

# Davy Global Brands 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 Brands Fund* (Net of Fees)	0.73	6.75	13.79	9.67	10.41
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.

### Fund overview

The aim of the **Davy Global Brands Fund** (the 'Fund') is to provide investors with long term capital growth by investing on a global basis in shares of companies which have strong brand characteristics. Such companies are expected to have competitive advantages including dominant market share and/or unique product characteristics that provide the potential for growth globally.

### 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 6.75% in the third quarter of 2019 outperforming the MSCI World Index by 1.73% net of fees in euro terms. This outperformance was driven by Asset Allocation, Stock Selection and Currency. On a year-to-date basis the Fund has outperformed the MSCI World Index by +4.85%, returning 28.17% net of fees compared to the Index return of 23.32%, driven by Stock Selection.

Stock Selection contributed positively to performance during the third quarter. The top five contributors to relative performance were Bandai Namco, Nike, S&P Global, Alphabet and Amazon which is not held by the Fund. While Apple (not held), Cie Financiere Richemont, Procter and Gamble (not held), L Brands and AIA Group, were the top five detractors during the period.

**Bandai Namco** outperformed during the quarter returning +34.42%. The company reported F1Q20 results well ahead of internal forecasts

and hosted a roundtable on its Toys and Hobby business where the company is widening distribution in China and the US.

**Nike** outperformed during the quarter returning +17.16%. The company reported strong F1Q20 results highlighted by 10% constant currency revenue growth and strong gross margin expansion, driven by mix benefits from growth in its direct-to-consumer business.

**Cie Financiere Richemont** underperformed during the quarter returning -7.31%. The company underperformed as Luxury stocks were weak during the quarter in the face of protests in Hong Kong and the potential impact on Chinese tourist flows.

**L Brands** underperformed during the quarter returning -20.38%. Comparable sales growth for the company's Victoria's Secret brand continue to decline and the market is adopting a cautious stance ahead of brand revamp led by new management in the second half.

### Sample portfolio transactions

The Fund was active during the quarter adding to existing position in Becton, Dickinson & Co, British American Tobacco, Facebook and Iqvia while reducing our position in Brown-Forman, Burberry and Starbucks. Most of the transactions during the quarter were share price driven. For example, we added to British American Tobacco after share price weakness driven by risks presented by possible future changes to the regulation of vaping products in the US. We reduced our position in Brown-Forman and Starbucks following significant share price appreciation.

The Fund remains defensively positioned with the aim of delivering asymmetric risk reward over time. We remain committed to our investment philosophy process and invest in companies that exhibit pricing power and generate high operating returns on invested capital, combined with attractive structural growth opportunities. We continue to find attractive investment opportunities in companies with strong fundamentals at reasonable valuations.

### 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 Brands Fund* (net of fees) (EUR)	-7.98	9.29	1.05	16.92	14.46
MSCI World Index (EUR)	-4.11	7.51	10.73	10.42	19.50
Cie Financiere Richemont	-26.93	33.65	-3.68	-17.10	1.70
Alphabet	-0.80	32.93	1.86	46.61	-5.39
Bandai Namco	38.55	16.97	28.31	2.64	11.43
Nike	19.86	24.70	-17.71	31.39	23.76
S&P Global	1.36	59.31	10.55	12.27	15.45
Amazon	28.43	55.96	10.95	117.78	-22.18
Apple	1.36	59.31	10.55	12.27	15.45
Procter and Gamble	3.62	12.69	9.37	-9.96	15.42
L Brands	-54.23	-3.86	-27.27	15.76	45.68
AIA Group	-0.98	54.77	-4.62	9.13	12.17

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 is quoted in local currency unless otherwise stated.

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**Davy Asset Management**

Davy House, 49 Dawson Street, Dublin 2, D02 PY05, Ireland.  
T +353 1 614 8874 E [assetmanagement@davy.ie](mailto:assetmanagement@davy.ie)

[www.davyassetmanagement.com](http://www.davyassetmanagement.com)

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