

DAVY DISCOVERY FUND

FROM
NEW IRELAND

Q2 2018 UPDATE

This fund is provided by New Ireland 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 DISCOVERY FUND	0.1	8.3	14.2	10.0	15.1
MSCI WORLD SMALL AND MID-CAP INDEX (TOTAL RETURN)	-0.4	7.8	10.8	8.0	13.8

Source: New Ireland (Discovery Fund Series 6, performance is quoted gross of taxation and 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 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 delivered robust performance in 2Q18, rising by 8.0%, outperforming its benchmark by 0.5%, with returns principally due to stock selection. Market leadership has evolved over the quarter with value as a style leading the market initially before reverting back in favour of quality, our house style. The other factors helping the Funds' performance over the period include; growth, momentum and value.

Markets have rebounded sharply after a volatile first quarter supported by a robust 1Q18 quarterly earnings season. Over 60% of smaller companies beat both top and bottom lines forecasts by 1.8% and 6.9%, respectively. Earnings growth in the Energy, Materials, Industrials, Consumer Discretionary, Financials and Utilities sectors showed double digit growth, with earnings growing 15.9% for the quarter. In the case of the Discovery Fund, 80% of the companies which reported beat expectations.

The Energy sector has achieved one of the largest growth rates during the quarter and our exposure, is through **Lundin Petroleum** and **International Petroleum Corp** (IPCO). They have been helped by oil prices jumping almost 20% in 2H18, in fact they're up 26% year-to-date, in euro terms. **Lundin** has one of the highest quality asset bases in its sector which has driven its strong revenue growth, +64% year-on-year, since the Edvard Grieg asset came on stream in 2015. It has a highly active exploration plan for 2018, despite 2017's disappointing drilling program. In the case of IPCO, since being spun out of Lundin in 2017, it has had an impressive start to life as an independent business. Its 1Q18 results, beat expectations by 6.5% in 1Q18, and it achieved a full listing on NASDAQ Stockholm at the end of the quarter. These results showed strong operating performance, with revenues up 121% year-on-year. Given its strong run up and robust valuation we decided to lock in profits during the quarter.

On the other hand, the Fund's North American exposure detracted from performance for some stock specific reasons. In the case of Teradyne, the stock has rebounded from its April lows when management cut guidance. We own it, because of its exposure to Cobots whose growth outlook of +50% year-on-year is unchanged. The stock has been one of our top performers over the last 12 months and we have used the recent weakness to top-up our position as the LT investment case remains unchanged.

SAMPLE PORTFOLIO TRANSACTIONS

The Fund made two disposals and one purchase over the quarter. Laboratory Corp and Sika AG were sold while Croda was bought. In the cases of Laboratory Corp and Sika, our decision to exit was based on their growth rates beginning to decline, meaning they no longer fulfilled all of our investment criteria for this Fund. Instead, we have invested in Croda, specialty chemicals stock whose products are predominantly used in personal care products. One of features of its business which excited us was its new product portfolio (NPP) which accounts for c.28% of sales, and is growing 4.6X greater than Non-NPP sales means the company's growth profile is likely to steadily improve. This is reflected by its high growth rank in our global investment universe, it is also high quality with an attractive valuation.

The Fund has delivered robust performance in 2018 to date and despite the curious geopolitical environment and the occasional idiosyncratic macro moment, we continue to believe smaller companies are attractively valued. Given the unpredictable nature of these incidents, we prefer to focus on what we can better understand, finding high quality businesses to invest in. This is supported by our research which shows that during periods of uncertainty owning quality stocks can help to protect asset values from market gyrations. To date this has proven to be the case, with the Fund's quality style bias swinging into action enabling the Fund to perform.

CALENDAR YEAR PERFORMANCE	2017 (%)	2016 (%)	2015 (%)	2014 (%)	2013 (%)
Davy Discovery Fund (Gross of Fees)	15.3	10.6	14.2	15.9	20.5
MSCI World Small and Mid-Cap Index (Total Return)	8.3	13.7	11.7	18.6	24.9
Lundin Petroleum	(1.0%)	61.6%	9.1%	(10.4%)	(16.1%)
Teradyne	66.2%	24.3%	5.7%	13.4%	4.3%

Source: New Ireland (Discovery Fund Series 6, performance is quoted gross of taxation and 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 is quoted in local currency unless otherwise stated.

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

This report does not constitute an offer for the purchase or sale of any financial instrument, trading strategy, product or service. No one receiving this report should treat any of its contents as constituting advice or a personal recommendation. It does not take into account the investment objectives or financial situation of any particular person. All investments involve a degree of risk. Equities may involve a high degree of risk and may not be suitable for all investors. Government bonds and cash deposits, although considered the safest assets, are not devoid of risk (e.g. inflation risk, credit risk, currency risk, etc.). There are different reasons why an investor would choose to invest in a particular asset class and each investor must consider the inherent risks therein based on his/her own personal circumstances. The value of these investments can rise as well as fall. There is no guarantee that the investments discussed will achieve results comparable to those achieved in the past or that capital will be returned to investors. Neither past experience nor the current situation are necessarily accurate guides to the future.

MSCI Inc. (MSCI). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be reproduced, disseminated or used to create any financial products, including any indices. This information is provided on an 'as is' basis. The user assumes the entire risk of any use made of this information. MSCI, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. MSCI and the MSCI indexes are services marks of MSCI and its affiliates.

Davy Asset Management Limited, trading as Davy Asset Management, is regulated by the Central Bank of Ireland. In the UK, Davy Asset Management is authorised by the Central Bank of Ireland and authorised and subject to limited regulation by the Financial Conduct Authority. Details about the extent of our authorisation and regulation by the Financial Conduct Authority are available from us on request. No part of this document is to be reproduced without our written permission. This document has been prepared and issued by Davy Asset Management on the basis of publicly available information, internally developed data and other sources believed to be reliable. The information contained herein does not purport to be comprehensive and is strictly for information purposes only. It does not constitute an offer or an invitation to invest. No party should treat any of the contents herein as advice in relation to any investment. While all reasonable care has been given to the preparation of this information, no warranties or representation expressed or implied are given or liability accepted by Davy Asset Management or its affiliates or any directors or employees in relation to the accuracy, fairness or completeness of the information contained herein. Any opinion expressed (including estimates and forecasts) may be subject to change without notice. We or any of our connected or affiliated companies or their employees may have a position in, or may have provided within the last twelve months, significant advice or investment services in relation to any of the securities or related investments referred to in this document.