DAVY

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Davy **ESG 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 ESG Equity Strategy* (Net of Fees)	4.68	3.58	11.7	10.68	10.13
MSCI World Index**	4.30	2.54	9.02	10.85	10.60

Source: Davy Asset Management (Class A Acc in EUR) and Bloomberg as at 28th June 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

Following a strong start in the first quarter, the MSCI World Index advanced further in April. However, as trade tensions escalated in May between the USA, China and indeed Mexico markets suffered their first pullback of the year. The quarter ended on a positive note as markets rebounded in June to a new high on the prospect of lower US interest rates. The Fund has outperformed in each month since January. Year to date the Fund is up 17.9% versus the MSCI World Index return of 17.4%.

Over the quarter the Fund outperformed rising +3.6% compared to MSCI World Index return of +2.5%. Stock selection was the key driver of performance.

Stock selection was particularly strong within Technology (Microsoft, VISA), Healthcare (Thermo Fisher Scientific, Smith & Nephew), Materials (Linde) and Consumer Staples (Mondelez). Selection was weakest within Consumer Services (Alphabet) and Industrials where 3M and UPS disappointed. Iberdrola and TE Connectivity contributed most to the strong stock selection.

Iberdrola, the Spanish utility and leading wind power producer in the world contributed most to performance rising +12% over the 3 months. Results in April saw management raise guidance for the year. Iberdrola also stands to benefit from Spain's ambitious plan to generate 74% of the country's power from renewables by 2030 and 100% by 2050. Between 2018-2022 the company is to invest €4.2bn in renewables. The highly rated ESG utility is thus positioned to be more resilient to risks from carbon and toxic emissions than most of its peers. Its governance practices, such as an independent board and lack of controlling shareholders, are also well aligned with shareholder interests.

TE Connectivity rose +17% in the period. It is one of the largest suppliers of passive electronics, with 80% of revenues being sensors and connectors for harsh environments such as braking systems and mission critical connectivity (automated cars). The company narrowed its sales guidance for 2019 and reflects a 5% drop in auto production for the year. Earnings guidance was raised on the back of better Q2 results. The timing of an auto recovery may be hard to predict but the company is well placed for when European and Chinese demand inflects.

Alphabet was the main detractor to performance. The technology giant and owner of Android and YouTube declined -9%. The shares hit a new high in April running into its Q1 results. However, advertising revenue growth for Q1 fell below 20% for the first time in 17 quarters and the shares dropped 7% on the day. The weakness was due to adverse currency, tough year on year comparatives and the timing of product changes, which had been highlighted at the Q4 results. Whilst quarter to quarter results can be volatile, longer-term, we see Alphabet to be a unique proposition of harvesting and fostering growth in its core operations at good margins and cash flow and then redeploying the excess cash into long term opportunities such as cloud computing, AI, Waymo and life sciences. Q2 results may be like Q1, but expectations are lower which sets the shares up for a better second half to the year.

State Street declined -15%, the US custody bank is highly correlated to the direction of markets and interest rates. Results at the end of April saw earnings beat but revenues were slightly below consensus estimates. The group has a cost cutting program in place and is on track to generate $350m of savings. The possibility of rate cuts rather than increases means fee income will remain under pressure and the likely source of the weakness. One of the reasons for buying State Street was that we believe the company will benefit from the structural trend of asset managers outsourcing back office services. Post the acquisition of Charles River Development in October 2018, we believe the market underappreciates the synergies and long-term vision behind the CRD deal which could revolutionise the industry by creating the market's first integrated front-to-back office solution.

Asset allocation was a positive contributor as the Fund was overweight the best performing sectors namely Financials (+4.9%), Technology (+4.5%) and Materials (+4.5%). Being underweight the only two sectors that produced negative returns, namely Energy, down -2.5% and Real Estate -0.7% was also of benefit to the Fund. Any cash held was a drag on performance.

Sample Portfolio Transactions

During the quarter, we made no significant changes to our holdings in the belief that the Fund's performance would continue to recover from the underperformance suffered in January. Indeed, the Fund has outperformed in each month since then.

Calendar Year Performance	2018 (%)	2017 (%)	2016 (%)	2015 (%)	2014 (%)
Davy ESG Equity Strategy (Net of fees) (EUR)	-1.6	7.1	4.3	11.5	15.8
MSCI World Index (EUR)	-4.1	7.5	10.7	10.4	19.5
Iberdrola	14.0	8.7	-0.3	19.8	30.1
TE Connectivity	-18.9	39.9	9.8	4.1	16.9
Alphabet	-0.8	32.9	1.9	46.6	-5.4
State Street	-34.0	27.8	19.8	-13.9	8.7

Source: Davy Asset Management (Class A Acc in 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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