

# DAVY DISCOVERY EQUITY STRATEGY

## Q2 2018 UPDATE

PERFORMANCE	1 MONTH (%)	Q2 2018 (%)	1 YEAR (%)	3 YEARS P.A (%)	5 YEARS P.A (%)
DAVY DISCOVERY EQUITY STRATEGY* (NET OF FEES)	0.0	8.0	13.1	9.0	14.2
MSCI WORLD SMALL & MID-CAP INDEX (TOTAL RETURN)	(0.4)	7.8	10.8	8.0	13.8

Source: Davy Asset Management (Class A Acc Eur) and Bloomberg as at 29th June 2018.

\*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 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 Fund delivered robust performance in 2Q18, rising by 8.0%, outperforming its benchmark by 0.2%, with returns principally due to Stock Selection. Market leadership has evolved over the quarter with value as a style leading the market initially before reverting back in favour of quality, our house style. The other factors helping the Funds' performance over the period include; growth, momentum and value.

Markets have rebounded sharply after a volatile first quarter supported by a robust 1Q18 quarterly earnings season. Over 60% of smaller companies beat both top and bottom lines forecasts by 1.8% and 6.9%, respectively. Earnings growth in the Energy, Materials, Industrials, Consumer Discretionary, Financials and Utilities sectors showed double digit growth, with earnings growing 15.9% for the quarter. In the case of the Fund, 80% of the companies which reported beat expectations.

The Energy sector has achieved one of the largest growth rates during the quarter and our exposure, is through **Lundin Petroleum** and **International Petroleum Corp** (IPCO). They have been helped by oil prices jumping almost 20% in 2H18, in fact they're up 26% year-to-date, in euro terms. **Lundin** has one of the highest quality asset bases in its sector which has driven its strong revenue growth, +64% year-on-year, since the Edvard Grieg asset came on stream in 2015. It has a highly active exploration plan for 2018, despite 2017's disappointing drilling program. In the case of IPCO, since being spun out of Lundin in 2017, it has had an impressive start to life as an independent business. Its 1Q18 results, beat expectations by 6.5% in 1Q18, and it achieved a full listing on NASDAQ Stockholm at the end of the quarter. These results showed strong operating performance, with revenues up 121% year-on-year. Given its strong run up and robust valuation we decided to lock in profits during the quarter.

On the other hand, the Fund's North American exposure detracted from performance for some stock specific reasons. In the case of **Teradyne**, the stock has rebounded from its April lows when management cut guidance. We own it, because of its exposure to Cobots whose growth outlook of +50% year-on-year is unchanged. The stock has been one of our top performers over the last 12 months and we have used the recent weakness to top-up our position as the LT investment case remains unchanged.

### SAMPLE PORTFOLIO TRANSACTIONS

The Fund made two disposals and one purchase over the quarter. Laboratory Corp and Sika AG were sold while Croda was bought. In the cases of Laboratory Corp and Sika, our decision to exit was based on their growth rates beginning to decline, meaning they no longer fulfilled all of our investment criteria for this fund. Instead, we have invested in Croda, specialty chemicals stock whose products are predominantly used in personal care products. One of features of its business which excited us was its new product portfolio (NPP) which accounts for c.28% of sales, and is growing 4.6X greater than Non-NPP sales means the company's growth profile is likely to steadily improve. This is reflected by its high growth rank in our global investment universe, it is also high quality with an attractive valuation.

The Fund has delivered robust performance in 2018 to date and despite the curious geopolitical environment and the occasional idiosyncratic macro moment, we continue to believe smaller companies are attractively valued. Given the unpredictable nature of these incidents, we prefer to focus on what we can better understand, finding high quality businesses to invest in. This is supported by our research which shows that during

periods of uncertainty owning quality stocks can help to protect asset values from market gyrations. To date this has proven to be the case, with the Fund's quality style bias swinging into action enabling the Fund to perform.

CALENDAR YEAR PERFORMANCE	2017 (%)	2016 (%)	2015 (%)	2014 (%)	2013 (%)
Davy Discovery Equity Strategy (NET OF FEES)	14.2	10.0	13.5	14.7	20.9
MSCI World Small and Mid-Cap Index (Total Return)	8.4	13.7	11.7	18.6	24.9
Lundin Petroleum	(1.0%)	61.6%	9.1%	(10.4%)	(16.1%)
Teradyne	66.2%	24.3%	5.7%	13.4%	4.3%

Source: Davy Asset Management (Class A Acc 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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