DAVY

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Davy **Discovery Equity** 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 Discovery Equity Strategy* (Net of Fees)	5.09	1.82	2.91	11.28	11.01
MSCI World Small & Mid-Cap Index** (Total Return)	4.39	1.86	3.00	9.94	10.29

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

* On 19th April 2013, the previously proposed changes to the fund strategy were implemented. For more information please contact Davy Asset Management. The Davy Discovery Equity Fund was launched on 12th December 2014. Investors should note the Davy Discovery Equity Fund (UCITS) is newly established. The past performance reflects past performance data relating to the Davy Discovery Equity Fund (non-UCITS) which merged with the Davy Discovery 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 investment aim of the **Davy Discovery Equity 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 tend to 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 returned 1.82% for the quarter, after returning over 5% in June. The Fund remains 3.9% ahead of its benchmark year-to-date. During the quarter both asset allocation and stock selection contributed to performance with currency being a net detractor.

Equity markets, as defined by MSCI, were more volatile in the second quarter than in the first, with growth stocks leading in April, before markets sold off in May when high income stocks outperformed, only for growth and quality stocks to subsequently rebound in June. The beginning of the quarter saw the S&P 500 Index continue its rally from the start of the year, reaching all-time highs within the month only for global equity markets and bond yields to be pushed lower in May due to heightened risk aversion from the unexpected breakdown in trade negotiations between the US and China. The markets had an initial wobble at the start of June when Information Technology sold off on news that a new deal between the Department of Justice (DOJ) and the Federal Trade Commission (FTC) will see U.S. regulators divide and conquer as they expand their oversight of Apple, Alphabet, Amazon and Facebook. Despite this, the markets rebounded in June and as the month saw a flurry of M&A activity particularly within Healthcare where long-anticipated consolidation is starting to happen. The last trading day of the month saw bank stocks rally after the Federal Reserve cleared them to boost payouts. The top contributing sectors in the second quarter were Industrials (contributing 70bps to relative performance), and Healthcare (+49bps relative), both driven by stock selection while Consumer Staples (-28bps relative) and Communication Services (-52bps relative) were the two worst performing sectors, again driven by stock selection.

North America was the main contributing region to performance over the quarter, with returns driven exclusively by stock selection. On the negative side, Asia Ex-Japan detracted from performance owing to stock selection and currency which offset positive asset allocation to the region.

The top and bottom contributing stocks for the quarter are outlined below:

Aristocrat Leisure (Gaming Products & Systems). 1H19 results beat expectations by c.4% at both EBITA and NPATA levels. Results in the Americas were impressive as strong outright sales were combined with ongoing strength in gaming operations in Australia. Its ecosystem has excellent operating leverage, as unique cross-company knowledge sharing, dedicated live operation studios, and good land-based content are supporting online and offline casino growth. We remain of the view that Aristocrat is a high-quality stock which is growing with attractive valuation characteristics.

Medidata (Medical database and software). The company was acquired by Dassault Systems, the French industrial software specialist in May. The acquisition is stated to reinforce Dassault's position as a science-based company by providing the Life Sciences industry with an integrated business experience platform for an end-to-end approach to research and discovery, development, clinical testing, manufacturing and commercialization of new therapies and health technologies. The stock was fully exited following the announcement.

TravelSky Technology Ltd (Online Chinese Travel Software). TravelSky announced FY18 results just at the start of the quarter. Net earnings came in at Rmb2.3bn (+3% year-on-year), lower than the top-line growth of 11% year-on-year mainly due to inflating operating expenses. Considering TravelSky's monopoly position in its domestic market, EPS growth which is faster than its global peers, and anticipated expansion in operating margins in 2019, we expect the stock to re-rate over the course of the year.

Ain Holdings (Japanese Pharmacy Franchise). Following a very strong 2018, Ain sold off after releasing weaker than expected full year results at the start of June. Operating profits were down 18% year-on-year, with the company forecasting FY19 growth below 2017 levels. The company explained that the unexpected shortfall in its gross margin in Q4 was due to lower than assumed drug price differential compensation from the wholesalers. Progress in negotiations with the wholesalers and future impact from the tax increase will need to be monitored. Steady progress is being made in outlet openings and pharmacist recruitment, but the company indicated that costs are likely to increase as it steps up investment in IT.

Sample Portfolio Transactions

The Fund disposed of **Aurelius AG** and **Global Payments** during the quarter. Aurelius was exited as the stock had re-rated since the start of the year, and recent acquisitions by management are likely to take a longer time to restructure before being sold. We had been gradually exiting Global Payments as its top-line growth had begun to compress and its leverage had risen significantly over the last 12 months. This will move even higher over the next 12 months when it completes its acquisition of Total System Services, turning it into a $40 billon dollar firm from a c.$20 billion dollar one. Global Payments was replaced by **Wex Inc** which offers payment processing services for fleet, travel and employee benefits, enabling companies to manage their business without paper (invoices). Additions were also made to the portfolio in Healthcare: **Steris PLC**, a global leader in Infection prevention and sterilization and **Vitrolife,** an international biotechnology corporation. We also added to our Technology holdings with **Endava** (Engineering/ IT Consulting) and **Nemetschek** (Architectural & Engineering Software).

Calendar Year Performance	2018 (%)	2017 (%)	2016 (%)	2015 (%)	2014 (%)
Davy Discovery Equity Strategy (net of fees) (EUR)	-10.71	14.21	9.96	13.48	14.67
MSCI World SMID Cap Index (NTR, EUR)	-8.88	8.35	13.70	11.71	18.55
S&P 500 (USD)	-4.39	21.82	11.95	1.37	13.68
Ain Holdings	17.73	-12.48	34.42	69.29	35.27
Aristocrat Leisure	-6.21	55.27	54.53	58.73	43.74
Medidata	6.39	27.58	0.77	3.23	-21.08
TravelSky Technology Ltd	-13.36	45.45	29.40	54.30	12.32

Source: Davy Asset Management (Class A Acc 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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