

# Davy Discovery Fund

from New Ireland

## Quarterly Update Q1 2019

This fund is provided by New Ireland 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 Discovery Fund* (Gross of Fees)	2.4	20.4	11.2	12.3	12.7
MSCI World Small And Mid-Cap Index (Total Return)	1.5	16.2	9.2	10.6	10.9

Source: New Ireland (\*Discovery Fund Series 6, performance is quoted gross of taxation and 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 Discovery Fund** (the 'Fund') is to achieve long-term capital growth by investing in shares of small and medium sized companies on a global basis. These companies demonstrate growth potential and represent attractive investment opportunities. Investing during the early stage of a company's life cycle can lead to higher than average investment returns.

### Fund Performance

The Fund has had a strong start to 2019, rising in absolute terms by 20.4%, beating its benchmark by 4.2% year-to-date, in euro terms. Stock selection was the principal driver of returns aided by asset allocation. The strong rally in quality and growth stocks since the start of 2019 complements our house style, Quality, highlighting the resilience of these businesses.

Smaller companies have outperformed the broader market since the start of the year rising by 1.3%. An upbeat 2019 outlook, coupled with the release of strong corporate earnings by many companies, positively surprised markets. Nonetheless, Europe remains an area of concern given the uncertain nature of Brexit, the yield for 10-year Bunds falling into negative territory with Germany narrowly avoiding delivering two consecutive quarters of negative GDP growth. Fortunately for the global economy, the Federal Reserve is taking a more dovish stance on monetary policy and concerns about Chinese growth are abating.

At the start of the quarter, equity market valuations were back to levels last seen in 2013. Helpfully markets have started 2019 positively, rebounding sharply from December's sell-off. The recovery can be attributed to the latest earnings season where corporate earnings reports did not confirm the market's fears of an impending recession. A resolution to the US/China trade conflict would help investor confidence, particularly for investors seeking attractively-valued stocks experiencing secular growth.

The Information Technology sector was the top performing sector in the Fund for the quarter with industrial design software **Cadence Design Systems** and the machine vision specialist **Cognex Corp.** appreciating by 49% and 34%, respectively in euro terms; Consumer Discretionary was the other top performing sector, with **Anta Sports Products** jumping 45%. Anta's consortium has completed the takeover of Amer Sports. Management are bullish on the expansion of its key brands, Arc'teryx, Salomon and Wilson, in China. Their penetration is lower than competitors, such as The North Face or Columbia, and management has indicated trading trends in China are healthy. It believes industry consolidation should further benefit the leading players and cited the Chinese government's support for domestic winter sports.

In the case of Cadence and Cognex, robust 4Q18 results which beat the markets expectations drove performance. Cadence is an operationally geared firm and the big surprise was the operating margin which rose to 19.95%, rising c.48bps for the second quarter in a row despite this influx of traditionally lower margin hardware revenue. Cognex, like other similar factory automation stocks, had faced headwinds in 2018 from the effects of the US/China tariff war and the slowdown in the economy. Investors are starting to look beyond 2018 and towards the improvements in trade, the positive effect of the Chinese stimulus, and moderating comparative numbers in 2H19.

### Sample Portfolio Transactions

The Fund made one disposal and added one new position over the quarter. We exited our position in International Petroleum Corporation, a Swedish exploration and production company, which had performed strongly in 2018. We had halved our position before the 4Q18 market sell-off and decline in oil prices. It had rebounded significantly in 1Q19, so we took advantage of this to exit the remainder of our position. It has delivered impressive revenue growth owing to its early stage of development, this is unlikely to persist and estimates of future growth have subsequently declined. As such the company no longer fulfils our investment criteria.

During the period, Covetrus Inc.\*, a distributor of animal healthcare products, was formed through the combination of Henry Schein's animal health distribution and technology business with Vets First Choice. The Fund received this as a spin-off from Henry Schein.

We believe this is a Quality business given its high margins and low leverage. Importantly, the animal health industry is well positioned for sustained growth, with built-in downside protection should markets prove to be volatile.

Calendar Year Performance	2018 (%)	2017 (%)	2016 (%)	2015 (%)	2014 (%)
Davy Discovery Fund* (Gross of Fees)	-9.1	15.3	10.6	14.2	15.9
MSCI World Small and Mid-Cap Index (Total Return)	-13.2	23.5	10.4	0.4	4.1
Anta Sports Products Ltd.	8.5	58.2	12.7	61.3	48.6
Cadence Design Systems	4.0	65.8	21.2	9.7	35.3
Cognex Corp.	-36.5	92.9	89.6	-17.9	8.3
International Petroleum Corp.	-18.4	-	-	-	-
Covetrus Inc.*	-	-	-	-	-

Source: New Ireland (\*Discovery Fund Series 6, performance is quoted gross of taxation and 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 is quoted in local currency unless otherwise stated.

\*given Covetrus Inc was established in Feb 2019, no performance data is yet available. Data for Henry Schein has been provided for information.

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

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