

DAVY GLOBAL FOCUS FUND

Q4 2018 UPDATE

PERFORMANCE	1 MONTH (%)	Q4 2018 (%)	1 YEAR (%)	3 YEARS P.A. (%)	5 YEARS P.A. (%)
DAVY GLOBAL FOCUS FUND (NET OF FEES)	-8.66	-14.81	-7.42	1.50	4.35

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

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.

FUND PERFORMANCE

The fourth quarter of 2018 saw the Fund decline by 14.81% on an absolute basis, as negative stock selection more than offset any positive contributions to performance from cash and fixed income. During the quarter, global equity markets (as per the MSCI World Index), fell by 12.03%, in euro terms erasing positive gains from earlier in 2018. The pace of the sell-off picked up in December, making the fourth quarter of 2018 the worst since the 2008 Global Financial Crisis and, by some measures, the worst December stock market performance since 1931. Disappointingly this has resulted in a high single figure percentage loss for the Fund over the full 2018 calendar year.

Although the Fund's holding in cash and fixed income instruments rose to 11.14% over the period, providing some downside protection, as did Quality our house style. This was despite the third quarter earnings season being positive for companies, with 70% of stocks in the MSCI World Index (MSDEWIN) beating expectations.

The Real Estate sector was the top contributing sector over the quarter, with our latest addition to the Fund, **Welltower** performing well in a challenging market environment. It specialises in healthcare infrastructure and owns 1,482 properties, 267 of which are in the UK. Its area of focus is housing for seniors (72% revenues), post-acute care facilities (11% revenues), and outpatient medical (17% revenues). These are large global addressable markets well over c.\$1tr in size. The markets are regional, highly fragmented and growing; no REIT owns >c.3% of the market, and <c.15% is owned by REITs at all, so there's plenty of room for future consolidation.

The Fund's exposure to North America was the principal driver of weak performance in the final months of 2018 as Technology stocks were aggressively de-rated despite attractive fundamentals. Although we had been locking in profits over the course of 2018, the sharpness of the global sell-off in equities meant we were reluctant to exit stocks whose investment case was unchanged and were even more attractively valued. For example, we had been steadily reducing the Fund's position in **Advanced Micro Devices** after it had risen by 210% by the end of the third quarter of 2018. Although we had halved the Fund's position, we continued to own the stock given its attractive fundamentals as its business is on an upward trajectory with all operational metrics advancing in 2018.

Equally, stocks indirectly exposed to the Technology sector such as **Silicon Valley Bank** sold off despite hosting a successful investor day in early December. It's a beneficiary of higher interest rates due to its asset sensitivity, so the most recent rate rises are earnings accretive. It operates in one of the strongest regional US economies (Silicon Valley, San Francisco) with a focus on the technology, life sciences, private equity and venture capital sectors where loan growth continues to be strong. We topped up our position of the stock over the period.

SAMPLE PORTFOLIO TRANSACTIONS

The Fund made two purchases and one sale over the quarter. The first purchase was in Welltower, the specialist provider of healthcare infrastructure. It's a high-quality stock which is growing with attractive valuation characteristics. The second was **Nestle**, who is concentrating on its core coffee, pet care, nutrition and water assets. The market expects it to achieve its sales and EBIT margins target in 2020, helped by selective M&A activity to strengthening its market position. This focus reduces its reliance on higher prices as it focuses on being the market leader in these categories. Nestle's core categories have high margins (except for water) and as such it's a high-quality business. Its ongoing restructuring has resulted in it being attractively valued, which coupled with its defensive characteristics make it an attractive investment.

We disposed of our position in **Republic Services Group**. Although, RSG is a high-quality stock it is trading at a premium to its history and beginning to face pricing headwinds which makes us cautious. We have been gradually exiting our position after having made a total return of 100% since mid-2014.

Markets for most of 2018 were surprisingly robust despite the rapidly evolving political environment, which caused them to fluctuate. The sell-off in the final quarter highlights once again the importance of investing in high quality businesses. Corporate earnings are expected to be positive for Q418 due to the positive effects of lower corporate taxes. Importantly for investors, equities are the cheapest they've been since 2013 and many of these negative headlines are likely to soften in 2019.

CALENDAR YEAR PERFORMANCE	2018 (%)	2017 (%)	2016 (%)	2015 (%)	2014 (%)
Davy Global Focus Fund (NET OF FEES)	-7.4	13.8	1.5	12.6	5.1
MSCI World Index	-4.1	7.5	10.7	10.4	19.5
ADVANCED MICRO DEVICES	79.6	-9.3	295.1	7.5	-31.0
Welltower	15.3	0.2	3.4	-5.7	48.5
Silicon Valley Bank	-55.6	23.2	18.6	59.0	20.0
NESTLE	-1.8	18.2	1.1	5.2	15.3
Republic Services Group	8.8	21.0	32.9	12.4	24.7

Source: Davy Asset Management and Bloomberg as at 31st December 2018. Performance is quoted in local currency unless otherwise stated.

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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