DAVY ASSET MANAGEMENT

FOR INVESTMENT PROFESSIONALS ONLY

DAVY ESG EQUITY STRATEGY

Q2 2018 UPDATE

PERFORMANCE	1 MONTH (%)	Q2 2018 (%)	1 YEAR (%)	3 YEARS P.A. (%)	5 YEARS P.A. (%)
DAVY ESG EQUITY STRATEGY* (NET OF FEES)	-0.2	7.2	9.1	5.2	10.4
MSCI WORLD INDEX	-0.1	7.2	8.5	6.8	12.3

Source: Davy Asset Management (Class A Acc in EUR) and Bloomberg as at 29th June 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 performed in line with the MSCI World Index over the quarter. World markets rebounded strongly after a weak ending to the first quarter. April and May were particularly strong months before trade war rhetoric kept June in check. The Fund benefited being overweight the Technology and Energy sectors and by remaining underweight the Consumer Staples sector. Energy was the best performing sector rising 19% as the oil price moved higher, with Brent oil rising from $70 to $80. The Financial sector rose only 1.1% and was the worst performing area of the market over the period.

Stock Selection was the principal driver of performance over the quarter particularly within Healthcare as **Shire** and **Merck** both rose 18%. Shire, which specialises in rare diseases, rose as Takeda secured a friendly takeover of the group. Merck’s strength over the period coincided with positive data coming from the Keynote trial in April which proved that their immuno-oncology drug Keytruda could prolong the survival rate in lung cancer patients. Better than expected results in May also added to performance. Within Materials, **Linde**, the industrial gases company, rose 24% after delivering a strong set of quarterly results. Gas margins improved, helped by better pricing and with an uplift in volumes to come Linde is well positioned for the coming year. The merger with Praxair should complete later this year. The greatest contributors to overall Stock Selection were **TJX** and **Nike**. TJX, the off-price retailer and owner of TK Maxx rose 23% in the period. The group posted a strong set of Q1 results, raised their full year guidance and said that Q2 had got off to a good start. The strength in the share price was a relief to investors as there was a suggestion in the market that the group had run out of room to grow in the US. Indeed, the US market grew 4% with average ticket size also higher. Nike, the athletic footwear and apparel manufacturer rose 27% in the 3 months. Performance was helped by a very strong set of Q4 results on the last day of the quarter (+11%), as the company raised their sales and gross margin guidance for the year. The market was most pleased with the return to growth in the North American market. It is clear that the current business has strong momentum with strategic initiatives still to contribute fully. Of note on the downside was **Starbucks**, which declined -11%, following a profit warning. The company said that sales in the quarter were weaker than expected and guided earnings 4% lower after seeing weakness in the USA and China. Over the period both the Chairman and founder Howard Schulz and the CFO announced their retirements. Starbucks have new initiatives to reaccelerate growth but these will not become apparent until later in the year.

SAMPLE PORTFOLIO TRANSACTIONS

We made a few active changes to the portfolio over the period. We sold out of Toyota in April as the shares had outperformed both the market and the Japanese auto sector over 12 months. Recent earnings revisions had been weak and we felt that the stock performance hinged too heavily on the direction of the currency rather than the underlying quality of the business. With a wish to maintain our weight in Japan and improve the ESG factor in the Fund we bought Omron, an industrial company, where 66% of profits come from factory automation. Recent underperformance gave us an opportunity to start a position. Omron is a high quality company and is highly cash generative. The group is at a discount to peers which we believe will narrow as the business positions itself more towards automation and away from distribution. Omron ranks as an AAA company by MSCI ESG compared to BB for Toyota.

We also sold out of 2 long held positions, namely EOG Resources and Roche. EOG had performed strongly over the past 12 months on the back of rising earnings and a strong oil price. After posting a strong set of Q1 results we felt the fundamentals were now fully reflected in the valuation. It was also an opportunity to improve the overall ESG score of the Fund as EOG was B rated by MSCI ESG. Roche, the Swiss pharmaceutical company, was also sold.

The equity story hinges on whether their new drugs which includes ACE910, Ocevus, Tecentriq and Perjeta can offset the biosimilar erosion of their key oncology drugs Herceptin, Rituxan and AVASTIN. We concluded that the risk is partially priced in but that downside risk remains. The proceeds were spread across several names.

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
MERCK & CO. INC.	(1.5%)	15.1%	(3.9%)	16.9%	26.8%
TJX COMPANIES INC	3.4%	7.4%	4.6%	8.8%	51.7%
NIKE INC	24.7%	(17.7%)	31.4%	23.8%	54.5%
LINDE AG	18.8%	19.8%	(11.6%)	3.4%	17.3%
STARBUCKS CORP	5.4%	(6.1%)	48.2%	6.2%	48.1%
SHIRE PLC	(16.3%)	0.2%	3.9%	59.5%	51.9%

Source: Davy Asset Management (Class A Acc in 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.

This report does not constitute an offer for the purchase or sale of any financial instrument, trading strategy, product or service. No one receiving this report should treat any of its contents as constituting advice or a personal recommendation. It does not take into account the investment objectives or financial situation of any particular person. All investments involve a degree of risk. Equities may involve a high degree of risk and may not be suitable for all investors. Government bonds and cash deposits, although considered the safest assets, are not devoid of risk (e.g. inflation risk, credit risk, currency risk, etc.). There are different reasons why an investor would choose to invest in a particular asset class and each investor must consider the inherent risks therein based on his/her own personal circumstances. The value of these investments can rise as well as fall. There is no guarantee that the investments discussed will achieve results comparable to those achieved in the past or that capital will be returned to investors. Neither past experience nor the current situation are necessarily accurate guides to the future.

Davy Asset Management Limited, trading as Davy Asset Management, is regulated by the Central Bank of Ireland. In the UK, Davy Asset Management is authorised by the Central Bank of Ireland and authorised and subject to limited regulation by the Financial Conduct Authority. Details about the extent of our authorisation and regulation by the Financial Conduct Authority are available from us on request.

The Davy ESG Equity Fund (previously the Davy Ethical Equity Fund) is a sub-fund of Davy Funds plc, an open-ended umbrella investment company with variable capital and segregated liability between sub-funds incorporated with limited liability under the Companies Acts 2014, authorised by the Central Bank of Ireland as a UCITS pursuant to the Regulations. Davy Funds plc is authorised by the Central Bank of Ireland as an Undertaking for Collective Investment in Transferrable Securities (UCITS). The Prospectus, Supplement and Key Investor Document for the fund are available in English from Davy, Davy House, 49 Dawson Street, Dublin 2, Ireland or http://www.davyassetmanagement.com/funds/davy-ucits/important-information.html. Investors should be aware that some of the Directors of the Company (Davy Funds plc) are also employed by the Investment Manager, Promoter and Distributor. Further information in relation to the management of potential conflicts of interest is available upon request.

 This document has been prepared and issued by Davy Asset Management on the basis of publicly available information, internally developed data and other sources believed to be reliable. The information contained herein does not purport to be comprehensive and is strictly for information purposes only. It does not constitute an offer or an invitation to invest. No party should treat any of the contents herein as advice in relation to any investment While all reasonable care has been given to the preparation of this information, no warranties or representation expressed or implied are given or liability accepted by Davy Asset Management or its affiliates or any directors or employees in relation to the accuracy fairness or completeness of the information contained herein. Any opinion expressed (including estimates and forecasts) may be subject to change without notice. We or any of our connected or affiliated companies or their employees may have a position in, or may have provided within the last twelve months, significant advice or investment services in relation to any of the securities or related investments referred to in this document.