DAVY

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Davy **Low Carbon Equity** Strategy

Quarterly Update Q2 2019

For Investment Professionals Only

Performance	1 Month (%)	Q2 2019 (%)	YTD (%)	1 Year (%)	3 Year (P.A.) (%)
Davy Low Carbon Equity Strategy* (Net of Fees)	4.89	3.99	18.05	12.16	-
MSCI World Index**	4.30	2.54	17.43	9.02	10.85

Source: Davy Asset Management (Class AA Acc in EUR) and Bloomberg as at 28th June 2019. Davy ESG Ex-Fossil Fuels Strategy changed its name on 12th July 2019 to the Davy Low Carbon Equity Strategy.

*The Davy Low Carbon Equity Fund (previously named the Davy 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 Low Carbon Equity Fund** (the 'Fund') is to achieve long-term capital growth. We aim to achieve this by investing in a portfolio of "blue chip" global companies chosen based on 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

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 to new highs in June on the prospect of lower US interest rates. The Fund has outperformed in each month since February. Year to date the Fund is up 18.0% versus the MSCI World Index return of 17.4%.

Over the quarter the Fund outperformed rising +4.0% compared to MSCI World Index return of +2.5%. Stock selection was the key driver of performance.

Stock selection was particularly strong within Technology (VISA, TE Connectivity), Consumer Staples (Mondelez), Consumer Discretionary (Starbucks) and Utilities (Iberdrola). Selection was weakest within Consumer Services (Alphabet) and Industrials where 3M and UPS disappointed. Iberdrola and TE Connectivity contributed most to overall Fund performance.

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 from 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 upbeat 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 to performance as the Fund remained underweight the only two sectors that produced negative returns in the period namely Energy, down -2.7% and Real Estate -0.7%. The Fund also benefited being overweight the best performing sectors namely Technology and Financials.

Sample Portfolio Transactions

During the quarter, we made a few changes but in the main maintained weightings in the belief that the Fund's performance would continue to recover from the underperformance suffered in January. Indeed, the Fund has outperformed since then. We reduced our weighting in Omron, the Japanese factory automation manufacturer, after a 35% rise in the share price and sold out of Linde, the industrial gases company, as their greenhouse gas emissions and intensity were significantly higher than peers. Proceeds from these sales were spread over several holdings.

Calendar Year Performance	2018 (%)	2017 (%)	2016 (%)	2015 (%)	2014 (%)
Davy Low Carbon Equity Strategy* (Net of fees)	-	-	-	-	-
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
Omron	-39.6	51.9	12.5	-24.2	18.8
Linde	-	-	-	-	-

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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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