DAVY

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Davy **ESG 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 ESG Equity Strategy* (Net of Fees)	3.58	6.43	12.04	12.08	10.26
MSCI World Index**	3.16	5.02	8.49	11.33	10.39

Source: Davy Asset Management (Class A Acc in EUR) and Bloomberg as at 30th September 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. 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.

Fund overview

The aim of the **Davy ESG Equity Fund** (the 'Fund') is to achieve long-term capital growth. We aim to achieve this by using both quantitative and fundamental research that should result in a portfolio of high-quality companies that exhibit strong environmental, social and governance characteristics.

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 outperformed the MSCI World Index during the quarter by 1.41%, returning 6.43% net of fees in euro terms. The Fund is now 2.16% head of the MSCI World Index year-to-date after returning 25.48%.

Stock Selection was particularly strong and the main driver of performance during the quarter. The top five contributors to relative performance were Alphabet, Medtronic, Smith & Nephew, Deutsche Boerse and Home Depot. While Prudential, Rio Tinto, Continental, International Flavours and Fragrances, and Hang Seng Bank were the top five detractors during the period.

Alphabet outperformed during the quarter returning +17.80%. The stock rose over the period, buoyed by Q2 earnings in July, which beat analyst expectations. The result was well received as advertising revenues returned to over 20% growth following a Q1 miss. All the long-term drivers remain in place such as machine learning, artificial intelligence, cloud computing and other bets such as Waymo (driverless car). Alphabet's mission is to make information accessible and useful to help people in their daily lives, e.g. Google Assistant. The stock remains a core holding.

Medtronic, the medical devices company, returned +17.73% during the quarter. Outperformance was triggered by strong Q1 results, a raising of full year guidance and excitement about their product pipeline which will see some big launches over the next 12-24 months. Launches will include a leadless pacemaker and a next generation diabetes sensor. The industry is susceptible to product recalls and Product Safety is seen as a key ESG risk. It is promising to see an improvement in this metric as product recalls fell 30% in 2018.

Prudential, the UK life insurance company, detracted from performance in the quarter returning -12.02%. The execution risk of the demerger of its UK business, poor sentiment for emerging markets, riots in Hong Kong and lower global bond yields contributed to the underperformance. With the UK demerger set for Q4 2019, focus will return to Prudential's Asian life business. This is a massive opportunity given higher growth economies and an emerging middle class. The shares remain a core holding within the insurance sector.

Rio Tinto, the mining giant, returned -9.13% during the quarter. First half results were in line with expectations and the company continued to return cash to shareholders in the form of a higher dividend and a special buyback. The company remains focussed on value over volume in iron ore. Management continue to be positive on the outlook, saying iron ore and steel fundamentals remain robust. However, with 43% of revenues generated in iron ore the shares declined as the iron ore price fell over the period.

Sample Portfolio Transactions

During the quarter we made a number of changes to improve the overall Quality and ESG characteristics of the Fund. To this end we sold out of Continental the German tyre and auto components manufacturer and Newell Brands, the US home and office furnishings group. With regard to Continental we took the view that the outlook for the auto industry was going to remain difficult and although the shares appear to be good value we sought to invest in another opportunity with more visibility. Newell Brands is a company in transition and had been a poor performer. A strong price performance post results in August gave us the opportunity to sell the name to fund new positions.

We initiated a new position in Unilever where we believe it is set to improve its top line growth whilst improving its margins. We also bought a position in Singapore Exchange which offers both defensive qualities, over 50% of the business is in derivatives, and high returns on capital.

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 ESG Equity Strategy (Net of fees) (EUR)	-1.57	7.07	4.33	11.47	15.80
MSCI World Index (EUR)	-4.11	7.51	10.73	10.42	19.50
Alphabet	-0.80	32.93	1.86	46.61	-5.39
Medtronic	15.19	15.89	-5.44	8.62	28.13
Home Depot	-7.32	44.61	3.54	28.54	30.25
Smith & Nephew	15.97	7.50	3.05	3.49	40.57
Deutsche Boerse	10.77	30.00	-3.29	41.40	2.25
Prudential	-24.40	20.15	10.38	5.05	14.25
International Flavours and Fragrances	-10.11	31.96	0.40	20.20	19.94
Continental	-45.25	25.04	-16.59	29.88	11.77
Hang Seng Bank	-6.07	39.66	4.33	18.63	7.37
Rio Tinto	0.30	31.55	68.37	-30.40	-8.75

Source: Davy Asset Management (Class A Acc in EUR) and Bloomberg as at 30th September 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.

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.

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