

DAVY GLOBAL ALPHA FUND

FROM
IRISH LIFE

Q3 2018 UPDATE

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

PERFORMANCE	1 MONTH (%)	Q3 2018 (%)	1 YEAR (%)	3 YEARS P.A. (%)	5 YEARS P.A. (%)
DAVY GLOBAL ALPHA FUND (NET OF FEES)	-0.1	3.5	15.3	11.9	12.3
MSCI WORLD INDEX	0.7	5.5	13.2	12.0	12.5

Source: Irish Life Investment Managers Ltd (Performance is quoted gross of tax and net of fund management charge) and Bloomberg as at 28th September, 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

The Fund returned 3.5% over the three-month period compared to 5.5% from the MSCI World Net Total Return Index. Year to date the fund remains ahead of its benchmark index which it is looking to beat over medium and longer-term periods.

The third quarter was one where it was a case that 'America first made the S&P Great Again' with the US stock market significantly outperforming other areas of the world. During the third quarter it became clear that the American economy was really the only major one in the world seeing above trend growth, whilst other areas experienced some kind of slowdown to at best trend growth levels. In this environment the US\$ performed strongly which resulted in tightening liquidity conditions in Asia and the Emerging World as currencies weakened and many countries were forced to raise interest rates. Countries with current account deficits reliant on US\$ funding fared worse and the problems that had emerged earlier in both Turkey and Argentina then spread to other parts of emerging markets.

In the short-term global GDP is likely to remain relatively strong, but at a global level growth levels have undoubtedly peaked. This may well lead to downgrades to earnings expectations for next year and has been a factor behind the volatility seen in markets in October. The US Federal Reserve under Jay Powell seem determined to push through rate rises whilst there is a window of opportunity through strong US growth and return interest rates to at least what the Fed believe is a neutral level ahead of the next recession. In this bull market multiple expansion has been at least as important as earnings growth and markets are now adjusting to a higher level of interest rates, which in the short-term is putting downward pressure on market valuations such as PE ratios. Having said this, a significant global downturn looks highly unlikely over the next 12 months and in all likelihood US policy is likely to delay any recession there until post the 2020 election.

When markets have a clearer understanding of the future extent of Fed tightening and some degree of certainty on 2019 corporate earnings, there will be scope for a rally, but in the meantime volatile trading may persist for a while in an environment in particular when growth stocks are seeing profit taking after the huge levels of outperformance over the past five years. At present economic data on Europe has been mixed, but any sign of a pickup in the rate of economic recovery or an upward move in wages would take some upward pressure off the US currency. Geopolitics too have worsened and this together with the rise in the oil price has further unsettled market sentiment in the short-term. The Fund itself continues to focus on quality growth orientated businesses with low levels of leverage, so whilst in the short-term some companies may de-rate due to interest rate uncertainty the businesses themselves are not vulnerable to a rising rate environment and also have relatively low levels of operational gearing and in general are those which have proved themselves resilient at previous times of economic slowdown.

During the third quarter the American market was the best performer amongst major indices and both the **JPM US Select** and **Baillie Gifford North American** funds were the top performers in absolute terms and also outperformed the US market delivering top quartile performance, whilst the Fund's smaller holding in the **Schroder US Mid Cap Fund** lagged. In Europe the **JOHCM Continental European Fund** and the **BlackRock European Flexible Fund** performed more or less in line with market indices, although the **Crux European Special Situations Fund** lagged over the quarter. Returns in Europe at below 2% were considerably lower than the returns from the US which were close to 8% over the quarter for the two large cap funds held.

In Japan the **First State Japan Focus Fund** had a more difficult quarter as there was profit taking in a number of the structural long-term growth stocks held with some concerns about the impact of global trade wars, so this fund lagged the market during Q3 though it is still a strong outperformer over the past 12 months. Asia was a laggard over the quarter but both the **First State Asia Focus Fund** and the **Stewart Investors Asia Pacific Leaders Fund** were first quartile performers in their sector with both funds holding no exposure to the large Chinese Internet names which suffered significant profit taking during Q3.

The **Stewart Investors Global Emerging Market Leaders Fund** had a difficult third quarter and underperformed similar funds within its category despite normally having a strong record in down markets. Within the UK holdings the **Merian UK Mid Cap Fund** (previously Old Mutual before the rebranding) performed in line with the sector, but remains a long-term winner for Global Alpha over 1, 3 and 5 years. The **Standard Life UK Smaller Companies Fund** also had a dull Q3 suffering from a rotation away from growth stocks.

SAMPLE PORTFOLIO TRANSACTIONS

Overall, the style mix in Global Alpha favouring growth companies came under some pressure late in Q3 as the market saw a rotation to value names in some markets. The funds held in Asia performed well versus the peer group, although the region itself came under some pressure and in Japan the strong secular growth areas favoured by the **FSSA Japan Focus Fund** saw profit taking during the third quarter. Whilst in the short-term there has been a rotation away from quality growth companies' stocks held by fund managers in Global Alpha these stocks have a lower level of gearing and economic sensitivity so as and when an economic downturn eventually comes should prove resilient. The managers held continue to have an excellent record of alpha generation over medium term periods such as 3-5 years and have also been selected for their proven ability to successfully navigate portfolios through choppy periods in varying market conditions.

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
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
Merian 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	-	-	-
First State Japan Focus Fund	28.1	5.9	-	-	-
Stewart Investors GEM Leaders	10.3	0.6	15.1	(2.1)	21.9
Stewart Investors Asia Pacific Leaders	13.5	19.6	1.9	19.9	1.0
Standard Life UK Smaller Companies Fund	31.3	3.9	29.2	(7.8)	38.8
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
Crux European Special Situations Fund	16.6	3.7	19.7	8.4	22.5

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