

# GLOBAL BRANDS EQUITY STRATEGY

## Q4 2018 UPDATE

PERFORMANCE	1 MONTH (%)	Q4 2018 (%)	1 YEAR (%)	3 YEARS P.A. (%)	5 YEARS P.A. (%)
GLOBAL BRANDS EQUITY STRATEGY* (NET OF FEES)	-7.76	-10.98	-7.62	0.95	6.83
MSCI WORLD INDEX**	-8.48	-12.03	-4.11	4.51	8.54

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

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

### FUND OVERVIEW

The aim of the **Global Brands Equity Fund** (the 'Fund') is to provide investors with long term capital growth by investing on a global basis in shares of companies which have strong brand characteristics. Such companies are expected to have competitive advantages including dominant market share and/or unique product characteristics that provide the potential for growth globally.

### FUND PERFORMANCE

The Fund returned -10.98% in the fourth quarter of 2018 compared the MSCI World Index return of -12.03%, outperforming its benchmark by 1.05% and by 0.72% in December.

Stock selection (+0.3%) contributed positively to performance during the quarter. Significant contributors and detractors to performance during the quarter were **Starbucks** (+0.8%), **Amazon** (+0.5%), **Apple** (+0.3%), **Pernod Ricard** (+0.3%) and **British American Tobacco** (BAT) (-0.5%). Starbucks reported stronger than expected US comparable sales and a return to growth in China in F4Q18. We believe recent deals with Nestle and Alibaba streamline the business to allow management to focus on re-accelerating the core retail operations. Amazon's ranking on our proprietary QUALITY model has improved of late due to improving Profitability metrics, but the company still ranks poorly on the Protection and Payout pillars of our model. In the case of Apple the stock has derated to trade at 13x consensus forward EPS due to concerns over slowing iPhone sales in the coming quarters. BAT contributed negatively after the FDA (US Food and Drug Administration) announced it plans to review the use of menthol cigarettes in the US, in addition to a review of flavours in e-cigarettes that was previously announced. We added to the stock on weakness as we expect tobacco fundamentals to remain robust despite regulatory headwinds.

Asset allocation had a +1.0% impact on relative performance during the quarter. The performance was driven by our overweight positions in Consumer Staples (+1.6%) and underweight positions in Energy (+0.5%) and Industrials (+0.3%), partially offset by our overweight position in Consumer Discretionary (-0.5%) and underweight positions in Utilities (-0.4%) and Healthcare (-0.3%).

### SAMPLE PORTFOLIO TRANSACTIONS

The Fund was active during the quarter adding a new position in **Intercontinental Exchange** and adding to existing positions in Alibaba and British American Tobacco, while exiting our positions in WPP, Marriott and Royal Caribbean.

The Fund remains defensively positioned with the aim of delivering asymmetric risk reward over time. We remain committed to our investment philosophy process and invest in companies that exhibit pricing power and generate high operating returns on invested capital, combined with attractive structural growth opportunities. We continue to find attractive investment opportunities in companies with strong fundamentals at reasonable valuations.

CALENDAR YEAR PERFORMANCE	2018 (%)	2017 (%)	2016 (%)	2015 (%)	2014 (%)
Global Brands Equity Strategy (Net of fees)	-7.6	10.0	1.2	17.7	14.9
MSCI World Index**	-4.1	7.5	10.7	10.4	19.5
Starbucks	14.8	5.4	-6.1	48.2	6.2
Amazon	28.4	55.9	10.9	117.8	-22.7
Apple Inc	-5.4	48.5	12.5	-3.0	40.6
Pernod Ricard SA	10.5	30.3	-0.2	16.0	13.5
British American Tobacco PLC	-47.2	13.4	27.1	12.2	12.9

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

\*\* The benchmark index shown above does not include fees or operating expenses and you cannot invest in it.

**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 Global Brands Equity 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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