

# Davy Global Focus Fund

## Quarterly Update Q2 2019

For Investment Professionals Only

Performance	1 Month (%)	Q2 2019 (%)	1 Year (%)	3 Year (P.A.) (%)	5 Year (P.A.) (%)
Davy Global Focus Fund* (Net of Fees)	3.29	1.43	5.12	10.16	6.98

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

\* The Davy Global Focus Fund was launched on 24 November 2017. As the Davy Global Focus Fund is newly established, the past performance chart reflects past performance data relating to the AIF version of this fund, the Focus Global Fund, prior to its merger with the UCITS version of the fund on 24 November 2017 (the "Merger"). Although such past performance data relates to a period prior to the Merger when the AIF version was not authorised as a UCITS, the investment policy, strategy and portfolio composition of original fund were substantially the same as the UCITS Fund's. In the circumstances, the past performance data included in this document is believed to be an appropriate reference for investors.

### Fund Overview

The aim of the **Davy Global Focus Fund** (the 'Fund') is to generate absolute returns over the medium term. Absolute returns are specific consistent positive returns which are not necessarily dependent upon specific asset class exposure or upon continuous rising markets.

### Fund Performance

The Fund rose 1.43% on an absolute basis for the quarter, in Euro terms. Following a particularly strong start to the year we have continued to locked-in profits selling stocks whose valuations had reached our price targets while simultaneously topping up positions in what we see as high quality more attractively valued stocks. We have continued to increase cash and fixed income positions in the portfolio which now stand at 18.3%. This should provide the Fund with greater flexibility during periods of uncertainty, but more importantly fire power for new investment ideas.

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&P500 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 sectors in the Fund which made positive absolute contributions to performance for the quarter were: Industrials (+1.69%), Financials (+0.85%), Materials (+0.36%), Information Technology (+0.12%), and Real Estate (+0.11%). Those sectors making negative absolute contributions were Healthcare (-0.02%), Energy (-0.12%), Consumer Staples (-0.16%), Communication Services (-0.23%) and Consumer Discretionary (-0.43%)

The best performing region for the quarter was North America (+1.75%) followed by Europe (+1.29%) which both made positive absolute contributions to the portfolio. Asian stocks which make up the lowest proportion of the Fund delivered negative absolute returns with Japan (-0.24%) and Asia ex-Japan (-0.62%) detracting for the period.

One of the top contributors to performance over the quarter was again **MSCI Inc**, the leading provider of equity and fixed incomes indices, and portfolio and risk management analytics to investment firms globally with 27% market share. During the quarter MSCI delivered another set of strong figures driven by robust subscription rates, coupled with fewer cancellations. MSCI repurchased c.\$102m in 1Q19 versus c.\$656m in 4Q18, and a further \$68m in 1Q18. Furthermore, assets under management in Exchange Traded Funds (ETFs) continues to move higher globally, as portion of its revenues are directly tied to this, we would expect earnings estimates to be raised.

One of the top detractors from performance for the quarter was **TravelSky** which 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.

### Sample Portfolio Transactions

During the quarter, the Fund exited two positions, **Aurelius AG** and **Advanced Micro Devices (AMD)**. We exited Aurelius as the stock has 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. Advanced Micro Devices has been one of the top performing stocks in the Fund year-to-date. We invested in the stock in early 2017, during latter stages of its turnaround as it launched a new range of state-of-the-art CPU and GPU products. The Fund gradually bought a full position over an 8-month period and

subsequently began to exit early in the third quarter of 2018, as the market began to fully appreciate the value of its new product stream. Over this period, its market capitalisation grew to over Eur26.5bn from Eur12.5bn, helped by rapidly falling leverage with cashflow and earnings turning sharply positive. As such AMD now trades at a premium to its history and peers which is why we've decided to exit.

Calendar Year Performance	2018 (%)	2017 (%)	2016 (%)	2015 (%)	2014 (%)
Davy Global Focus Fund (net of fees)	-7.42	11.23	1.54	12.59	5.09
MSCI World Index NDTR (MSDEWIN)	-4.11	7.51	10.73	10.42	19.50
S&P 500 Index	-4.39	21.82	11.95	1.37	13.68
Aurelius AG	-39.66	10.48	20.84	60.28	10.94
Advanced Micro Devices (AMD)	79.57	-9.35	295.12	7.49	-31.00
MSCI Inc.	17.93	62.60	10.61	54.00	8.96
S&P Global	1.36	59.31	10.55	12.27	15.45
Travelsky	13.36	45.45	29.40	54.30	12.32

Source: Davy Asset Management and Bloomberg as at 28th June 2019. Performance is quoted in local currency unless otherwise stated.

<sup>1</sup>given Covetrus Inc was established in Feb 2019, no performance data is yet available. Data for Henry Schein has been provided for information.

**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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