

Davy Global ESG EX-Fossil Fuels 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 Global ESG EX-Fossil Fuels Strategy* (Net of Fees)	-	-	-	-	-
MSCI World Index**	2.74	14.51	13.93	11.23	11.25

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

*The Davy Global ESG EX-Fossil Fuels Fund is a newly established (UCITS) fund and was launched on 26th April, 2018. As such there is currently insufficient data to provide any useful indication of past performance to 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 Global ESG EX-Fossil Fuels Fund** (the 'Fund') is to achieve long-term capital growth. The objective will be achieved by investing in a portfolio of "blue chip" global companies chosen on the basis of carbon emissions criteria. The Fund favours corporate practices that have actively embraced carbon emissions reduction relative to peers. The Fund does not invest in companies who explore, extract or profit from the burning of fossil fuels.

Fund Performance

The Fund returned 13.52% during the quarter, which was below the broader market return of 14.51%.

Equity markets, led by more volatile stocks, performed strongly in the first quarter of the year. The Fund is stylistically drawn to low volatility names, and volatility's outstanding run in January created a performance headwind for the Fund, which was partially clawed back in March. In sector terms, Consumer Discretionary (-54bps) and the strong performance of Fossil Fuel stocks (-27bps) had negative impacts on the Fund's performance. Meanwhile, Healthcare (49bps) and Consumer Staples (29bps) were better performing sectors.

Mondelez and **Omron** were the best performing stocks in the portfolio over the quarter, while **Newell Brands** and **EssilorLuxottica** were the worst performing.

Mondelez was the best performing stock in the portfolio in the first quarter, as the world's largest snack-maker finished 2018 with a strong set of earnings numbers based on better than expected organic revenue growth, a key strategic target for the company. The maker of Oreo cookies will continue to prioritise revenue growth over earnings growth, with increased investment in R&D and sales and marketing. We continue to like Mondelez and favour its large emerging markets exposure and revenue growth opportunities. A recent call with the company reinforced our belief that Mondelez is a superior operator in the food space.

Omron was another strong performer following a period of weak performance through the end of 2018. The Japanese factory automation company, which also operates in the consumer healthcare segment, was strong through the quarter as the market reacted well to the company's plans to cut costs, demonstrating a pragmatic approach to weakness in their end markets. We believe the current valuation offers some downside protection for a company operating in a challenging market environment.

Newell Brands was the weakest performing stock in the portfolio as it produced disappointing guidance to top off weak operating performance in the quarter. Newell Brands, the producer of Yankee Candles and Rubbermaid gloves, has been a habitual disappointment in the last 18 months, but had rebounded well in late 2018/early 2019. We feel that the current valuation caps downside for the stock. The buy case is based around the use of cash from divested business units to fund a significant buyback. Given the stock's low valuation, this should allow Newell Brands to financially engineer share price appreciation.

EssilorLuxottica, the maker of RayBan eyewear, was among the worst performing stocks as internal management disputes regarding succession planning for Luxottica's chief, Leonardo Delvecchio, became public knowledge. These internal disputes could have a detrimental effect on the integration of the Essilor and Luxottica businesses following their 2017 merger, possibly hampering the extraction of synergies from the deal. Incidentally, we voted against three management proposals from EssilorLuxottica at their recent AGM. The proposals related to amendments to their employee share option plan and their remuneration policy. We will monitor developments related to their ongoing governance issues and will expect to see greater clarity in their future planning.

Sample Portfolio Transactions

Luxury goods company Richemont was sold during the quarter as concerns grew over the strength of Chinese luxury watch demand. We see Richemont as a high-quality company with a potentially exceptional return and margin profile. However, luxury goods demand is cyclical, and their business model carries a high degree

of operational leverage. With Chinese consumers representing approximately 40% of their business, we saw considerable downside from any prolonged fall in demand and took the opportunity to sell the stock. We also sold Sumitomo Mitsui Financial Group (SMFG) in January. We see no mid-term catalysts for significant price appreciation in the Japanese bank as interest rates remain low.

Calendar Year Performance	2018 (%)	2017 (%)	2016 (%)	2015 (%)	2014 (%)
Davy Global ESG EX-Fossil Fuels Strategy* (Net of fees)	-	-	-	-	-
MSCI World Index	-4.1	7.5	10.7	10.4	19.5
Omron Corp	-39.6	51.9	12.5	-24.2	18.8
EssilorLuxottica	-2.6	8.4	-5.8	25.3	21.4
Mondelez	-4.3	-1.6	0.5	25.4	4.6
Newell Brands	-37.5	-29.4	3.0	17.9	19.9

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

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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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