'strategy' is built around discovering investment gems among the 5,000 businesses whose market capitalisations place them in the bottom 20 per cent of the European listed company universe.

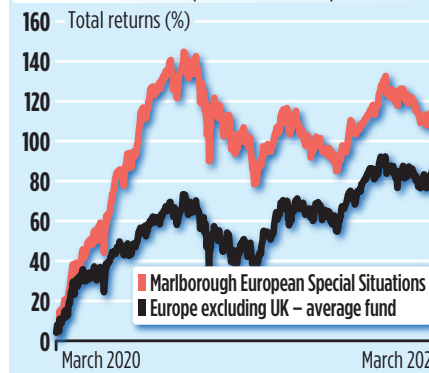
'What we look for,' says Walton, 'are companies that offer a mix of growth potential and resilience – and which are supported by committed management teams.'

Some 3,000 companies don't get a look in, primarily because they are loss making. From the remaining 2,000, Walton and the two other managers (Steve Robertson and Tom Livesey) boil them down to a 'focus list' of between 160 and 180 companies. Currently, 73 form the fund's portfolio with easily tradable shares in all of them.

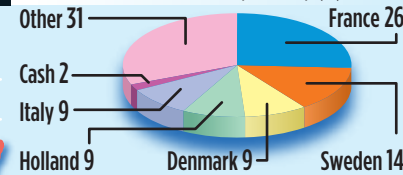
Although lots of number crunching is done on those companies that form the focus list, the managers regularly meet all the businesses the fund is invested in – as

MARLBOROUGH EUROPEAN SPECIAL SITUATIONS FUND

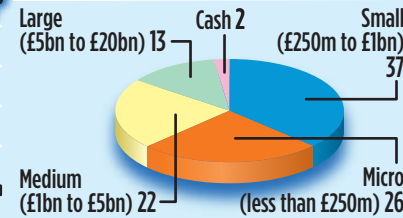
A stock picking fund waiting for more positive market sentiment around European smaller companies



Where the fund is invested by country (%)



And by market cap (%)



TOP 10 HOLDINGS (country) % of fund

Sarantis (Greece)	4.7
Proact IT (Sweden)	3.4
Loomis (Sweden)	3.3
NN Group (Holland)	3.2
LNA Sante (France)	3.0
Ipsos (France)	2.7
Stef (France)	2.6
H Lundbeck (Denmark)	2.3
Bilendi (France)	2.2
Pluxee (Holland)	2.2

well as potential targets. Last year, between them, the managers conducted 372 company visits across nine countries.

For example, last week, Walton spent a couple of days in Italy meeting the management of two companies the fund has invested in: B&C Speakers (manufacturer of loudspeaker transducers) and El.en (which produces lasers used in medicine and art). 'We need to be confident in the management of companies we invest in,' he adds.

As well as holding a big number of stocks, the managers don't add

to positions once they represent 2 per cent of the fund's assets.

But they allow successful investments to run. The biggest holding is in Greek business Sarantis which Walton describes as a 'mini Unilever'. 'We've held it since 2016,' says Walton.

'It has been quietly acquiring businesses, primarily in Eastern Europe, building a product portfolio comprising everyday items. Its share price has gone from 4.3 euros to today's 8.66.'

The investment managers all work for Canaccord Genuity Asset

Management. Annual charges are competitive, totalling 0.8 per cent.

Marlborough ESS is one of 14 European funds (excluding UK) which has been given an 'elite' label by scrutineer FundCalibre.

It describes it as a 'true stock picker's fund with David [Walton] scouring the market for under-the-radar opportunities'.

With regards to the future, Walton believes Germany's decision to spend more money on both defence and infrastructure will benefit many smaller European companies.