

DAVY GLOBAL BOND STRATEGY

Q4 2018 UPDATE

PERFORMANCE	1 MONTH (%)	Q4 2018 (%)	1 YEAR (%)	3 YEARS P.A. (%)	5 YEARS P.A. (%)
DAVY GLOBAL BOND STRATEGY* (NET OF FEES)	1.34	1.29	-0.76	0.51	2.03
JPM GLOBAL GOVERNMENT BOND INDEX**	1.48	1.70	-0.27	0.79	2.33

Source: Davy Asset Management (Class A Acc Eur) and Bloomberg as at 31st December 2018.

*The Davy Global Bond Fund was launched on 12th December 2014. Investors should note the Davy Global Bond Fund (UCITS) is newly established. The past performance reflects past performance data relating to the Davy Global Bond Fund (non-UCITS) which merged with the Davy Global Bond 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.

FUND OVERVIEW

The aim of the **Davy Global Bond Fund** (the 'Fund') is to protect capital against volatility, deflation and bear markets by investing primarily in global sovereign bonds.

FUND PERFORMANCE

Global yields fell during the fourth quarter, as investors grew increasingly worried about the potential for a global economic slowdown caused by the intensifying of a US and China trade war and tighter US monetary policy. In addition, the collapse in the price of oil helped push both inflation expectations and bond yields lower. These events contributed to the JP Morgan Global Bond Index (euro hedged) returning +1.7% on the quarter.

From a relative performance perspective, the Fund underperformed during this period. The Fund's high conviction position in Italy significantly outperformed as the Italian government came to a compromise on its 2019 budget with the European Commission. However, this was offset by the underperformance of US Treasury Inflation Protected Securities (TIPS) and Japanese Inflation Linked Bonds due to both the dramatic fall in oil prices and negative market sentiment. In addition, Transport for London, the London underground municipal (Aa3/AA- Moody's/S&P and Fitch), underperformed due to a delay in the construction of the Elizabeth Line.

POSITIONING

From our perspective the fourth quarter was a disappointment. However, we believe the prevailing end of cycle fears are excessive and the large market dislocations seen in December have led to several asymmetric opportunities for the Fund:

- 1) We believe the selloff in US TIPS is overdone and they are pricing in too much disinflation, even discounting for the large drop in oil prices. Therefore, we have added to this position.
- 2) Global yield levels now look too low to us, particularly in the UK where the market now appears to be pricing in an excessively high probability of a hard Brexit. We believe the UK authorities can and will avoid a hard Brexit. As a result we positioned the Fund short duration in UK Gilts during December in anticipation of higher yields.
- 3) While we have profited significantly from the tightening in Italian spreads, we believe Italy's risk-return profile remains asymmetric. Italian spreads remain in sub-investment grade territory, despite being firmly rated investment grade by the credit rating agencies. In addition, Spanish bonds have underperformed in recent weeks and we believe they also have the potential to outperform.

CALENDAR YEAR PERFORMANCE	2018 (%)	2017 (%)	2016 (%)	2015 (%)	2014 (%)
Davy Global Bond Strategy (Net of fees)	-0.76	0.38	1.93	0.30	8.59
JPM Global Government Bond Index (Euro Hedged)**	-0.27	0.40	2.35	1.05	8.47

Source: Davy Asset Management (Class A Acc Eur) and Bloomberg as at 31st December 2018. Performance is quoted in local currency unless otherwise stated.

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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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The Davy Global Bond 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 Transferable Securities (UCITS). The Prospectus, Supplement and Key Investor Document for the fund are available in English from Davy, 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.

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