DAVY DEFENSIVE EQUITY INCOME STRATEGY

Q1 2018 UPDATE

PERFORMANCE	1 MONTH (%)	Q1 2018 (%)	1 YEAR (%)	3 YEARS P.A (%)	5 YEARS P.A (%)
DAVY DEFENSIVE EQUITY INCOME STRATEGY* (NET OF FEES)	-2.3	-5.4	-8.3	-1.9	3.5
MSCI WORLD INDEX	-3.1	-3.7	-1.3	3.2	10.6

Source: Davy Asset Management (Class B Eur) and Bloomberg as at 29th March 2018.

* The Davy Defensive Equity Income Fund was launched on 22nd July 2015. Investors should note the Davy Defensive Equity Income Fund (UCITS) is newly established. The past performance reflects past performance data relating to the Davy Defensive High Yield Fund (UCITS) which merged with the Davy Defensive Equity Income Fund (UCITS) (the "Merger"). Prior to the Merger the investment policy, strategy and portfolio composition were largely the same. In the circumstances, the past performance data included in this document is believed to be an appropriate reference for investors

FUND OVERVIEW

The aim of the **Davy Defensive Equity Income Fund** (the "Fund") is to provide long-term capital growth, with reduced levels of volatility compared to global equity markets. The Fund reduces risk by investing in large global companies that pay out above average dividend yields and employs an options strategy to provide some downside protection against significant market falls.

FUND PERFORMANCE

In Q1, the Fund returned -5.4% versus an index return of -3.7%. Stock Selection was the largest detractor from relative performance as the Equity Income and Value factors, which the Fund is generally exposed to, lagged the broader market. Growth and Momentum factors, to which the Fund has limited exposure, outperformed strongly in the first quarter, as they did in 2017. The Fund's risk managed option overlay, which protects the Fund during sharp market declines, had a positive impact on Fund performance as volatility returned to equity markets, particularly towards the end of the quarter as markets sold off.

Ladies apparel and beauty products retailer **L Brands** reduced Fund performance as the share price fell sharply during the quarter, having rallied strongly in the prior quarter. L Brands continues to divide investors who are weighing the prospect of a turnaround for the company against a more troubled outlook for traditional retailers and a decline in demand for structured bras, a very important category for their Victoria's Secret brand. The share's underperformance largely followed disappointing sales figures during the holiday season in the US, compounded by a February sales update that failed to meet investor expectations.

Despite the negative Stock Selection effect the Fund had a number of strong individual contributors during the quarter, including both **Airbus** and **Taiwan Semiconductor Manufacturing Company**. Airbus contributed positively to the Fund during the quarter, as the shares rose 13.0%. Airbus delivered a strong set of full-year results in February that saw the share price rise by 10.3% on the day. Despite engine problems associated with the ramp up of the A320neo jet, the company announced cash flows well ahead of expectations. Airbus also appeared to have ring-fenced issues associated with the A400M military programme, which has plagued Airbus, following negotiations with key stakeholders.

Taiwan Semiconductor Manufacturing Company (TSM) posted another strong quarter of performance following a good set of full year results and guidance ahead of investor expectations for the coming year. TSM contributed to relative performance as the share price rose 7.7% in euro terms during the quarter. TSM benefits from the continued growth in demand for processor chips that it manufactures for customers including Apple, Broadcom, AMD and Nvidia.

In line with much of 2017, Asset Allocation reduced relative Fund performance as the growth exposed Consumer Discretionary and Information Technology sectors, which the Fund is underweight, led the market higher. The Consumer Staples and Telecommunications sectors, which the Fund is overweight, underperformed. The Fund tends to be overweight the Consumer Staples sector due to the large number of high quality dividend paying companies in the sector. The Fund has a natural underweight to the Information Technology and Consumer Discretionary sectors due to the scarcity of available dividend yield. Currency had a positive impact on performance.

SAMPLE PORTFOLIO TRANSACTIONS

The Fund sold out of its holding in WPP, and Eastman Chemical Company was added to the portfolio.

The decision to sell WPP followed a review of the underlying investment thesis. Advertising agencies face a tough climate at the moment as clients trim spending and companies such as Google and Facebook gather an ever-larger share of corporate marketing budgets. The industry continues to evolve rapidly in response to shifts in consumer viewing habits and media consumption. We added Eastman Chemical Company to the Fund during the quarter. Eastman is a diversified chemicals company. Over the past number of years management has been transitioning the company away from commodity type chemicals towards speciality chemicals. Speciality chemical companies can enjoy greater stability of earnings and cash flows and trade at higher multiples to their commodity exposed peers. Eastman has an excellent management team in place who can continue to lead the company through this transition.

With ongoing event risk and increased volatility, we believe that the Equity Income style will once again show its intrinsically defensive attributes. The underlying equity book generally has lower volatility, lower beta and higher market capitalisation.

CALENDAR YEAR PERFORMANCE	2017 (%)	2016 (%)	2015 (%)	2014 (%)	2013 (%)
Davy Defensive Equity Income Strategy (Net of fees)	(2.3)	6.6	6.9	13.1	7.4
MSCI World Index	7.5	10.7	10.4	19.5	21.2
L Brands	(3.9)	(27.3)	15.8	45.7	34.4
Airbus	34.6	3.8	52.9	(24.9)	91.7
Taiwan Semiconductor	42.3	31.1	4.9	31.2	4.4

Source: Davy Asset Management (Class B Eur) and Bloomberg as at 29th March 2018. Performance is quoted in local currency unless otherwise stated.

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

Warning: Neither past experience nor the current situation are necessarily accurate guides to the future growth in value or rate of return of the fund. The value of the investment can reduce as well as increase and, therefore, the return on the investment will also be variable. Changes in exchange rates may have an adverse effect on the value price or income of the product.