DAVY ASSET MANAGEMENT

FOR INVESTMENT PROFESSIONALS ONLY

DAVY DEFENSIVE EQUITY INCOME STRATEGY

Q3 2017 UPDATE

PERFORMANCE	1 MONTH (%)	Q3 2017 (%)	1 YEAR (%)	3 YEARS P.A (%)	5 YEARS P.A (%)
DAVY DEFENSIVE EQUITY INCOME STRATEGY* (NET OF FEES)	2.7	(0.8)	3.3	4.7	5.9
MSCI WORLD INDEX	2.8	1.1	12.3	10.1	12.9

Source: Davy Asset Management (Class B Eur) and Bloomberg as at 30th September 2017.

* 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 chart 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

The Fund rose 2.7% in September and 0.8% in Q3 2017, underperforming the index during a period when both Equity Income and Value factors underperformed. The Fund's risk managed option overlay which protects the Fund during sharp market declines had a slight negative impact on Fund performance as volatility levels remained suppressed during the quarter and the Fund gave away upside as a number of call options expired in the money.

Stock Selection was the biggest detractor from relative performance with a negative contribution of 0.7% as Equity Income lagged the broader market. Asset Allocation detracted 0.4% from relative performance. The Fund was negatively impacted by its underweight to Information Technology which detracted 0.3% from fund performance, and an overweight position in the Consumer Staples sector which detracted 0.25% from performance. The Fund has a natural underweight to the Information Technology sector due to the scarcity of available dividend yield.

The Fund's holding in US communications company WPP detracted 0.3% during the quarter, falling 14% in euro terms as the company delivered its second quarter results. The company was forced to cut full year growth forecasts for the second time as advertising spend by consumer goods companies, who make up the firm's largest clients, and increasing digital disruption from the likes of Facebook and Google hurt revenues. The company recovered a small amount towards the end of the quarter as Consumer Staples companies like Unilever and Nestle announced that they would be increasing advertising spend in response to sluggish growth. Consumer goods companies are amongst the biggest spenders on advertising and an increase in spending would have a positive read through for WPP.

Integrated US oil company Chevron contributed positively to Stock Selection during the quarter as the share price rose 8% in euro terms as the oil price recovered during the quarter following production cuts by OPEC and as the company posted strong earnings growth at the second quarter results.

Currency had a positive impact of 0.1% on performance, primarily driven by the Funds underweight to the US dollar which contributed 0.3% to performance and Japanese Yen which contributed 0.2%.

SAMPLE PORTFOLIO TRANSACTIONS

The Fund reduced its holdings in AT&T and Verizon, during the quarter. The Fund also sold out of General Electric and Reckitt Benckiser and added Ferrovial and Airbus to the portfolio.

The holdings in the US Telco names, Verizon and AT&T, were reduced as the intense competitive landscape in the U.S. remains stubbornly intact meaning potential for margin improvement is low. The Fund is currently in the process of looking for new ideas within the telecommunications space in North America.

Earlier in the year, the Fund reduced its position in General Electric by 50% on fears that GE was entering a phase where capital investment was required in many aspects of the business including restructuring, which would lead to a drain on cash flows. Free cash has steadily been declining at GE as the portfolio was preened and refocused. In September, the decision was taken to remove GE entirely from the portfolios.

The Fund added a position in Ferrovial. This company is one of the world's leading infrastructure companies. It operates a high quality portfolio of infrastructure assets, toll road and airports, which are differentiated by their pricing power, solid traffic trends and the optionality on increased dividends to the hold-co and/or further divestments. Services performance is now improving, after a soft 2016. Strong performance is expected in the near term. Crucially, Ferrovial's dividend looks secure given it is covered by recourse FCF over 2017-19.

Airbus, manufacturer of commercial airplanes and military equipment, was also added to the Fund in the quarter. The investment rationale centres around the margin expansion and cash flow growth which is expected to follow the ramp up in production in A320 and A350 models. The strength of the order book provides a degree of surety that this growth will be achieved. We project cash flow yield to grow from 1.8% currently to >7% by 2020 on revenues of more than €80bn. Given the strength of the anticipated cash flows there is significant scope for return of capital to shareholders through buybacks, regular and special dividends.

With ongoing event risk and increased volatility on the horizon, we believe that the high yield style will once again benefit from its intrinsic defensive attributes. The underlying equity book generally has lower volatility, lower beta and higher market capitalisation.

CALENDAR YEAR PERFORMANCE	2016 (%)	2015 (%)	2014 (%)	2013 (%)	2012 (%)
Davy Defensive Equity Income Strategy (Net of fees)	6.6	6.9	13.1	7.4	6.6
MSCI World Index	10.7	10.4	19.5	21.2	14.0
Altria	20.5	23.1	34.5	28.6	11.8
Chevron	36.6	(16.2)	(7.0)	19.3	5.1

Source: Davy Asset Management (Class B Eur) and Bloomberg as at 30th September 2017. Performance is quoted in local currency unless otherwise stated.

Davy Asset Management Davy House, 49 Dawson Street, Dublin 2, Ireland
T +353 1 614 8874 E assetmanagement@davy.ie
www.davyassetmanagement.com

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