

# Davy Global Focus Fund

## Quarterly update Q3 2019

For Investment Professionals Only

Performance	1 Month (%)	Q3 2019 (%)	1 Year (%)	3 Year (P.A.) (%)	5 Year (P.A.) (%)
Davy Global Focus Fund* (Net of Fees)	2.71	2.63	2.31	9.58	7.42

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

### 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 2.63% during the quarter and has risen by 20.09% year-to-date net of fees in euro terms. Over the period we locked in gains in several stocks and increased the Fund's allocations to Cash and Fixed Income securities by 4.6% and 4.4%, respectively. This is in anticipation of additional periods of volatility in the final quarter of 2019. Although equities are still attractively valued, they are trading broadly in-line with historic averages.

Within the equity basket the top five contributors to relative performance were CTS Eventim, Teradyne, Taiwan Semiconductor Manufacturing Company, Man Wah, and CoStar. While Covetrus, Apple (not held), H&R Block, Ultra Beauty and Pfizer were the top five detractors during the period.

**Teradyne**, the robotics and automated testing equipment company, performed strongly during the period returning 26.47%. The company has performed strongly, after delivering strong 2Q19 results and raising 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 price for Cobots are still rising. In fact, prices could double when visualization 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.

**Covetrus**, the producer of software for veterinarians, 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 weaknesses in Covetrus's business model. Consequently, we have decided to exit this stock despite the attractiveness of this sector.

**Pfizer**, the US pharmaceuticals company, underperformed during the quarter returning -12.55% relative to the Health Care sector. Pfizer agreed to spin-off its generic drugs division Upjohn to its peer Mylan mid-quarter, which should be a positive for the stock. Pfizer has been restructuring its business for some time and this move creates a potential powerhouse in the challenging generic drugs sector. Importantly, it allows Pfizer to focus on more profitable branded drugs. The deal comes after years of consolidation in the generic drug industry, where firms are struggling to maintain revenues in a world of falling prices.

### Sample portfolio transactions

Over the period, the Fund invested in taxation software provider H&R Block and two positive yielding short duration investment grade Italian bonds as a hedge against market volatility. These purchases were funded by the sales of ABB, Anta Sports, Sika and Sun Trust as they had achieved their valuation targets. Covetrus, Helmerich & Payne, Hostelworld, L Brands, and Siemens were sold 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 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
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
CoStar	13.60	57.54	-8.81	12.56	-0.51
Covetrus <sup>1</sup>	-	-	-	-	-
H&R Block	0.52	18.14	-28.43	1.29	18.89
Taiwan Semiconductor Manufacturing Company	-3.57	42.31	31.14	4.94	31.15
Apple	-5.39	48.48	12.48	-3.02	40.62
Ultra Beauty	9.47	-12.27	37.81	44.71	32.45
Pfizer	24.82	15.88	4.46	7.10	5.30

Source: Davy Asset Management 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.

<sup>1</sup> Given Covetrus Inc. was established in February 2019, no performance date is yet available."

**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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