

DAVY GLOBAL FOCUS FUND

Q3 2018 UPDATE

PERFORMANCE	1 MONTH (%)	Q3 2018 (%)	1 YEAR (%)	3 YEARS P.A. (%)	5 YEARS P.A. (%)
DAVY GLOBAL FOCUS FUND (NET OF FEES)	0.09	5.46	13.02	8.90	8.88

Source: Davy Asset Management (Class A Acc Eur) and Bloomberg as at 28th September 2018.

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 achieve long-term capital growth through actively managed investments. The Fund is a high conviction portfolio which invests in quality global opportunities.

FUND PERFORMANCE

The Davy Global Focus Fund rose by 5.46% in the third quarter of 2018 on an absolute basis, aided by Asset Allocation, Stock Selection and Currency (long USD). This brings its return year-to-date to 8.68%, in euro terms. Although, broader market has risen by 9% year-to-date, its peer group as represented by the HFRX Equity Hedge Index (HFRXEH) rose by only 2.58% for 2018, underperforming the market by 6.42%, in euro terms. The Fund holds 7.35% in cash and fixed income instruments which offer some downside protection during periods of volatility. The factors which helped the Funds' performance over the period were a combination of quality and momentum.

The third quarter began with markets focused on President Trump's trade policy and stalled BREXIT talks. We have started the fourth more optimistically, as Canada and the US have just agreed to re-work the NAFTA trade agreement and the details show there has merely been tinkering at the edges rather than a radical overhaul. This should help sentiment in the US and calm nerves over the ongoing US-China and EU-UK disputes. Markets have risen by 9.0% year-to-date helped by another robust earnings season, where 70% of the stocks in MSCI World beat expectations, the outlook for 3Q18 earnings is robust too.

The Information Technology sector was the top contributing sector over the quarter, with **Advanced Micro Devices (AMD)** and **Cognex** rising sharply. AMD has been one of the Funds top performers year-to-date rising by 107.2% as investors began to fully appreciate the opportunities for AMD's CPUs and GPUs in datacentres. Recent industry data shows their 'new' CPUs are gaining market share relative to Intel, helped by R&D leadership and missteps by Intel in the roll out of its 10nm chips. Cognex rose by 25.9% over the same period. It's a business with very high barriers to entry; 527+ patents with 416 pending. Its much anticipated 2Q results were strong and it issued positive guidance for 3Q18, which has instilled confidence in the stock. Over the quarter we have seen sell-side analysts revise their ratings on the stock upwards despite global trade tensions. Although it delayed CAPEX spending in Asia in the first half of 2018, a strong recovery into year-end is expected as firms which had pushed out their spending on new machinery towards year end need to complete building production lines for their new plants. This is a high-quality stock which is well positioned for a variety of secular trends.

A couple of stocks have suffered due to the potential imposition of trade tariffs, but their underlying investment cases remain robust. **Man Wah** declined by 21.7% as its sofas are on the \$200bn list and c.33% of its sales are to the US. Management is hoping to minimise the effects of this by moving manufacturing to Vietnam, where a new plant has been acquired to supply the US market. This was coupled with a slowdown in demand from tier 1-2 cities in China due to a soft property market and higher commodity prices which has compressed gross margins. Management believes these trends are short term in nature and are working to offset them by altering their distribution network. Thoughts of a trade war triggered a summer sell off in base metals, as investors worried about the effects of additional tariffs on Chinese economic growth. This caused **Boliden** to de-rate sharply, bringing many of its multiples back in-line or below historic averages.

SAMPLE PORTFOLIO TRANSACTIONS

The Fund made one purchase and one sale over the quarter. We invested in Aristocrat Leisure a developer and manufacturer a range of gaming products; machines, systems and software for entertainment venues and online. It's a high-quality stock which is growing with attractive valuation characteristics. We disposed of our position in Dalata Hotel Group, the largest hotel operator in Ireland where it has been an industry consolidator. The stock had reached our price target and its quality, valuation and growth metrics are not as robust as they once were, having been investors since its IPO, the Fund has made an absolute return of c.182%.

Markets have been surprisingly robust despite the rapidly evolving political environment, which can cause them to gyrate. As investors, we realise we can't forecast these events with any accuracy which is why we focus on finding high quality businesses to invest in. We expect corporate earnings in the coming quarter to once again be strong as the positive effects of lower corporate taxes, falling unemployment and a tight jobs market propel equities. Importantly, equities aren't overvalued as they're trading broadly in-line with their 10-year median.

CALENDAR YEAR PERFORMANCE	2017 (%)	2016 (%)	2015 (%)	2014 (%)	2013 (%)
Davy Global Focus Fund (NET OF FEES)	11.2	1.5	12.6	5.1	18.9
MSCI World Index	7.5	10.7	10.4	19.5	21.2
HFRX Equity Hedge Index*	3.1	3.1	8.8	15.6	6.4
Advanced Micro Devices	(9.3)	295.1	7.5	(31.0)	61.3
Cognex Corp	92.9	89.6	(17.9)	8.3	107.6
Man Wah Holdings Ltd	47.2	20.0	47.8	15.8	95.4
Aristocrat Leisure	55.3	54.5	58.7	43.7	53.8
Dalata Hotel Group	43.5	(20.1)	90.2	-	-

*The HFRX Equity Hedge Index (HFRXEH Index) strategies maintain positions both long and short in primarily equity and equity derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques.

Source: Davy Asset Management and Bloomberg as at 28th September 2018. 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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