

# DAVY DISCOVERY FUND

FROM  
NEW IRELAND

## Q4 2017 UPDATE

This fund is provided by New Ireland Assurance plc and is managed by Davy Asset Management.

PERFORMANCE	1 MONTH (%)	Q4 2017 (%)	1 YEAR (%)	3 YEARS P.A. (%)	5 YEARS P.A. (%)
DAVY DISCOVERY FUND	0.7	4.2	15.3	13.3	15.3
MSCI WORLD SMALL AND MID-CAP INDEX (TOTAL RETURN)	0.5	3.7	8.3	11.2	15.3

Source: New Ireland (Discovery Fund Series 6, performance is quoted gross of taxation and fund management charge) and Bloomberg as at 29th December 2017. The fund management charge and product charges will vary depending on the terms and conditions of your policy.

### FUND OVERVIEW

The investment aim of the **Davy Discovery Fund** (the 'Fund') is to achieve long-term capital growth by investing in shares of small and medium sized companies on a global basis. These companies demonstrate growth potential and represent attractive investment opportunities. Investing during the early stage of a company's life cycle can lead to higher than average investment returns.

### FUND PERFORMANCE

The Fund rose by an impressive 4.2% in the final quarter of 2017, it has risen by 15.3% for 2017. This compares favourably with its benchmark the MSCI World SMID which rose by 3.7% over the quarter and by only 8.3% for 2017, in Euro terms. Hence, the Fund has outperformed its benchmark for the quarter and 2017 by an impressive 0.5% and 7.0% respectively over these time periods. Asset Allocation made the largest contribution to performance over the quarter whereas Stock Selection detracted due to some very specific events (see below) but over the course of 2017 Stock Selection was the principle driver of returns.

CyberAgent, a Japanese internet services platform, began to perform again after releasing its FY17 results in late October. Its operating profits came in above expectations at ¥30.7 billion as its online advertising business, which represents 52% of sales, continues to grow above the market rate. Its games business, despite being in a transition period and expecting the release of some hotly anticipated titles, still achieved sales growth of +5% year-on-year for the quarter. Its media segment, which earns fees from its Ameba TV is now generating positive returns after 5 years of investment. The firm continues to invest in its Ameba TV platform which is a video service like YouTube used primarily on smartphones. Recently, it has been attracting greater attention due to the success of '72-hour' Honne TV another YouTube like channel which aired in November attracting 74m viewers.

The final quarter of 2017 was a strong one for L Brands. It started off well, with October same-store-sales increasing 2% following nine months of solid declines. Although, the initial reaction to 3Q17 results released in November was mixed, signs that business trends were reversing were evident as management outlook was increasingly positive, and the stock began to rally. Strong retail sales, increased traffic in malls and a higher proportion of shoppers versus browsers over the Thanksgiving weekend helped propel L Brands sales for November higher with net sales jumping 2%. In December, US Tax Reform gave L Brands a final push into year end with analysts across the board, citing many US retailers would be significant beneficiaries of the lower tax rate.

Asset Allocation contributed +0.10% to performance due to the overweight position in Information Technology and the underweight position in Real Estate. Also, Currency made a positive contribution as the Fund, as it was underweight the Japanese Yen and US Dollar, whose currencies depreciated against the Euro during the latter half of 2017.

### SAMPLE PORTFOLIO TRANSACTIONS

The Fund exited its position in Tenneco a specialist provider of emissions controls technologies light and commercial vehicle manufacturers and aftermarket customers. Although, the global trend toward stronger regulation of vehicle tailpipe emissions offers the stock a positive secular backstory. We anticipated it was likely to miss its 3Q17 as margins appeared to be under pressure, this turned out to be correct.

Equally, we reduced positions in stocks whose performance is suffering from Amazon induced headwinds such as medical distributor Henry Schein and those stocks which had been outperforming such as machine vision provider Cognex. Whilst we added to positions in Man Wah the Chinese manufacturer of sofas, Travelsky who provides travel information software to business and consumers in China and of course L Brands which has turned out to be one of the top performers this last quarter.

The Fund performed strongly in 2017, with performance being driven primarily by Stock Selection. Whilst we anticipated a number of idiosyncratic macro events during the year, surprisingly nothing significant came to pass and volatility declined throughout the year. We continue to focus on finding high quality businesses through bottom up fundamental analysis.

CALENDAR YEAR PERFORMANCE	2016 (%)	2015 (%)	2014 (%)	2013 (%)	2012 (%)
Davy Discovery Fund (Gross of Fees)	10.6	14.2	15.9	20.5	23.5
MSCI World Small and Mid-Cap Index (Total Return)	13.7	11.7	18.6	24.9	15.4
CyberAgent Inc	15.8	12.0	7.6	145.0	(27.7)
L Brands Inc	(27.3)	15.8	45.7	34.4	29.2
Ansys Inc	(0.0)	12.8	(6.0)	29.5	17.6

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**Warning: Past performance is not a reliable guide to future performance.**

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