

# DAVY GLOBAL ALPHA FUND

FROM  
IRISH LIFE

## Q2 2018 UPDATE

This fund is provided by Irish Life Assurance plc and is managed by Davy Asset Management.

PERFORMANCE	1 MONTH (%)	Q2 2018 (%)	1 YEAR (%)	3 YEARS P.A. (%)	5 YEARS P.A. (%)
DAVY GLOBAL ALPHA FUND (NET OF FEES)	-3.5	-2.3	3.1	3.7	10.3
MSCI WORLD INDEX	-3.1	-3.7	-1.3	3.2	10.6

Source: Irish Life Investment Managers Ltd (Performance is quoted gross of tax and net of fund management charge) and Bloomberg as at 29th June, 2018. The fund management charge and product charges will vary depending on the terms and conditions of your policy.

### FUND OVERVIEW

The aim of the **Davy Global Alpha Fund** (the 'Fund') is to achieve capital growth through investing in industry leading equity funds. The Fund may be appropriate for conservative equity investors seeking to spread risk while retaining the potential for outperformance. It may be suitable as a core holding due to its regional diversification, style blend and focus on skilled managers.

### FUND PERFORMANCE

For investors in many asset classes as Charles Dickens wrote in "A Tale of Two Cities" 2018 has seen both the best of times and the worst of times, as total market returns have masked the intra half-year volatility in many asset classes, sectors and stocks. For investors taking a longer-term view equities at current valuation levels continue to offer upside as long as recession is averted. The disparity between current and cyclically adjusted PE ratios, especially in the States, highlights that this has been an elongated economic cycle. Work by a number of economists, including Ben Bernanke previous Fed Chair, have argued that upswings do not end from old age alone. Ends to economic cycles typically occur through economic imbalances and whilst in the short term these seem absent from the global economy certain threats or risks have increased during Q2. Whilst the acceleration in the global economy seen in 2017 has moderated, growth for this year, together with improvements in company profitability, looks certain to occur. One of the most important questions for investors to focus on is how long the current economic upswing can continue. Here history is less of a useful guide as the atypical nature of the downturn and upswing means there are no recent cycles to judge today's world against.

Over the quarter the MSCI World Index rose by 7.2%, whilst the Global Alpha Fund increased by 9.2%. The stand-out performer over the quarter was the **Baillie Gifford American Fund** which rose by approximately 23%, more than double the return of the **S&P500** index. Performance was driven by its overweight position in disrupter type names, particularly the so-called US FANGS of Facebook, Amazon, Netflix and Google (Alphabet). After a period of volatility in Q1 which started in February US Technology names have rebounded strongly as these strong global businesses continue to offer investors a perceived defensive as well as fast growing earnings profile. Other US funds within the portfolio such as the **JPM US Select** returned marginally below the S&P 500, whilst the **Schroder Mid Cap Fund** delivered a return of over 9% during the quarter.

Asia and in particular other Emerging Markets had a difficult Q2, after strong performance in 2017 and Q1; expectations of further US monetary tightening led to tougher domestic liquidity conditions within many countries. Funds in this area utilised in Global Alpha have always been selected for their defensive qualities and, for example, in Asia during the quarter, while passive investment options rose around 2%, the **FSSA Asia Focus Fund** returned over 3.6% which was a first quartile return. The Stewart Investors Asia Pacific Leaders returned over 6% during the quarter. Within Emerging Markets, while the index was down close to 3% the **Stewart Investors GEM Leaders Fund** held within Global Alpha rose close to 2%. The Asia and Emerging Markets funds have always been chosen with at least as much an eye on downside risk management in difficult markets as upside potential. The Stewart Investor teams' funds have been present in Global Alpha since launch and have avoided large drawdowns in this sometimes volatile part of the world.

The UK equity market had a strong Q2 with both the **Old Mutual Mid Cap Fund** and the **Standard Life UK Smaller Companies Fund** delivering returns broadly in line with the Index of over 8% during the quarter. Both funds have a growth orientation and are looking for businesses that can continue to grow at a fast rate within the respective niches they operate in, and sometimes this niche is a global rather than just a country or regional one. Both funds are investing in businesses which are growing faster than the market average and expect this to be sustained for a number of years.

In Japan the **FSSA Japan Focus Fund** again had an excellent quarter returning over 6% against an index increase of around 4%. The focus within the portfolio on companies in the manufacturing space that are enabling technology businesses to deliver, together with niche retailers and Pan Asian consumer brands, continues to leave the fund well placed to pick up on both regional and global growth. The small holding in the JOHCM Japan Fund lagged over the quarter as its value investment style remained out of favour. Within Europe the **JOHCM Continental European Fund**, a core holding, delivered on its objectives beating the Index with a return of just over 3% versus a passive return of around 2.75%. There is a significant holding in the **BlackRock Continental Flexible Fund** which is focused on growth companies benefitting from secular trends and this fund delivered over 6% during the quarter.

## SAMPLE PORTFOLIO TRANSACTIONS

Overall, Global Alpha continues to be focused on businesses benefitting from or exposed to the long-term growth drivers within the global economy and is not relying on profit pools to mean revert in an age when disruptive businesses continue to gain market share. The strong long-term growth prospects for the businesses held suggest that over the medium term Global Alpha should continue to deliver excellent returns to its investors.

CALENDAR YEAR PERFORMANCE	2017 (%)	2016 (%)	2015 (%)	2014 (%)	2013 (%)
Davy Global Alpha Fund	11.1	4.7	14.8	14.8	18.7
MSCI World Index	7.5	10.7	10.4	19.5	21.2
Baillie Gifford American Fund	23.6	27.3	13.5	17.6	26.2
S&P 500 Index	59.3	10.5	12.3	15.5	45.9
JPM US Select Fund	9.7	32.6	5.2	22.0	34.3
Schroder US MID-CAP	4.9	41.0	5.9	17.9	32.7
Old Mutual UK MID-CAP Fund	-	9.2	23.8	7.3	37.3
FSSA Japan Focus Fund	28.1	5.9	-	-	-
First State Asia Focus Fund	22.2	6.8	-	-	-
Stewart Investors GEM Leaders	10.3	0.6	15.1	(2.1)	21.9
Standard Life UK Smaller Companies Fund	31.3	3.9	29.2	(7.8)	38.8
JOHCM Japan Fund	13.1	5.2	17.6	6.7	22.6
JOHCM Continental European Fund	9.5	2.0	16.4	7.8	29.4
BlackRock Continental European Flexible Fund	20.0	3.5	15.3	2.1	26.6

Source: Irish Life Investment Managers Ltd. (Performance is quoted gross of tax and net of fund management charge), MSCI and Bloomberg as at 29th June 2018. The fund management charge and product charges will vary depending on the terms and conditions of your policy. Performance quoted in local currency unless otherwise stated.

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