DAVY ASSET MANAGEMENT

FOR INVESTMENT PROFESSIONALS ONLY

DAVY ESG EQUITY STRATEGY

Q3 2018 UPDATE

PERFORMANCE	1 MONTH (%)	Q3 2018 (%)	1 YEAR (%)	3 YEARS P.A. (%)	5 YEARS P.A. (%)
DAVY ESG EQUITY STRATEGY* (NET OF FEES)	1.24	6.11	15.48	10.31	10.82
MSCI WORLD INDEX	0.73	5.53	13.22	12.05	12.52

Source: Davy Asset Management (Class A Acc in EUR) and Bloomberg as at 28th September 2018.

*The Davy Ethical Equity Fund was renamed the Davy ESG Equity Fund in June 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 ESG 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 which rose each month over the period. This was despite some hurdles such as the escalation and start of a trade war between the USA and China; ongoing Brexit negotiations; disappointing results from some of the technology giants such as Facebook, Netflix and Twitter where each fell 20% on the day; and fears that an Italian budget would not be agreed. However, a strong earnings season ensured markets continued their march higher with several equity indices hitting new highs. The Fund continued to benefit being overweight the Technology and Healthcare sectors and by remaining underweight Real Estate, Utilities and Consumer Staples. Healthcare was the best performing sector rising 12%. Real Estate was the worst performing area of the market and the only sector to post a negative return in the period.

Stock Selection was positive and was particularly strong within Communication Services, Energy and Financials. The main driver of performance within Communication Services was **Alphabet** which rose 7% and is the largest holding in the Fund. Q2 results reported in the period beat expectation driven by mobile search, YouTube and Desktop search. Alphabet is up 18% year to date. Within the Energy sector **Equinor** (name changed from Statoil) and **Total** performed strongly as the oil price moved higher, on the back of Hurricane Florence fears to disruption and no agreement to cut production at a recent OPEC meeting. Our Financials holdings also contributed positively with **JPMorgan** and **American Express** particularly strong. Solid results from JPMorgan sparked a recovery in the share price after a period of underperformance. Loan growth was a healthy +7% year on year, with Corporate & Investment Banking and Asset Management ahead of expectations. American Express steadily rose 9% over the three months benefiting from the favourable economic background where US consumer confidence hit an 18-year high. Stock Selection was notably weak within Industrials where **Assa Abloy** and **Adecco** reduced their full year guidance. Assa Abloy, the world's largest lock maker, was down 5% in the period after pre-announcing their Q2 results. The market was expecting a review of their Chinese operations and an impairment charge but not to the scale delivered. The write down was for SEK 5.6bn. Challenges remain in China but this 'kitchen sinking' gives the new CEO time to put the region back on track. Their high recurring revenue stream makes the group a more defensive name within the sector. Adecco, the international staffing agency, declined 10% over the three months. In fact, the shares fell 14% in September after releasing a trading update indicating slower growth for Q2. Continental Europe is the main area of weakness, whilst Germany continues to be impacted by the consolidation of staffing brands.

SAMPLE PORTFOLIO TRANSACTIONS

We made few active changes to the portfolio over the period. In Quarter 2 we bought Omron, the Japanese Industrial, which is AAA rated in terms of ESG and sold out of Toyota, Roche and EOG Resources. In this period, we introduced one new holding, namely International Flavours & Fragrances. IFF is a US based specialty chemicals business which creates and supplies flavours and fragrances to the food, beverage, personal care and household products industries. IFF's revenues are split 52% fragrances and 48% flavours. It is highly diversified by geography with emerging markets accounting for 50% of revenues. It is a long-established high-quality company with high returns and margins. The group is characterised by the long-term contracts it has which are tied to the lifecycle of the product which prevents switching. Typically, their input into a product is only 1-5% of the overall cost. The opportunity to buy IFF came due to a recent derating of the shares as IFF are set to buy Frutarom which will give them higher growth and exposure to natural flavours. This is a large deal at $6bn unlike usual bolt-on deals. The group serves the less cyclical end of consumer markets and should be less cyclical within the Materials sector as a whole. The shares trade on 22x and compares very favourably against its peers Symrise 31x and Givaudan 27x. The deal will take 1-2 years to integrate fully.

Over the period we trimmed some positions where we believe the valuation reflected current expectations. In that framework we reduced holdings in JPMorgan, TJX Companies and Microsoft. The proceeds were used to top up laggards such as Boliden, the Swedish miner; Iberdrola, Continental and Canon.

CALENDAR YEAR PERFORMANCE	2017 (%)	2016 (%)	2015 (%)	2014 (%)	2013 (%)
Davy ESG 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
Alphabet Inc-Cl A	32.9	1.9	46.6	(5.4)	58.4
Total Sa	(0.3)	24.9	2.8	0.6	21.1
JPMorgan Chase & Co	26.7	34.6	8.4	9.9	36.7
Adecco Group Ag-Reg	15.5	0.5	2.8	0.2	52.3
American Express Co	36.2	8.6	(24.2)	3.7	59.8
Assa Abloy Ab-B	2.3	(3.5)	30.5	24.1	42.7
International Flavours & Fragrances	32.0	0.4	20.2	19.9	31.6

Source: Davy Asset Management (Class A Acc in EUR) and Bloomberg as at 28th September 2018. Performance is quoted in local currency unless otherwise stated.

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