

Davy Defensive Equity Income Strategy

Quarterly Update Q2 2019

For Investment Professionals Only

Performance	1 Month (%)	Q2 2019 (%)	1 Year (%)	3 Year (P.A.) (%)	5 Year (P.A.) (%)
Davy Defensive Equity Income Strategy* (Net of Fees)	2.71	1.90	9.95	3.82	5.68
MSCI World Index**	4.30	2.54	9.02	10.85	10.60

Source: Davy Asset Management (Class B Eur) and Bloomberg as at 28th June 2019.

* The Davy Defensive Equity Income Fund was launched on 22nd July 2015. Investors should note the Davy Defensive Equity Income Fund (UCITS) is newly established. The past performance reflects past performance data relating to the Davy Defensive High Yield Fund (UCITS) which merged with the Davy Defensive Equity Income Fund (UCITS) (the "Merger"). Prior to the Merger 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 Defensive Equity Income Fund** (the 'Fund') is to provide long-term capital growth, with reduced levels of volatility compared to global equity markets. The Fund reduces risk by investing in large global companies that pay out above average dividend yields and employs an options strategy to provide some downside protection against significant market falls.

Fund Performance

The Fund returned 1.90% during the quarter. The differential versus the MSCI World Index was driven by Stock Selection, which added +0.6% to relative performance. Asset allocation contributed -0.2% to relative performance during the quarter, while currency effects contributed +0.1%.

Microsoft was the strongest contributor to relative performance during the quarter, adding +0.3%. The global software company's market cap passed the \$1trn mark during April following an encouraging set of results that showed strength in all divisions. The prospects of sustained cash generation were boosted by a strong growth in the subscription-based Office365 product. There was also a rebound in Windows as PC shipments recovered from a shortage of chips in the prior quarter. Cloud-based revenues also exceeded expectations and allowed the company to forecast double-digit revenues and earnings for FY2020.

In contrast with Microsoft, **Intel** disappointed during the quarter and contributed -0.2% to relative performance. Revenues and margins disappointed and guidance for the current quarter was lower than expected. The memory division was particularly weak as prices

collapsed in this highly competitive segment. Clearly a solution to profitability is needed here, and new CEO Bob Swan suggested on a call with investors that he would be open to a partnership with another player to address this issue.

Asset Allocation contributed -0.2% to relative performance during the quarter. At a sector level, the largest contributors to this effect were the underweights in Consumer Discretionary and Technology stocks. The Fund has tended to be underweight these sectors due to the lack of high dividend yield opportunities.

Currency contributed +0.1% during the quarter. The Fund's underweight the Japanese yen and overweight Swiss franc drove this outcome.

The **options strategy** contributed -0.9% to the Fund relative performance during the first quarter as equity markets made gains during the quarter.

Sample Portfolio Transactions

During the quarter, the Fund reduced its holding in Microsoft somewhat.

With ongoing event risk and increased volatility, we believe that the equity income style will once again show its intrinsically defensive attributes. The underlying equity book generally has lower volatility, lower beta and higher market capitalisation. The options strategy has, in past times of elevated volatility, demonstrated its ability to provide downside protection. This was reflected in May when the Fund outperformed the MSCI World Index by over 2.1%.

Calendar Year Performance	2018 (%)	2017 (%)	2016 (%)	2015 (%)	2014 (%)
Davy Defensive Equity Income Strategy (net of fees) (EUR)	-3.46	-2.29	6.61	6.88	13.06
MSCI World Index (EUR)	-4.11	7.51	10.73	10.42	19.50
Microsoft	20.80	40.72	15.07	22.70	27.54
Intel	4.21	30.84	8.78	-2.21	44.30

Source: Davy Asset Management (Class B Eur) and Bloomberg as at 28th June 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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