

DAVY DEFENSIVE EQUITY INCOME STRATEGY

Q3 2018 UPDATE

PERFORMANCE	1 MONTH (%)	Q3 2018 (%)	1 YEAR (%)	3 YEARS P.A (%)	5 YEARS P.A (%)
DAVY DEFENSIVE EQUITY INCOME STRATEGY* (NET OF FEES)	0.80	4.28	3.39	3.92	5.50
MSCI WORLD INDEX	0.73	5.53	13.22	12.05	12.52

Source: Davy Asset Management (Class B Eur) and Bloomberg as at 28th September 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 Q3, the Fund returned 4.28% versus an index return of 5.53%. Stock Selection contributed +0.5% to relative performance while Asset Allocation contributed negatively by -0.3%. Currency was broadly neutral during the quarter. Stock Selection within the Financials, Technology and Healthcare sectors was the largest contributor to Fund relative performance during the quarter. At stock level, **Pfizer** and **Taiwan Semiconductor Manufacturing Company** (TSMC) were the best performers in the portfolio during the third quarter. The Fund's risk managed **option** overlay, which protects the Fund during sharp market declines, had a negative impact on fund performance as markets rose during the quarter.

Within the Stock Selection return, Pfizer was the biggest single positive contributor to relative performance during the quarter, contributing +0.4%. The company released Q2 earnings in July that exceeded market expectations. More importantly, management also delivered an upbeat outlook for their current drug pipeline, which will underpin organic growth in the years ahead. The stock rose by over 23% in euro terms during the quarter.

At a sector allocation level, the Information Technology sector, which the Fund is underweight, performed strongly during the quarter driven by **Apple**, whereas the Materials sector, which the Fund is overweight lagged the market on trade war concerns. Apple contributed -0.4% to Stock Selection during the quarter. The company announced a sharp uplift in service revenue, driving the stock up 23% in euro terms during the quarter. The Fund does not hold Apple due to its relatively low dividend yield.

Currency exposure was broadly neutral during the quarter. The euro, which had weakened during July and early August, rallied in the second half of Q3 to finish broadly unchanged against the dollar. The pattern was repeated for the euro against sterling.

SAMPLE PORTFOLIO TRANSACTIONS

During the quarter, the Fund reduced its holding in Microsoft somewhat. The stock has been a very strong performer, rising by 40% in euro terms in the first three quarters of 2018. This performance had brought the absolute weighting in the stock to 5% by July and at this stage some profit was realised on the position.

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. The options strategy has, in past times of elevated volatility, demonstrated its ability to provide downside protection.

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
Taiwan Semiconductor	42.3	31.1	4.9	31.2	4.4
Apple Inc	48.5	12.5	(3.0)	40.6	8.1
Pfizer Inc	15.9	4.5	7.1	5.3	26.2
Microsoft Corp	40.7	15.1	22.7	27.5	44.3

Source: Davy Asset Management (Class B Eur) and Bloomberg as at 28th September 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.

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