DAVY

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Davy **ESG Equity** Strategy

Quarterly Update Q1 2019

For Investment Professionals Only

Performance	1 Month (%)	Q1 2019 (%)	1 Year (%)	3 Year (P.A.) (%)	5 Year (P.A.) (%)
Davy ESG Equity Strategy* (Net of Fees)	3.29	13.83	15.58	9.95	10.22
MSCI World Index**	2.74	14.51	13.93	11.23	11.25

Source: Davy Asset Management (Class A Acc in EUR) and Bloomberg as at 29th March 2019.

*The Davy Ethical Equity Fund was renamed the Davy ESG Equity Fund on 6th June 2018. The Davy Ethical Equity Fund was launched on 12th December 2014. Investors should note the Davy ESG Equity Fund (UCITS) is newly established. The past performance reflects past performance data relating to the Davy Ethical Equity Fund (non-UCITS) which merged with the Davy Ethical Equity Fund (UCITS) (the "Merger"). Prior to the Merger when the Fund was not authorised as a UCITS, the investment policy, strategy and portfolio composition were largely the same. In the circumstances, the past performance data included in this document is believed to be an appropriate reference for investors.

** The benchmark index shown above does not include fees or operating expenses and you cannot invest in it.

Fund Overview

The aim of the **Davy ESG Equity Fund** (the 'Fund') is to achieve long-term capital growth. The objective will be achieved using both quantitative and fundamental research that results in a portfolio of high-quality companies that exhibit strong environmental, social and governance characteristics.

Fund Performance

The Fund had a strong start to 2019 rising 13.83% in the first quarter of the year, though underperformed the MSCI World Index which was up 14.51%. The relative underperformance was driven by stock selection. The Fund had a tough January as risk returned to markets and more volatile stocks outperformed. This kind of environment runs counter to our investment philosophy and approach. However, a significant part of the underperformance was recouped in both February and March. Both asset allocation and currency took from performance.

After the strong rebound in markets the MSCI World Index hit a new high on the last day of the quarter. In terms of sectors, the Fund benefited by being overweight Technology (+21.8%) which was the best performing sector over the period. However, such performance was outweighed by an underweight position held in Real Estate (+18.3%) which was the second best performing sector. Holding any cash (2%) in the Fund also took from performance given the strong rally. Healthcare (+10.3%) and Financials (+10.5%) were the main laggards, with the latter being impacted by the Federal Reserve policy shift with now no interest rate rises expected in 2019. **Rio Tinto** and **Mondelez** contributed most to performance while **Newell Brands** and **EssilorLuxottica** took from performance.

Rio Tinto, the global miner, benefited from the risk-on rally in January. Quarter 4 production results were also good showing copper ahead of expectations and iron ore at the upper end of estimates. The bursting of an iron ore tailings dam managed by Vale in Brazil, where over 300 people were killed, leading to a 20% rise in iron ore prices due to the impact on global supply. Iron ore accounts for 44% of Rio Tinto's revenues and hence is a driver of performance. Indeed, Brazilian authorities have recently ordered the closure of 56 tailing dams which should support a higher iron price for longer.

Mondelez, the US chocolate and snacking company whose brands include Cadbury, Milka, Oreos and Ritz, posted a strong set of results. Importantly, organic sales growth saw an acceleration from the third quarter. This is in line with the company's renewed focus on top line growth instead of margin expansion whereby they will focus on local brands and innovation through a test, learn and scale principle. They also intend to focus more on new channels such as supermarkets, grocery and convenience stores. We continue to like Mondelez and its large emerging market focus and new revenue opportunities.

Newell Brands, the consumer products business and owner of brands such as PaperMate, Parker, Rubbermaid and Yankee Candles, declined almost 15% over the period. Fourth quarter results saw weak sales as expected but better earnings as margins improved. The group is in the middle of a significant transformation and is selling off business units. However, guidance for the full year disappointed the market in the sense that no new asset sales were announced; the completion of the already identified assets for sale has now drifted in to the second half of the year, and the sale proceeds will be lower and closer to $3bn rather than $4bn. The name remains very attractive on valuation as long as management deliver on the plan this year.

EssilorLuxottica is a combination of Essilor lenses and Luxottica frames such as Rayban. The eyewear manufacturer was initially left behind in January as it did not take part in the risk-on rally. Maiden results in March from the newly merged entity were better than expected. However, the company disappointed the market on lower guidance for 2019, no upgrade to the synergies envisaged and a capital markets day that has been pushed out until September rather than in June. Later in March a spat broke out between the two ex-CEOs over succession issues. We are keen to see how the French-Italian cultural fit evolves.

Sample Portfolio Transactions

During the quarter, we pruned some companies where we believed the fundamental case for holding the names had deteriorated. We sold out of Richemont, the Swiss luxury goods name, and Japanese bank Sumitomo Mitsubishi Financial Group. In both cases we felt that earnings had further downside risk. The proceeds were spread across existing holdings.

Calendar Year Performance	2018 (%)	2017 (%)	2016 (%)	2015 (%)	2014 (%)
Davy ESG Equity Strategy (Net of fees)	-1.6	7.1	4.3	11.5	15.8
MSCI World Index	-4.1	7.5	10.7	10.4	19.5
Rio Tinto	0.3	31.5	68.4	-30.4	-8.7
Mondelez	-4.3	-1.6	0.5	25.4	4.6
Newell Brands	-37.5	-29.4	3.0	17.9	19.9
EssilorLuxottica	-2.6	8.4	-5.8	25.3	21.4

Source: Davy Asset Management (Class A Acc in EUR) and Bloomberg as at 29th March 2019. Performance is quoted in local currency unless otherwise stated.

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

WARNING: Neither past experience nor the current situation are necessarily accurate guides to the future growth in value or rate of return of the Fund. The value of the investment can reduce as well as increase and, therefore, the return on the investment will also be variable. Changes in exchange rates may have an adverse effect on the value price or income of the product.

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