

View this email in your browser



---

# Monthly Monitor

---

**December 2019**

---

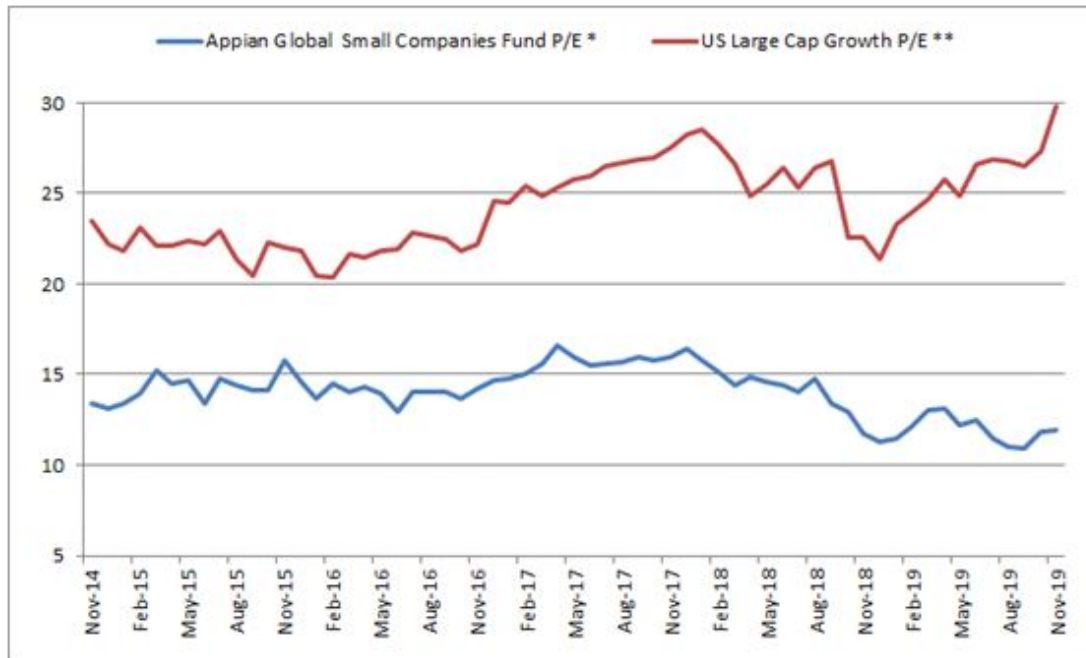
## **The Opposite of Expensive Large Cap US Growth?**

The last decade in equity markets has mostly been about large cap US growth stocks. Once these stocks took the lead in the market rally more money flowed into them as investors chased them, leading to further outperformance. This in turn has driven the valuation of US growth stocks to extremes not seen since the TMT bubble twenty years ago. So if investors have been chasing these stocks to expensive valuations, the questions is what assets have they shied away from? – In our view, the opposite of expensive large cap US growth stocks is cheap European small caps.

European small caps have not only lagged US large caps since the financial crisis, they have experienced an outflow of investor funds over the last two years leading to a significant de-rating of those stocks as investors chased US growth stocks. For example, Eurocell, a leading UK producer of window frames, has experienced a P/E decline from 12x to 9x over two years despite winning market share, building a stronger balance sheet through solid

cash generation, and most recently seeing competitors exit the market reinforcing their own position. Adler Real Estate, the German residential property rental company, was trading at a c.10% discount to its net asset value 18 months ago, but that discount has jumped to c.50% now despite growing its NAV by 44% over the period.

**Flow of Money Creating Historic Valuation Anomaly:**



\*The average P/E of the shares in the Fund

\*\*Source: Bloomberg

This de-rating overlooks the fact that European small caps can deliver strong growth. The stocks in the Appian Global Small Companies Fund (over 90% of which are now European) delivered average annual EPS growth of 17% over the past five years. Many of these stocks are well positioned to deliver mid-teens earnings growth over the medium. For example, CPL, the Irish staffing group, in our view should see strong organic earnings growth from roll-out of its successful managed solutions model, particularly into its non-Irish operations, yet the stock trades on a P/E of just 8.6x. Applegreen has delivered consistent, high rates of growth and has the potential to deliver a high-teens rate of growth over the medium term through the further expansion of its retail forecourt model. The stock has de-rated from a P/E of 20x to 15x over the past year implying this growth potential is also overlooked.

The potential upside in overlooked and undervalued small cap stocks is material when they get recognised. They then attract inflows from investors and their shares can re-rate rapidly. Some of the holdings in our small cap fund which were trading on very low valuations have benefited recently once investors recognised the value they offered. For

example, Winnebago has jumped by 45% over the past six months, while C&C has gained 35% over the past nine months.

However, not all small caps are equal – 30% of US small caps for example are not making money! We continue to focus on solid fundamentals which provide a sensible platform from which attractive returns can be made over time. The companies in our small cap fund on average: generate strong cash returns on capital (currently 12%); have little debt (net debt / EBITDA of 0.1x); pay attractive dividends (3.8% yield); and are have low valuation multiples (P/E of 11.9x).

Given the scale of their re-rating it is very unlikely in our view that the sectors that led global equity markets over the last decade will be the sectors that will be the leaders over the next ten years. While the catalysts and the timing of what it will take to unlock the undervaluation of European small caps is difficult to predict with certainty, their relative valuation and strong fundamentals leaves them well positioned as strong candidates for outperformance.



---

*The information contained in this material is not financial advice. Nor does it constitute an offer for the purchase or sale of any financial instruments, trading strategy, product or service. No one receiving this material should treat any of its contents as constituting advice. It does not take into account the investment objectives, knowledge, experience or financial situation of any particular person. You should seek advice in the context of your own personal circumstances prior to investing or taking out any product from your own independent adviser.*

*This material has been prepared and issued by Appian Asset Management Limited on the basis of publicly available information, internally developed data and other sources believed to be reliable. While all reasonable care has been given to the preparation of the information, no warranties or representation, express or implied are given or liability accepted by Appian Asset Management Limited or its affiliates or any directors or employees in relation to the accuracy, fairness or completeness of the information contained herein. Any opinion expressed (including estimates and forecasts) may be subject to change without notice.*

*If you decide to invest in any of the Appian Funds, further information in relation to all risks is provided in the relevant Fund Prospectus and supplements. This material is available from Appian Asset Management Limited, 42 Fitzwilliam Place, Dublin 2. References to past performance are for illustrative purposes only. Projected returns are estimates only. Forecasted returns depend on assumptions that involve subjective judgement and on analysis that may or may not be correct.*

**WARNING**

**If you invest in any of the Appian Funds, you may lose some or all of the money you invest.**

**The value of your investment may go down as well as up.**

**This investment may be affected by changes in currency exchange rates.**

**Past performance is not a reliable guide to future performance.**

*The above disclaimer and limitations of liability are applicable to the fullest extent permitted by law, whether in Contract, Statute, Tort (including without limitation, negligence) or otherwise.*

*Appian Asset Management Limited is regulated by the Central Bank of Ireland.*

---

## Appian Unit Fund Prices

---

*2 Dec 2019*

---

Appian Multi-Asset Fund	<b>156.66</b>
Appian Global Dividend Growth Fund	<b>208.54</b>
Appian Global Small Companies Fund	<b>177.46</b>
Appian Liquidity Fund	<b>103.84</b>
Appian Impact Fund	<b>108.56</b>
Appian Burlington Property Fund	<b>127.10</b>

---

For more detailed information on each of our funds click [here](#)

Fund Name	Start Date	Features	Target Annual Return	Annualised Return (Note)					
				YTD (Nov)	1 Year	3 Year	5 Year	10 Year	Since Inception
Appian Multi Asset Fund	Nov 2005	Multi asset fund Prudentially managed Low volatility / downside protection	4% - 5%	13.00%	8.80%	4.28%	3.87%	5.10%	3.24%
Appian Impact Fund	July 2015	Same as Value Fund Ethical screening	4% - 5%	12.19%	9.03%	5.05%	N/A	N/A	3.44%
Appian Global Dividend Growth Fund	May 2010	Disciplined stock selection Value driven High quality	6% - 8%	22.09%	13.01%	7.48%	7.88%	N/A	7.97%
Appian Global Small Companies Fund	Oct 2012	Focus on smaller quoted stocks Undervalued opportunities Long term capital gains	8% - 10%	7.56%	1.43%	-1.56%	4.80%	N/A	8.33%
Appian Burlington Property Fund	Nov 2016	Focus on Irish Commercial Property	5% - 8%	5.27%**	8.28%	N/A	N/A	N/A	9.11%

Note – Returns are net of annual management charges

\*\* Property returns to Sep 30<sup>th</sup> 2019

### **Appian Market Update Call**

Please join Chief Investment Officer Niall Dineen, Senior Fund Manager John Mattimoe and Senior Relationship Manager John Flavin by telephone on **Monday, December 16<sup>th</sup>** at **11 am** for a discussion on:

*"European Small Caps – Overlooked and Undervalued?"*

### **Dial in details**

To listen in to the conference please use the dial in details below.

Ireland (national) : 0818 270 298

Ireland, Dublin: +353 (0)1 428 9999

**Code: 457522#**

Calls are charged at standard rates. Calls from mobiles will vary and may cost more.

### **Submit questions**

If you would like to submit a question for the team, please forward it by email to [john.flavin@appianasset.ie](mailto:john.flavin@appianasset.ie)

---

# Investment Team



Niall Dineen  
*Chief Investment Officer*



John Mattimoe  
*Senior Fund Manager*



Pat Kilduff  
*Senior Fund Manager*



Derek Heffernan  
*Senior Fund Manager*

[Click here for more information about our Investment Team](#)

Contact our **Client Relationship Team**



William McDonald  
*Head of Sales and Distribution*  
Tel: (01) 662 3982 direct  
[Click here to email William](#)



John Flavin  
*Senior Relationship Manager*  
Tel: (01) 662 4053 direct  
[Click here to email John](#)



Ian Naughton  
*Senior Relationship Manager*  
Tel: (01) 662 3986 direct  
[Click here to email Ian](#)





 Follow Appian on Twitter

 Connect with Appian on LinkedIn



---

*Copyright © 2019 Appian Asset Management, All rights reserved.*

[unsubscribe from this list](#) [update subscription preferences](#)