

DAVY DEFENSIVE EQUITY INCOME STRATEGY

Q2 2018 UPDATE

PERFORMANCE	1 MONTH (%)	Q2 2018 (%)	1 YEAR (%)	3 YEARS P.A (%)	5 YEARS P.A (%)
DAVY DEFENSIVE EQUITY INCOME STRATEGY* (NET OF FEES)	-0.2	3.5	-1.7	0.7	4.6
MSCI WORLD INDEX	-0.1	7.2	8.5	6.8	12.3

Source: Davy Asset Management (Class B Eur) and Bloomberg as at 29th June 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 Q2, the Fund returned 3.47% versus an index return of 7.23%. Asset Allocation between sectors was the largest detractor from relative performance as the Information Technology and Consumer Discretionary sectors, which the Fund is underweight, performed strongly during the quarter. More broadly, the underperformance of the Equity Income and Value factors, which the Fund is generally exposed to, continued during the second 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 started to rise.

Following a major positive contribution in Q1, Taiwanese semiconductor manufacturer, **TSMC**, was the biggest detractor of relative performance during Q2, contributing -0.34%. The chipmaker lowered its full year 2018 revenue expectations in April, following a slowdown in chip sales to Apple. The smartphone maker was believed to be working through an inventory of processors during the quarter. We view this slowdown as a temporary phenomenon related to the iPhone product cycle. TSMC also took a more cautious view of the cryptocurrency demand for chips following the collapse in the bitcoin price.

Elsewhere within the Technology sector, strong rebounds from **Apple** and **Facebook** impacted the Fund negatively, while a 14% rally in **Microsoft** shares contributed +0.23% to performance. The Seattle based software maker produced a strong set of earnings in April that showed revenue acceleration across all divisions and steadily increasing annuity revenues. These include revenues from recurrent subscriptions that bode well for future cash flows.

US pharmaceutical company, **Merck**, also performed strongly during the quarter, adding 0.24% to relative performance. Following a torrid couple of quarters, the company's key lung cancer drug, Keytruda, showed positive efficacy in trials.

Currency exposure was a negative contributor during the quarter, impacting relative performance by 0.73%. The recovery in the US dollar was the main driver of this. The Fund is underweight dollar assets as many of the large cap technology and consumer stocks, such as Google, Amazon and Facebook do not pay dividends.

SAMPLE PORTFOLIO TRANSACTIONS

Within the Financials sector, the Fund added to holdings in two insurance companies. Allianz is one of the strongest capitalised insurers in the sector with a dividend yield of 4.5% and the ability to grow the dividend in real terms. New business margins for the company are tracking ahead of target and costs are under control.

French insurer, Axa, has seen share price weakness since the announcement of the \$15bn deal to acquire XL in March. Moreover, the deal to IPO 28% of the US business failed to achieve the expected proceeds leading to further weakness in May. However, following the two deals, Axa will be a more diversified group with lower market risk. In the past, investors have placed a discount on the company's share price due to the equity market risk associated with the US business. That discount should fall as the company reduces its holding in this business. On a secure dividend yield of 6.1%, investors are being rewarded for holding the stock.

Having reduced the holding in US tobacco stock, Altria, back in July 2017, the Fund added to the stock in May, following a 17% decline in the share price. Having de-rated from a P/E of over 20x earnings to less than 14x in the space of a year, and carrying a dividend yield of 4.9%, we believe that many of the risks that concern investors are in the current price.

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.

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
Merck & Co.	(1.5)	15.1	(3.9)	16.9	26.8
Apple Inc	48.5	12.5	(3.0)	40.6	8.1
Facebook Inc	53.4	9.9	34.1	42.8	105.3
Microsoft Corp	40.7	15.1	22.7	27.5	44.3

Source: Davy Asset Management (Class B Eur) and Bloomberg as at 29th June 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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