

DAVY DEFENSIVE EQUITY INCOME STRATEGY

Q4 2018 UPDATE

PERFORMANCE	1 MONTH (%)	Q4 2018 (%)	1 YEAR (%)	3 YEARS P.A (%)	5 YEARS P.A (%)
DAVY DEFENSIVE EQUITY INCOME STRATEGY* (NET OF FEES)	-5.56	-5.38	-3.46	0.19	3.97
MSCI WORLD INDEX**	-8.48	-12.03	-4.11	4.51	8.54

Source: Davy Asset Management (Class B Eur) and Bloomberg as at 31st December 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

** The benchmark index shown above does not include fees or operating expenses and you cannot invest in it.

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 the final quarter of the year, the Fund returned -5.38% versus an index return of -12.03%, outperforming the benchmark by 6.65%. Stock selection and asset allocation both contributed positively to relative performance, +3.8% and +1.0% respectively while currency detracted. Stock selection within the Healthcare sector was the largest contributor to performance. During the period the Fund's risk managed option strategy aided performance.

US consumer goods company, **Procter and Gamble** released results during the quarter that suggest the turnaround at the company is on track. Organic sales growth was 4%, ~200bps ahead of market expectations. EPS guidance for the full year was also ahead of expectations.

The Fund's largest holding at the end of the quarter was **Microsoft**. The US software company is transitioning from a PC-based packaged software vendor into a cloud-based software and services company with an increasing share of revenue coming from subscription services.

The Fund's overweight positions in Utilities and Consumer Staples were among the biggest contributors to the asset allocation outturn. The negative contribution from currency was primarily attributed to the Fund's underweight exposures to the Japanese yen and US dollar.

The **options strategy** contributed +2.1% to relative performance. The put protection that the Fund employs was the main contributor within the options strategy as global equity markets fell.

SAMPLE PORTFOLIO TRANSACTIONS

During the fourth quarter of 2018, the Fund reduced its holding in Microsoft somewhat. Stock price movement had brought the absolute weighting in the stock to 5% during the quarter.

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	2018 (%)	2017 (%)	2016 (%)	2015 (%)	2014 (%)
Davy Defensive Equity Income Strategy (Net of fees)	-3.5	-2.3	6.6	6.9	13.1
MSCI World Index**	-4.1	7.5	10.7	10.4	19.5
MICROSOFT CORP	20.8	40.7	15.1	22.7	27.5
PROCTER AND GAMBLE	3.6	12.7	9.4	-10.0	15.4

Source: Davy Asset Management (Class B Eur) and Bloomberg as at 31st December 2018. Performance is quoted in local currency unless otherwise stated.

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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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