DAVY ASSET MANAGEMENT

FOR INVESTMENT PROFESSIONALS ONLY

DAVY ETHICAL EQUITY STRATEGY

Q1 2018 UPDATE

PERFORMANCE	1 MONTH (%)	Q1 2018 (%)	1 YEAR (%)	3 YEARS P.A. (%)	5 YEARS P.A. (%)
DAVY ETHICAL EQUITY STRATEGY* (NET OF FEES)	-2.9	-3.1	-0.4	1.9	8.2
MSCI WORLD INDEX	-3.1	-3.7	-1.3	3.2	10.6

Source: Davy Asset Management (Class A Acc in EUR) and Bloomberg as at 29th March 2018.

*The Davy Ethical Equity Fund was launched on 12th December 2014. Investors should note the Davy Ethical Equity Fund (UCITS) is newly established. The past performance reflects past performance data relating to the Davy Ethical Equity Fund (non-UCITS) which merged with the Davy Ethical Equity Fund (UCITS) (the "Merger"). Prior to the Merger when the Fund was not authorised as a UCITS, 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 Ethical Equity Fund** (the 'Fund') is to achieve long-term capital growth. The objective will be achieved by investing in a portfolio of "blue chip" global companies chosen on the basis of ethical ('socially responsible') criteria. The Fund favours corporate practices that promote human rights, environmental stewardship, consumer protection and diversity.

FUND PERFORMANCE

The Fund outperformed the MSCI World Index over the quarter. World markets started the year very strongly before slipping back in February and March. The Fund benefited being overweight the Technology and Consumer Discretionary sectors which were the two best performing sectors in the period. Indeed, Technology was the only sector to remain in positive territory, up 1%. The Fund also benefited being underweight Consumer Staples and Telecoms, the latter being the worst performing sector, down -7.9%.

Stock selection was particularly strong within Financials and Energy. **Deutsche Boerse** was a standout performer rising 14%. The German financial exchange should benefit from the rise in market volatility experienced during the quarter. Volatility encourages the use of derivatives trading at EUREX, which represent 40% of group revenues. **BlackRock**, the US based fund manager, which also featured last quarter rose 3%. Again the group posted a strong set of Q4 results in January. Within Energy, **Statoil**, the Norwegian oil company climbed 8% over the period as Brent oil rose to $70 on the last day of the quarter. The company also reported a strong set of Q4 results and raised their earnings guidance for 2018. The 2018-20 outlook was also positive with the company set to generate cash flow of $12bn and net debt to fall below 15% over this timeframe. Statoil expect to generate free cash flow below $50/bbl. Elsewhere, **Thermo Fisher** rose 6%. The manufacturer of scientific instruments, consumables and chemicals for use in hospitals and laboratories posted a strong set of Q4 results in January. The results were significantly better than expected, with organic sales growth of 8% versus market consensus at 4%. Indeed, this was their strongest quarter in 5 years. Guidance is for 4-5% organic growth with sustained GDP and Federal budgets seen as upside risks. Synergies from recent acquisitions and currency remain as upside risks to margins also.

On the downside our largest holding **Alphabet** declined 4%. The Google Search and YouTube giant performed strongly in January. However, results in early February disappointed the market. Whilst revenue growth was solid, margins and earnings were impacted by higher costs related to mobile search, hardware, cloud and the YouTube businesses. Some of these higher costs will peak in the first quarter. Although the share price recovered, the sell-off in Technology from mid-March dragged the name lower.

SAMPLE PORTFOLIO TRANSACTIONS

We made a few active changes to the portfolio over the period. Firstly, we sold out of MetLife and bought American Express. Our decision to sell MetLife, the US life insurer, was twofold. One, we were concerned that extra reserving on the balance sheet was required that may be greater than consensus expectations. And two, the ESG performance ranking of the company had been downgraded from BB to a single B in December and we were looking for a higher ranked alternative. Indeed, after selling out our position the company announced it was taking an additional reserve of $550. However, more worryingly the company pushed out its results presentation to mid-February as the SEC was to investigate the possible miscalculation of prior reserve releases. The sale funded a new position in American Express, the global payments company. It is a high quality name with high margins and a strong returns profile. The company has strong pricing power with an ability to increase fees on a regular basis. Company guidance is for 7-8% core revenue growth, which is deemed conservative. The group should benefit from US tax reform which may encourage consumers and companies to spend more on travel and entertainment. Earnings growth is an impressive 20% with an attractive valuation. Importantly, the company ranks highly in terms of its ESG performance with an 'A' ranking.

Secondly, we sold out of Walt Disney and bought Hologic. We sold Disney on the basis that the tie up with Fox will involve many anti-trust issues and massive investment whilst coping with a very competitive environment. We expect cord cutting and lower audience numbers to continue. Hence, we believe investment performance is capped for now. The sale was used to fund a new position in Hologic. The company develops, manufactures and supplies medical imaging systems and diagnostic products. Diagnostics is the faster growing segment whilst breast health is the margin driver. Indeed, Hologic has a 60% market share in breast health and was early to market with the first 3D breast imaging machine. We also like the very high recurring revenue stream which equates to 66% of revenues. This high quality business has high returns, strong margin growth and double digit earnings growth. The stock had been on our watch list since November and a sell off in the sector was an optimum time to start a position.

CALENDAR YEAR PERFORMANCE	2017 (%)	2016 (%)	2015 (%)	2014 (%)	2013 (%)
Davy Ethical Equity Strategy (Net of fees)	7.1	4.3	11.5	15.8	14.6
MSCI World Index	7.5	10.7	10.4	19.5	21.2
Deutsche Boerse	30.0	(3.3)	41.4	2.2	36.1
BlackRock	38.2	14.6	(2.3)	15.7	57.0
Statoil	16.0	35.4	(0.7)	(5.2)	11.2
Alphabet Inc	32.9	1.9	46.6	(5.4)	58.4
Royal Dutch Shell	64.4	(26.3)	2.7	10.4	(7.0)

Source: Davy Asset Management (Class A Acc in 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.

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.

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.

The Davy Ethical Equity Fund is a sub-fund of Davy Funds plc, an open-ended umbrella investment company with variable capital and segregated liability between sub-funds incorporated with limited liability under the Companies Acts 2014, authorised by the Central Bank of Ireland as a UCITS pursuant to the Regulations. Davy Funds plc is authorised by the Central Bank of Ireland as an Undertaking for Collective Investment in Transferrable Securities (UCITS). The Prospectus, Supplement and Key Investor Document for the fund are available in English from Davy, Davy House, 49 Dawson Street, Dublin 2, Ireland or http://www.davyassetmanagement.com/funds/davy-ucits/important-information.html. Investors should be aware that some of the Directors of the Company (Davy Funds plc) are also employed by the Investment Manager, Promoter and Distributor. Further information in relation to the management of potential conflicts of interest is available upon request.