Barings Europe Select

Fund Research Centre
Recommended

Why we recommend the fund

- This Recommended fund benefits from an experienced team with a flair for analysing smaller companies and identifying those with underappreciated growth prospects.
- The disciplined and well-established process is built around risk/reward analysis, and the benefits of this approach can be seen through the fund's resilient performance during challenging market conditions.
- While the team operates with a medium-term investment horizon, they are pro-active in adjusting positions as prospects for individual companies change.

Key characteristics and expected outcome

- The team favours unrecognised growth companies with well-established or improving business franchises, balance sheets and management. Style-wise, the strategy can be described as, "growth at the right price".
- In aggregate, the fund's market cap is at the larger end of the small-cap opportunity set. This is helpful for the fund's liquidity profile and enables greater flexibility.
- The team's emphasis on risk/reward and the focus on the quality of growth underpinning earnings upgrades is typically helpful during challenging market conditions. This helps to mitigate some of the excess risks inherent in investing in smaller companies.
- By the same token, the fund typically lags when micro caps perform well, or when sectors or countries are driven by strong momentum that may exceed the pace of change in company fundamentals.
- We believe the fund is a solid choice for those seeking exposure to European small caps.

Risk commentary

The fund's KIID Synthetic Risk and Reward Indicator (SRRI) is 6. This is a regulatory measurement that is, where possible, calculated from the volatility of its weekly performance over a five-year period. A score of 6 means the fund's historic volatility is between 15% and 25%.

The five-year realised volatility is similar to that of mainstream European small-cap equity indices. This reflects the team's focus on robust companies and the diversified nature of the approach. Different share classes could have differing SRRI scores.



Key Fund Facts

Inception Date:	31 August 1984
Manager(s) Since:	Small and Mid Cap Equity Team (Jan 05)
Fund Domicile:	United Kingdom
Base Currency:	£ Sterling
Fund Benchmark:	MSCI Europe ex UK Small Cap*
IA Sector:	European Smaller Companies

*Prior to 31st July 2023, the fund's benchmark was the EMIX Smaller European Companies ex UK Index.

Formal documentation, including the fund prospectus and the KIID, should be sought directly from the asset manager. A link to the asset manager's website can be found on the relevant fund page at fundresearchcentre.co.uk.

Fund Snapshot

A European ex UK smaller companies equity fund. The team focuses on companies with growth prospects that have not been appreciated by the market and have the potential to deliver earnings surprises. Within its sector, the fund features in our 'Smaller-Cap, Blend' category.

Investment Team

Nick Williams leads the Developed Market Equities team and is responsible for the firm's Small and Mid-Cap Equity strategies. He is co-manager of the Barings Europe Select strategy and the Barings International Small Cap strategy and has worked in the industry since 1990. He works closely with co-portfolio manager William Cuss, who joined the firm in 2016 from Investec. Zoe Deady provides analyst support. They can draw on resources from the Pan European Equities team and have access to investment ideas generated by the firm's global equity investment platform.

Investment Philosophy

The team believes that small caps should outperform large caps over the long term, based on their greater growth potential, but that their excess volatility makes the asset class an uncomfortable holding at times. They believe that by outperforming during challenging market conditions, they can deliver a superior outcome compared to large and small-cap indices in both performance and risk terms. They seek to achieve this through stock analysis with a focus on undervalued and robust growth ideas.

Investment Process

The team aims to identify companies with growth prospects that have not been appreciated by the market and with clear paths to start to realise this growth through earnings surprises within a reasonable timeframe of 9-12 months. They exclude companies with a market cap of less than €250 million and with a free float of less than €125 million. They also exclude all companies that lack sufficient liquidity for them to be able to sell 75% of a holding within five business days, and 100% of a holding within ten business days. The next step is to identify companies with the following attributes: experienced management teams, willingness to engage with minority shareholders, strong or improving balance sheets, positive or improving free cashflow, superior products/service offering, sustainable franchise/market position, quality of operating assets, distribution capability and track record on products and/or cost innovation. This eliminates all but approximately 250 names.

Fundamental research is then undertaken across the areas of growth, management, value creation and valuation, to identify companies with unrecognised growth that management can deliver and where the valuation offers a strong risk/reward opportunity. Company meetings are an essential part of the process, with the team visiting operational facilities and analysing industry competitors. From these meetings, they build detailed proprietary financial models and earnings forecasts extending out five years. They use the proprietary "Barings Cost of Equity" (discount rate) and a terminal P/E to determine the value of a company. The team utilise these models to determine a firm's fair value; they look for 40% upside over the next 9-12 months for a company to qualify for the portfolio.

Portfolio Construction and Risk Controls

There are typically 80-100 holdings, with no position exceeding 3%. Major sectors and countries must be within 15 percentage points of the index. The team determines position sizes and weights based upon their contribution to portfolio risk and anticipated return. Stock positions are generally equally weighted; however, the average daily trading volume is an important consideration. The team's time horizon is medium-term in nature, but they are pro-active in their response to changing views and valuations.

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