

Davy Discovery Equity Strategy

Quarterly update Q3 2019

For Investment Professionals Only

Performance	1 Month (%)	Q3 2019 (%)	1 Year (%)	3 Year (P.A.) (%)	5 Year (P.A.) (%)
Davy Discovery Equity Strategy* (Net of Fees)	4.03	1.13	1.32	9.26	11.36
MSCI World Small & Mid-Cap Index** (Total Return)	3.07	3.84	3.93	9.46	10.54

Source: Davy Asset Management (Class A Acc Eur) and Bloomberg as at 30th September 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. The MSCI World SMID Cap Index captures mid and small cap representation across 23 Developed Markets (DM) countries. With 5,250 constituents, the index covers approximately 28% of the free float-adjusted market capitalization in each country.

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.

Market comment

Global equity markets rose by 5.02% in a volatile third quarter dominated by slowing growth, tumbling bond yields, political drama in the UK and rising trade tensions. The MSCI World Index has now risen by an impressive 23.32% in euro terms in the first three quarters of 2019. Some central banks have been active in recent weeks, with the European Central Bank and the Federal Reserve cutting rates in the face of weakening sentiment. While the initiation of impeachment process against the US president grabbed the headlines late in the quarter, the trade war and rate cuts remain the main movers of markets.

Fund performance

The Fund returned 1.13% during the quarter, having risen by 23.67% year to date, outperforming the MSCI World SMID Index by 0.75%, in euro terms net of fees. During the quarter Stock Selection, Currency and Asset Allocation negatively affected performance, the Fund's Quality bias partially offset these effects.

The top five contributors to relative performance were Teradyne, CTS Eventim, Man Wah, Descartes Systems and CoStar. While Micro Focus, Covetrus, Moncler, H&R Block and Hostelword were the top five detractors during the period.

Teradyne, the robotics and automated testing equipment performed

strongly during the period returning 26.47%. The company delivered strong 2Q19 results and raised FY19 guidance. Semiconductor test revenue is growing faster than expected due to 5G, networking and memory test which is more than offsetting lower demand from automotive. Management believe this sector will continue to grow faster than GDP, as average selling prices for Cobots are still rising. In fact, prices could double when visualisation capabilities are added over the next twelve months.

CTS Eventim, the online ticketing company performed strongly during the quarter returning 26.34%. The company's revenues have grown 24.6% over the last 12 months. Most of this growth is organic, as there is limited potential for acquisitions. Initially, they build their presence in a market organically or if they can, they make a suitable bolt-on local acquisition. In the last quarter, they have agreed to combine their French operations with France Billet, creating a local leader. We expect this to continue, slowly consolidating the European market and positioning them as the only direct competitor to Ticketmaster.

Micro Focus, the legacy software provider detracted from performance returning -41.85%. The headwinds the firm faced in 2018, have persisted in 2019 as the integration of Hewlett Packard Enterprise has proved to be harder to integrate than prior deals. Management's ability to successfully restructure and integrate legacy assets has been called into question and the firm is now undergoing a strategic review to optimise its portfolio of products. We expect non-core businesses will be divested and cash returned to shareholders, for example.

Covetrus, the software for veterinarians producer detracted from performance returning 49.44%. Since being spun-out of Henry Schein in 1Q19, it has missed guidance twice as a combination of higher CAPEX, weakness in North American distribution, Brexit and currency negatively affected business performance. There are several factors

at play, one of which is customers buying more products online rather than from their vet highlighting a possible weakness in Covetrus's business model. Consequently, we have decided to exit this stock despite the attractiveness of this sector.

Sample portfolio transactions

Over the period, the Fund invested in taxation software provider H&R Block and the Japanese game manufacturer Capcom, which is well positioned to benefit from Apple's new gaming platform Arcade. These positions were funded by the sales of Hostelworld, Helmerich & Payne and L Brands as they no longer fit our investment criteria.

The QQE Perspective

As noted in the last of our working series, Quality Matters – Asymmetric Returns, outperforming the market during Down markets is favourable to outperforming in Up markets, due to the long-term effect of compounding returns. If an investment outperforms in a Down

market, it has less to recoup and will then be ahead over a longer period, assuming it performs in-line with the market as it rebounds – a simple case of compounding.

During the quarter, we took a deeper dive into the four individual sub-pillars making up the DAM QUALITY model – Profitability, Persistence, Protection, and People – we believe that these four pillars are essential to achieving better positive asymmetric returns. We found that whilst three of the four sub-pillars of QUALITY provide asymmetric returns, none do so to the same extent as QUALITY, highlighting that QUALITY is more than the sum of its parts.

Future analysis of QUALITY and its four sub-pillars will extend to include a wider universe to better understand the nuances.

Details of our analysis can be found in the insights section of our website <http://www.davyassetmanagement.com/insights>

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	13.7	11.71	18.55
MSCI World Index (EUR)	-4.11	7.51	10.73	10.42	19.50
Teradyne	-24.37	66.16	24.29	5.72	13.38
CTS Eventim	-14.82	33.20	-17.24	51.90	35.08
Man Wah	-55.99	47.19	20.02	47.78	15.79
Descartes Systems	0.81	24.83	2.84	61.39	21.39
CoStar	13.60	57.54	-8.81	12.56	-0.51
Micro Focus	-42.48	19.61	39.20	52.77	41.49
Covetrus	-	-	-	-	-
Moncler	11.73	59.08	29.16	16.98	-29.03
H&R Block	0.52	18.14	-28.43	1.29	18.89
Hostelworld	-45.09	83.32	5.72	-	-

Source: Davy Asset Management (Class A Acc Eur) and Bloomberg as at 30th September 2019. Performance is quoted in local currency unless otherwise stated. The MSCI World Index captures large and mid cap representation across 23 Developed Markets (DM) countries. With 1,650 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

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.

This report does not constitute an offer for the purchase or sale of any financial instrument, trading strategy, product or service. No one receiving this report should treat any of its contents as constituting advice or a personal recommendation. It does not take into account the investment objectives or financial situation of any particular person. All investments involve a degree of risk. Equities may involve a high degree of risk and may not be suitable for all investors. Government bonds and cash deposits, although considered the safest assets, are not devoid of risk (e.g. inflation risk, credit risk, currency risk, etc.). There are different reasons why an investor would choose to invest in a particular asset class and each investor must consider the inherent risks therein based on his/her own personal circumstances. The value of these investments can rise as well as fall. There is no guarantee that the investments discussed will achieve results comparable to those achieved in the past or that capital will be returned to investors. Neither past experience nor the current situation are necessarily accurate guides to the future.

MSCI Inc. (MSCI). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be reproduced, disseminated or used to create any financial products, including any indices. This information is provided on an 'as is' basis. The user assumes the entire risk of any use made of this information. MSCI, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. MSCI and the MSCI indexes are services marks of MSCI and its affiliates.

'SPDR' is a registered trademark of Standard and Poor's Financial Services LLC ('S&P') and has been licenced for use by State Street Corporation. Standard and Poor's, S&P 500 and S&P MIDCAP 400 are registered trademarks of S&P. No financial product offered by State Street Corporation or its affiliates is sponsored, endorsed, sold or promoted by S&P and its affiliates make no representation, warranty or condition regarding the advisability of buying, selling or holdings units/shares in such products. Further limitations and important information that could affect investors' rights are described in the prospectus for the applicable product.

Davy Asset Management

Davy House, 49 Dawson Street, Dublin 2, D02 PY05, Ireland.
T +353 1 614 8874 E assetmanagement@davy.ie

www.davyassetmanagement.com

Confidential © Davy 2019

As a valued client of Davy Asset Management, this communication has been sent to you as part of our service offering. If you are not a client of Davy Asset Management, you can opt out of further similar communications at any stage by emailing assetmanagement@davy.ie. The Davy Group Privacy Notice can be found at www.davyassetmanagement.com

Davy Asset Management Limited, trading as Davy Asset Management, is regulated by the Central Bank of Ireland. In the UK, Davy Asset Management is authorised by the Central Bank of Ireland and authorised and subject to limited regulation by the Financial Conduct Authority. Details about the extent of our authorisation and regulation by the Financial Conduct Authority are available from us on request.

The Davy Discovery Equity Fund is a sub-fund of Davy Funds plc, an open-ended umbrella investment company with variable capital and segregated liability between sub-funds incorporated with limited liability under the Companies Acts 2014, authorised by the Central Bank of Ireland as a UCITS pursuant to the Regulations. Davy Funds plc is authorised by the Central Bank of Ireland as an Undertaking for Collective Investment in Transferrable Securities (UCITS). The Prospectus, Supplement and Key Investor Document for the fund are available in English from Davy Asset Management, Davy House, 49 Dawson Street, Dublin 2, Ireland or <http://www.davyassetmanagement.com/funds/davy-ucits/important-information.html>. Investors should be aware that some of the Directors of the Company (Davy Funds plc) are also employed by the Investment Manager, Promoter and Distributor. Further information in relation to the management of potential conflicts of interest is available upon request.

No part of this document is to be reproduced without our written permission. This document has been prepared and issued by Davy Asset Management on the basis of publicly available information, internally developed data and other sources believed to be reliable. The information contained herein does not purport to be comprehensive and is strictly for information purposes only. It does not constitute an offer or an invitation to invest. No party should treat any of the contents herein as advice in relation to any investment. While all reasonable care has been given to the preparation of this information, no warranties or representation expressed or implied are given or liability accepted by Davy Asset Management or its affiliates or any directors or employees in relation to the accuracy, fairness or completeness of the information contained herein. Any opinion expressed (including estimates and forecasts) may be subject to change without notice. We or any of our connected or affiliated companies or their employees may have a position in, or may have provided within the last twelve months, significant advice or investment services in relation to any of the securities or related investments referred to in this document.