DAVY ASSET MANAGEMENT

FOR INVESTMENT PROFESSIONALS ONLY

DAVY ESG EX-FOSSIL FUELS STRATEGY

Q4 2018 UPDATE

PERFORMANCE	1 MONTH (%)	Q4 2018 (%)	1 YEAR (%)	3 YEARS P.A (%)	5 YEARS P.A (%)
DAVY ESG EX-FOSSIL FUELS STRATEGY* (NET OF FEES)	-	-	-	-	-
MSCI WORLD INDEX**	-8.48	-12.03	-4.11	4.51	8.54

Source: Davy Asset Management (Class AA Acc in EUR) and Bloomberg as at 31st December 2018.

*The Davy Global ESG EX-Fossil Fuels Fund is a newly established (UCITS) fund and was launched on 26th April, 2018. As such there is currently insufficient data to provide any useful indication of past performance to 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 ESG EX-Fossil Fuels Fund** (the 'Fund') is to achieve long-term capital growth. The objective will be achieved by investing in a portfolio of "blue chip" global companies chosen on the basis of carbon emissions criteria. The Fund favours corporate practices that have actively embraced carbon emissions reduction relative to peers. The Fund does not invest in companies who explore, extract or profit from the burning of fossil fuels.

FUND PERFORMANCE

The **Davy Global ESG EX-Fossil Fuels Fund** outperformed the MSCI World Index in the final quarter of 2018 by 1.69%, returning -10.34% versus the benchmark return of -12.03%.

Despite a challenging macroeconomic environment, which sent markets into a tailspin in December, the defensive quality of the Fund stood out, helping drive strong performance through the month. In sectoral terms, the Consumer Discretionary sector drove fund performance, contributing 69bps in total and closely followed by Healthcare (51bps). The structural underweight to Energy stocks also positively contributed across the quarter. Financials was the worst performing sector through the quarter. **Starbucks** and **Merck** were the best performing stocks in the portfolio while **Apple** and **Fresenius Medical Care** were worst performing stocks from an attribution perspective.

Starbucks had a strong quarter as the stock rose on some compelling earnings performance and a bullish guidance for the coming year. Same-store sales, an important performance metric in retail, was robust in the US and China, providing evidence that recent growth initiatives, such as a delivery partnership with Alibaba and a large push into digital, are bearing fruit. Given the difficult 2018 Starbucks has had thus far, the inflection in growth trends and bullish guidance point to a more positive 2019.

Merck, a high conviction holding, also performed strongly through the quarter, providing a shining light in a struggling pharmaceutical sector. The US company raised earnings guidance for the full year and increased their share buyback, supporting a hefty price move through the quarter. We see Merck as a well-managed leader in the lucrative immuno-oncology market through its drug, Keytruda, with a strong supporting cast including HPC vaccine Gardasil. We see further upside in this stock as further clinical trial results are released, and a conservatively managed balance sheet gives optionality for increased shareholder returns.

Frustratingly, despite reducing our position at the start of the November following a very strong run, Apple was the worst performing stock in the portfolio. Concerns over weak demand for the new iPhone grew legs through November as the company made a strategic decision to stop reporting unit sales. The negative sentiment was compounded by potential tariffs and profit warnings from suppliers. Despite this, Apple provided a solid set of quarterly earnings with continued growth in Services revenue and evidence of success in continued upselling of iPhones. We will monitor Apple's performance over the coming period and separate noise from any potentially deteriorating fundamentals.

Fresenius Medical Care was also weak through December as the world's leading dialysis provider compounded their profit warning earlier this quarter with materially weaker guidance for 2019. Given that a major issue with Fresenius historically has been the opacity of their business, we see attempts to provide increased transparency and clarity around their guidance as a positive in the long term. However, the guidance must be viewed as pushing the "reset" button and we will expect improved performance against these lowered expectations.

SAMPLE PORTFOLIO TRANSACTIONS

During the quarter, the Fund added custodian bank **State Street** to the portfolio. We took advantage of recent price weakness following their acquisition of Charles River Development (CRD) to start a position in the stock. State Street benefit from a structural trend of asset managers outsourcing back office services, allied to the growth of passive investing. They are also a net beneficiary of rising interest rates in the US. Most interestingly, we also believe the market underappreciates the synergies and long-term vision behind the CRD deal, which could revolutionise the industry by creating the market's first integrated front-to-back office solution.

CALENDAR YEAR PERFORMANCE	2018 (%)	2017 (%)	2016 (%)	2015 (%)	2014 (%)
Davy Global ESG EX-Fossil Fuels Strategy* (Net of fees)	-	-	-	-	-
MSCI World Index**	-4.1	7.5	10.7	10.4	19.5
Starbucks	18.7	-7.6	-0.8	66.5	21.0
Merck	45.1	-13.6	18.8	5.9	35.1
Apple	-1.5	30.3	15.3	9.9	63.5
Fresenius Medical Care	-34.7	10.3	9.0	29.2	24.1
State Street	-30.7	12.1	25.2	-4.7	23.8

Source: Davy Asset Management (Class AA Acc in 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.

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.

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 ESG Ex Fossil Fuels 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, 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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