DAVY ASSET MANAGEMENT

FOR INVESTMENT PROFESSIONALS ONLY

DAVY DISCOVERY EQUITY STRATEGY

Q3 2017 UPDATE

PERFORMANCE	1 MONTH (%)	Q3 2017 (%)	1 YEAR (%)	3 YEARS P.A (%)
DAVY DISCOVERY EQUITY STRATEGY* (NET OF FEES)	2.9	2.5	13.6	14.2
MSCI WORLD SMALL & MID-CAP INDEX (TOTAL RETURN)	3.8	2.0	12.9	12.4

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

*On 19th April 2013, the previously proposed changes to the fund strategy were implemented. For more information please contact Davy Asset Management.

The **Davy Discovery Equity Fund** was launched on 12th December 2014. Investors should note the Davy Discovery Equity Fund (UCITS) is newly established. The past performance chart reflects past performance data relating to the Davy Discovery Equity Fund (non-UCITS) which merged with the Davy Discovery 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 investment aim of the Davy Discovery Equity 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 Davy Discovery Equity Fund rose by 2.5% in Q3 2017 and has risen by 9.8% YTD. This compares favourably with the MSCI World Small and Mid-Cap Index which rose by 2.0% in Q3 and by 4.5% YTD. Performance in the third quarter was principally driven by Stock Selection. Some of the Fund's best performing stocks included Cognex and Rational AG, while Dicks Sporting Goods was one of the largest detractors during the quarter.

Cognex is an expert in machine vision technologies. Its valuation is supported by the need for high end vision capabilities, especially for advances in robotics, remote monitoring, 3D printing and precision measurement. Their foothold in the market makes it challenging for new players to enter and win on price, considering the total cost of its products is typically small relative to the manufacturing process. The company delivered extremely solid 2Q17 results and gave good Q3 guidance for sales growth of +70%-75% year-on-year citing large consumer electronics orders which are expected to deliver significant profit leverage.

Although Rational AG came off the boil at the end of the second quarter, the stock rebounded in the third. The market had been concerned about potential cannibalisation of its core self-cooking centre offering by rollout of its new compact XS oven. Rational regained momentum when management increased 2017 guidance at the start of July. The company cited positive business conditions with solid business development in most regions, notably North America and China where its products are underpenetrated.

During the quarter, Dicks Sporting Goods, like many US retail stocks, delivered weak 2Q17 results. Store closures in the US resulted in excess inventories and heavy price discounting as bricks and mortar tries to compete with Amazon. Management has stated their objective is to maintain and grow its market share during this evolutionary period, which will obviously be at the expense of margins. We expect the stocks Quality ranking to deteriorate which is why we have exited the stock.

Asset Allocation contributed positively to performance due to the overweight position in Information Technology and the underweight position in Real Estate. Also, Currency made a positive contribution as the Fund was underweight the Japanese Yen, which continued to depreciate against the euro in the third quarter.

SAMPLE PORTFOLIO TRANSACTIONS

The Fund exited Australian childcare and educational services company G8 Education, as it published disappointing FY 2016 results. The Fund subsequently invested in Aristocrat Leisure, an Australian gaming machines manufacturer which has a more robust growth profile, as well as the potential to develop itself internationally.

Additionally the Fund bought L Brands, a fashion retailer who manages a range of specialist brands; Victoria's Secret (VS), PINK, La Senza, Bath & Body Works, and Henri Bendel. Their products are sold through a chain of 3,000+ stores across the US, UK and China. The firm is the market leader in the US in lingerie, with a 25% market share. They have a loyal customer base, strong brand reputation and an established retail presence. VS is growing in China, where it is considered a premium brand. Although the stock has faced headwinds over the past 18 months since exiting swimwear and aggressively entering athleisure, business momentum would appear to be poised to turn as the effect of the new management team and restructuring initiatives make an impact. The stock is attractively valued which is coupled with attractive quality and growth ranks.

The Fund has continued to perform robustly in the third quarter, with 87% of stocks in the Fund beating earnings expectations by an average of 3%. This is important in a Fund where the primary driver of performance is Stock Selection. Although we anticipate a number of idiosyncratic events, we continue to believe investing in high quality businesses through bottom up fundamental analysis leads to consistent long term performance over the course of a cycle.

CALENDAR YEAR PERFORMANCE	2016 (%)	2015 (%)	2014 (%)	2013 (%)	2012 (%)
Davy Discovery Equity Strategy (Net of fees)	10.0	13.5	14.7	-	-
MSCI World Small and Mid-Cap Index (Eur)	13.7	11.7	18.6	24.9	15.4
Dicks Sporting Goods	52.0	(28.0)	(13.6)	29.0	30.1
Cognex	89.6	(17.9)	8.3	107.6	7.1
Rational AG	2.8	65.2	10.6	13.2	33.8

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

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

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