

Davy Global Alpha Fund

from Irish Life

Quarterly Update Q1 2019

This fund is provided by Irish Life Assurance plc and is managed by Davy Asset Management.

For Investment Professionals Only

Performance	1 Month (%)	Q1 2019 (%)	1 Year (%)	3 Year (P.A.) (%)	5 Year (P.A.) (%)
Davy Global Alpha Fund* (Net of Fees)	+0.9	+12.2	+9.4	+10.1	+10.1
MSCI World Index	+2.7	+14.5	+13.9	+11.2	+11.5

Source: Irish Life Investment Managers Ltd (*Performance is quoted gross of tax and net of fund management charge) and Bloomberg as at 29th March 2019. The fund management charge and product charges will vary depending on the terms and conditions of your policy

Fund Overview

The aim of the **Davy Global Alpha Fund** (the 'Fund') is to achieve capital growth through investing in industry leading equity funds. The Fund may be appropriate for conservative equity investors seeking to spread risk while retaining the potential for outperformance. It may be suitable as a core holding due to its regional diversification, style blend and focus on skilled managers.

Fund Performance

The Fund has continued with its focus and concentration on funds with a quality bias and overall favours growth companies over value stocks. There was little change made to the asset mixture in the first quarter of 2019, although due to an impending cash call, liquidity was built up in March to facilitate this. We believe that the bias in the Fund to secular growth stocks was a positive as in a world of low growth we expect these stocks will continue to be favoured by the market conditions. Some of these growth orientated funds had suffered in Q4 2018 but rebounded strongly in 2019. By way of example the **Baillie Gifford American Fund** was one of the strongest overall performers in the portfolio during the first quarter and substantially outperformed the S&P 500. This fund had suffered a setback in the fourth quarter of 2018 although was still the Fund's top performer in 2018 as a whole. The **Merian UK Mid Cap Fund** and the **Standard Life UK Smaller Companies Fund**, which both have strong biases to growth stocks also rebounded strongly during the first quarter outperforming their respective peers and benchmark.

Within Europe, the **JOHCM Continental European Fund** marginally lagged the MSCI World Index over the quarter as it started the year too defensively positioned. However, in Q1 the fund moved to overweight Energy and some construction names, whilst remaining cautious on European banks. This was due to the subdued interest rate outlook which made it virtually impossible for the European banking sector to increase its net interest margins. The **BlackRock Continental Europe Flexible Fund** was amongst the top performers in European equities in the first quarter as growth stocks returned to favour. The fund's lack of European banks and financials in general was a strong positive in Q1.

Funds with a mid or small cap bias also performed better in Q1 after a difficult fourth quarter. As previously mentioned, the Merian UK Mid Cap Fund benefitted from a return to favour of some of the growth names held together with the timely addition of some UK domestic cyclical names at the start of the year. Names such as house builders Taylor Wimpey, Barratt Developments and Persimmon were added to the fund. Standard Life UK Smaller Companies Fund benefitted from a rerating of the growth stocks held which continue to deliver on expectations. With the rebound in sterling as fears of a hard Brexit receded this fund was the top performer over the quarter.

In Asia, the **First State Asia Focus Fund** performed broadly in line with the market which was a very credible performance after its strong outperformance in 2018. At the margin the fund added some cyclical names in the Q4 sell off, for example adding to semiconductor names and these bounced strongly in the first quarter. The overall focus of this fund remains on high quality businesses selling either to the consumer or the export market. The **Stewart Investors Asia Pacific Leaders Fund** lagged the market rally as it remains very defensively positioned which was behind it being the top performing Asian fund in 2018. This fund has high exposure to India which lagged in Q1 partly due to electoral uncertainty. The world's largest democracy votes in April/May and very often the Indian market will start to rally ahead of this event. Whilst Modi may not win an outright majority, he is expected to remain as Prime Minister, albeit within a coalition. India remains a market with excellent long-term potential and the country should continue to reap the benefits of reform and a growing middle class whatever the outcome of the election. The **Stewart Investor Global Emerging Market Leader's Fund** lagged the bounce in its region this year due to defensive positioning.

In Japan, the **First State Asia Japan Focus** converted into the **First State Japan Equity Fund**. The portfolio had a strong quarter as fears of recession dissipated. The First State Japan Fund delivered first quartile performance over the quarter. There remains a small holding in the value orientated **JOHCM Japan Fund** which delivered positive returns but lagged the market rise with this investment style remaining in the doldrums. The fund continues to be held in the Global Alpha Fund as a diversifier within it and is one of the few value orientated strategies within the overall portfolio.

Conclusion

The first quarter of 2019 has been a buoyant one for financial assets, despite the global economy in the second half of 2018 entering what can be described as a synchronised slowdown, which contrasts with the synchronised uplift in growth which occurred in 2017.

The most likely scenario for the remainder of the year is a “goldilocks” outcome which would encompass moderate growth and inflation.

This argues for further progress in equity markets, although in a late cycle period this is likely to come with periods of hard to predict volatility. The Fund, with its focus on growth orientated fund managers is well positioned to benefit from an environment of relatively low but steady economic growth and the managers selected within it continue to have positive records of alpha generation within their respective regions.

Calendar Year Performance	2018 (%)	2017 (%)	2016 (%)	2015 (%)	2014 (%)
Davy Global Alpha Fund* (Net of Fees)	-4.7	11.1	4.7	14.8	14.8
MSCI World Index	-4.1	7.5	10.7	10.4	19.5
MSCI Emerging Markets Index	-12.5	17.9	11.9	-7.5	8.7
Baillie Gifford American Fund	13.3	23.6	27.3	13.5	17.6
JPM US Select Fund	-1.7	9.7	32.6	5.2	22.0
Schroder US Mid-Cap	-7.5	4.9	41.0	5.9	17.9
Merian UK MID-CAP Fund	-22.1	27.0	9.2	23.8	7.3
First State Asia Focus Fund	-2.7	22.2	6.8	-	-
First State Japan Focus Fund	-11.0	28.1	5.9	-	-
Stewart Investors GEM Leaders	-8.4	14.1	10.3	0.6	15.1
Stewart Investors Asia Pacific Leaders	5.4	13.5	19.6	1.9	19.9
Standard Life UK Smaller Companies Fund	-10.8	31.3	3.9	29.2	-7.8
JOHCM Continental European Fund	-11.3	9.5	2.0	16.4	7.8
JOHCM Japan Fund	-19.0	11.4	1.0	15.9	5.8
BlackRock Continental European Flexible Fund	-	20.0	3.5	15.3	2.1
Crux European Special Situations Fund	-16.3	16.6	3.7	19.7	8.4

Source: Irish Life Investment Managers Ltd. (*Performance is quoted gross of tax and net of fund management charge), MSCI and Bloomberg as at 29th March, 2019. The fund management charge and product charges will vary depending on the terms and conditions of your policy. Performance quoted in local currency unless otherwise stated.

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