

# Davy Strategic Global 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 Strategic Global Equity Strategy* (Net of Fees)	2.25	6.06	7.46	9.06	7.40

Source: Davy Asset Management (Class B Acc Eur) and Bloomberg as at 30th September 2019

\* Investment Management of the Davy Strategic Global Equity Fund was assumed by Davy Asset Management during the month of September 2018.

## Fund overview

The investment aim of the **Davy Strategic Global Equity Fund** (the 'Fund') is to provide long term capital growth spreading the risk through geographical and sector diversification whilst predominantly taking long only investment positions in mostly UK, European and U.S equity markets, with some exposure to Japan, the Far East and emerging 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 6.06% during the quarter, outperforming the MSCI World Index and MSCI World Quality Index by 1.04% and 0.25% respectively in euro terms net of fees. Stock Selection, Asset Allocation and Currency were all positive contributors to relative performance during the quarter.

Stock Selection contributed positively to performance during the third quarter. The top five contributors to relative performance were Alphabet, Netflix (not held), Apple, NTT Docomo and Home Depot. While AT&T (not held), Facebook, Medtronic (not held), Hong Kong Exchanges and Align Technologies were the top five detractors during the period.

**Alphabet**, the US parent company of Google, outperformed during the quarter returning +17.80%. Alphabet rose over the period, buoyed by Q2 earnings toward the end of July, beating analysts' expectations. The result was well received following their Q1 miss on revenue earlier

in the year. The company's beat was driven by Google Properties (e.g. Search/YouTube) which had healthy growth year-on-year. In addition, Google Cloud reached an \$8bn run rate (up from \$4bn in 4Q17) driven by strength in its computer and analytics product.

**Apple** was another strong contributor to performance during the third quarter returning +18.66%. During Q3 the stock hit the trillion-dollar mark for the first time this year following the release of the latest iPhone pricing strategy. The strategy was well received by analysts who expect it to make the iPhone more affordable. Analysts were also impressed with Apple's streaming offer, which undercuts competitors like Netflix and Disney. It is thought these offerings will reduce churn rates and retain customers in the Apple ecosystem, which has huge long-term benefit.

**Boeing**, the US manufacturer of airplanes, was one of the largest detractors from performance during the quarter returning -4.32%. The stock had steadily declined since March as a result of the Ethiopian Airlines 737 Max crash. Following Q2 results at the end of July, Boeing no longer fitted the Fund's Quality style owing to a decline in profitability, and the Fund's position in the stock was exited at the start of August.

**Amazon** detracted from performance, returning -4.25% during the period. The stock fell following its Q2 earnings release. While there were many positives from the results, the earnings failed to meet market consensus. A miss on EPS, and a decline in operating margin from previous quarters were not well received, leading to the share price drop. In addition, the company profit warned for Q3 results, which are due in the coming weeks, further fuelling their share price slump.

## Sample portfolio transactions

Over the quarter, the Fund initiated positions in Amgen, Brown Forman, Illinois Tool Works, Waste Management Inc., Canadian National Railway and Regency Centers. The Fund exited positions in the following declining quality names: Celgene, Lowes, Boeing, Vonovia, Deutsche Wohnen and Recruit Holdings.

## 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 Strategic Global Equity Fund (net of fees)	-8.60	8.12	7.43	7.58	12.89
MSCI World Index (EUR)	-4.11	7.51	10.73	10.42	19.50
MSCI Quality index (USD)	-5.50	25.96	4.55	3.71	8.45
Align Technologies	-5.74	131.13	45.98	17.78	-2.15
Alphabet	-1.03	35.58	1.71	44.56	-
Apple	1.36	59.31	10.55	12.27	15.45
Amazon	28.43	55.96	10.95	117.78	-22.18
AT&T	-22.24	-3.94	29.88	8.33	0.65
Boeing	11.53	94.77	11.32	14.05	-2.53
Facebook	-25.71	53.38	9.93	34.15	42.77
Hong Kong Exchange	-2.87	33.92	-5.20	18.45	35.72
Medtronic	15.19	15.89	-5.44	8.62	28.13
Netflix	39.44	55.06	8.24	134.38	-7.21
NTT Docomo	-3.65	3.41	10.32	45.22	6.12
Home Depot	-7.32	44.61	3.54	28.54	30.25

Source: Davy Asset Management (Class B Acc Eur) and Bloomberg as at 30th September 2019. Performance is quoted in Local 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. The MSCI World Quality Index is based on MSCI World, its parent index, which includes large and mid cap stocks across 23 Developed Market (DM) countries. The index aims to capture the performance of quality growth stocks by identifying stocks with high quality scores based on three main fundamental variables: high return on equity (ROE), stable year-over-year earnings growth and low financial leverage.

**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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