DAVY

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# Davy **Global Alpha** Fund

from **Irish Life**

## **Quarterly Update** Q3 2019

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

For Investment Professionals Only

| Performance | 1 Month (%) | Q3 2019 (%) | 1 Year (%) | 3 Year (P.A.) (%) | 5 Year (P.A.) (%) |
|---|---|---|---|---|---|
| Davy Global Alpha Fund* (Net of Fees) | 0.95 | 2.15 | 1.48 | 9.56 | 9.54 |
| MSCI World Index | 3.16 | 5.02 | 8.49 | 11.33 | 10.39 |

Source: Irish Life Investment Managers Ltd (*Performance is quoted gross of tax and net of fund management charge) and Bloomberg as at 30th September 2019. The fund management charge and product charges will vary depending on the terms and conditions of your policy.

The MSCI World Index captures large and mid-cap representation across 23 Developed Markets (DM) countries. With 1,650 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

### 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.

### Market comment

Global equity markets rose by 5.02% in a volatile third quarter dominated by slowing growth, tumbling bond yields, political drama in the UK and rising trade tensions. The MSCI World Index has now risen by an impressive 23.32% in euro terms in the first three quarters of 2019. Some central banks have been active in recent weeks, with the European Central Bank and the Federal Reserve cutting rates in the face of weakening sentiment. While the initiation of impeachment process against the US president grabbed the headlines late in the quarter, the trade war and rate cuts remain the main movers of markets.

### Fund performance

The Fund returned 2.15% in the third quarter, underperforming the MSCI World Index which returned 5.02% and the 4.43% returned from the MSCI All Countries World Index which includes emerging markets where the Fund has traditionally been overweight. The Fund continues to have a bias to Quality growth names and includes some funds which have exposure to disruptive industries in both the United States and UK and in particular the third quarter was marked with a rotation away from these types of businesses and growth stocks in general to more value orientated companies. Thus, the Fund continues to have a Quality growth orientation which is typically suited to a lower growth world and relatively low exposure to cyclical businesses. The Fund continues to have little exposure to oil/mining stocks or developed market banks.

In **North America the Baillie Gifford America Fund,** having been the top performing fund in over the past three and five years, suffered a short-term setback as there was a severe rotation away from the disruptive and technology orientated businesses which it favours. Thus, this fund declined by over 5% during Q3 which needs to be seen in the context of the impressive returns delivered by the fund over the past three years. The **JPM US Select Fund** returned close to 5% but still lagged its benchmark, whilst the **Schroder US Mid Cap Fund** outperformed the MSCI World Index with its lower exposure to high growth names and delivered around 6.5%.

In Continental Europe the **JOHCM Continental European Fund** marginally underperformed its benchmark index delivering a return of 2.50%, whilst the **BlackRock European Flexible Fund** also modestly underperformed against its benchmark but has still strongly outperformed year to date. For this fund semiconductor exposure ASML and STMicroelectronics performed strongly as did utility Rheinisch-Westfälisches Elektrizitätswerk.

In Japan the **FSSA Japan Focus Fund** was an impressive performer over the quarter, returning 12.9% as its secular growth orientated companies in the automation field, together with consumer staples selling baby products into China and the ASEAN region, Pigeon and Unicharm performed strongly. This fund has little exposure to the sluggish domestic Japanese economy,but is focused on companies listed in Japan operating either in growth areas within the wider Asia region or within niche parts of the Japanese economy such as the recruitment space which is benefitting from low levels of unemployment and shortage of temporary workers. Whilst the Asia Pacific region lagged developed world markets during the quarter, the two funds held, the **Stewart Investors Asia Pacific Leaders Fund** and the **FSSA Asia Focus Fund**, each strongly outperformed their benchmarks returning roughly 2% over the quarter. Both these funds have a focus on domestic consumption.

### Conclusion

While the third quarter of the year saw a setback to the growth orientated companies favoured by the Fund in most regions, there is as yet little evidence that a move to a more cyclical or value orientated approach would be beneficial over the medium term as the world continues to see sluggish growth. In addition, with structural disinflationary forces in terms of disruption through technological advances, high debt levels and negative demographics, interest rates look likely to remain at very low levels for many years to come. With the low levels of return available from fixed interest markets, we believe equities still look one of the better homes for medium term investors. A portfolio of higher quality equities, with defensive characteristics such as the funds held within the Fund, still has potential to deliver returns well ahead of inflation over the next few years.

## The QQE Perspective

As noted in the last of our working series, Quality Matters – Asymmetric Returns, outperforming the market during Down markets is favourable to outperforming in Up markets, due to the long-term effect of compounding returns. If an investment outperforms in a Down market, it has less to recoup and will then be ahead over a longer period, assuming it performs in-line with the market as it rebounds – a simple case of compounding.

During the quarter, we took a deeper dive into the four individual sub-pillars making up the DAM QUALITY model – Profitability, Persistence, Protection, and People – we believe that these four pillars are essential to achieving better positive asymmetric returns. We found that whilst three of the four sub-pillars of QUALITY provide asymmetric returns, none do so to the same extent as QUALITY, highlighting that QUALITY is more than the sum of its parts.

Future analysis of QUALITY and its four sub-pillars will extend to include a wider universe to better understand the nuances.

**Details of our analysis can be found in the insights section of our website** http://www.davyassetmanagement.com/insights

| 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 (EUR) | -4.1 | 7.5 | 10.7 | 10.4 | 19.5 |
| MSCI All Countries World Index (EUR) | -4.8 | 8.9 | 11.1 | 8.8 | 18.6 |
| MSCI Emerging Markets Index | -12.5 | 17.9 | 11.9 | -7.5 | 8.7 |
| 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 |
| First State Asia Focus Fund | -2.7 | 22.2 | 6.8 | - | - |
| First State Japan Focus Fund | -11.0 | 28.1 | 5.9 | - | - |
| Stewart Investors Asia Pacific Leaders | 5.4 | 13.5 | 19.6 | 1.9 | 19.9 |
| 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 |

Source: Irish Life Investment Managers Ltd. (*Performance is quoted gross of tax and net of fund management charge), MSCI and Bloomberg as at 30th September, 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. The MSCI All Countries World Index captures large and mid cap representation across 23 Developed Markets (DM) and 26 Emerging Markets (EM) countries. With 2,852 constituents, the index covers approximately 85% of the global investable equity opportunity set.

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



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