

DAVY DISCOVERY FUND

FROM
NEW IRELAND

Q3 2018 UPDATE

This fund is provided by New Ireland 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 DISCOVERY FUND	(1.1)	3.2	14.7	14.4	14.3
MSCI WORLD SMALL AND MID-CAP INDEX (TOTAL RETURN)	(1.0)	2.9	11.7	12.6	12.8

Source: New Ireland (Discovery Fund Series 6, performance is quoted gross of taxation and 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 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 3.2% over the quarter versus 2.9% for its benchmark, returns were due to Asset Allocation and Stock Selection. Year to date, the Fund has risen by 14.7% and is ahead of its benchmark by 3.0%, in euro terms. The factors assisting performance over the quarter were a combination of quality and momentum.

The third quarter began with markets focused on President Trump's trade policy and stalled BREXIT talks. We have started the fourth more optimistically, as Canada and the US have just agreed to re-work the NAFTA trade agreement and the details show there merely has been tinkering at the edges rather than a radical overhaul. This should help sentiment in the US and calm nerves over the ongoing US-China and EU-UK disputes. Smaller companies have risen by 8% year-to-date and a robust 2Q18 earnings season, where c.60% of the stocks in the benchmark beat expectations and drove the asset classes performance.

Information Technology was the top performing sector in the Fund for the quarter, with **Advanced Micro Devices** (AMD) and **Cognex** rising sharply. AMD has been one of the Funds top performers year-to-date, rising by 107.2% as investors began to fully appreciate the opportunities for AMD's CPUs and GPUs in datacentres. This was reflected by increased analyst coverage; a slew of ratings upgrades coupled with significantly higher price targets. Industry data shows their 'new' CPUs are gaining market share relative to Intel, helped by R&D leadership and missteps by Intel in the roll out of its 7nm and 10nm chips. Cognex rose by 25.9% over the same period. It's a business with very high barriers to entry; 527+ patents with 416 pending. Its much anticipated 2Q results were strong and it issued positive guidance for 3Q18, which has instilled confidence in the stock. Over the quarter we have seen sell-side analysts revise their ratings on the stock upwards despite global trade tensions. Although it delayed CAPEX spending in Asia in the first half of 2018, a strong recovery into year-end is expected as firms which had pushed out spending on new machinery towards year end need to complete building production lines for their new plants. This is a high-quality stock which is well positioned for a variety of secular trends.

Whilst **Playtech** has had a challenging year, with two profit warnings due to a significant deterioration of its Asian business, its 1S18 results unsurprisingly beat expectations given its lowered guidance. On a more positive note its Snaitech acquisition in Italy is performing well with potential revenue synergies, which are not yet fully appreciated by the market. Our investment case was supported by activist investor (Springowl) who took a 5% stake in the company mid-quarter, this news was received positively by investors. Springowl has previously been involved in helping companies in this sector get back on track, as its successful restructuring bwin.party demonstrated. We continue to own the stock as it is high quality, very attractively valued and is generating free cash flow.

SAMPLE PORTFOLIO TRANSACTIONS

The Fund made two disposals and one purchase over the quarter. Advanced Micro Devices and Republic Services Group were sold while ProtoLabs Inc. was bought. We invested in ProtoLabs as it is the world's fastest manufacturer of custom prototypes and on-demand production parts with manufacturing facilities in 8+ countries. Its solutions automate traditional manufacturing processes and as a result, plastic and metal parts can be produced in a fraction of the time of traditional production methods. It's a high-quality business with good growth prospects and an attractive valuation.

We took the opportunity to exit Republic Services Group having made a 100%+ return since mid-2014. It's now trading at a premium to its history and is beginning to face pricing headwinds which makes us cautious. In the case of AMD, it has been the top performing stock in the Fund in 2018,

rising an astonishing 228%. Over this period, its market capitalisation grew to over €26.5bn from €8.9bn, helped by rapidly falling leverage with cashflow and earnings turning sharply positive as the market began to appreciate the value of its new product streams.

The markets have been surprisingly robust despite the rapidly evolving political environment, which can cause them to gyrate. As investors, we realise we can't forecast these events with any accuracy which is why we focus on finding high quality businesses to invest in. We expect corporate earnings in the coming quarter to once again be strong as the positive effects of lower corporate taxes, falling unemployment and a tight jobs market propel equities. Importantly, smaller companies aren't overvalued as they're trading broadly in-line with their 10-year median.

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
Advanced Micro Devices	(9.3)	295.1	7.5	(31.0)	61.3
Cognex Corp	92.9	89.6	(17.9)	8.3	107.6
Playtech Plc	7.4	6.9	23.8	(0.1)	78.0

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

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