Product Profile	
Fund Name	Davy Discovery Equity Fund
ISIN	IE00BRJL3F82
Investment universe	Global (Small & Mid Cap)
Benchmark	100% MSCI World SMID Index
Base Currency	EUR
Earnings	accumulating
Inception date	19/04/13
Fund Volume	EUR 17.7 m per 31/12/19 (all share classes)
Management Fee	0.675% p.a.
TER	1.03% p.a.
Fund Manager	Chantal Brennan und Jeremy Humphries
Company	Davy Asset Management Ltd
Internet	http://www.davyassetmanagement.com/
Investor's Profile	
Investment horizon	Middle: 3-6 Years
Risk classification	according to stock investment product (high)
Return expectations	Orientation towards stock market development but with lower volatility
Loss Tolerance	Capital losses are possible (equity investment)

TELOS Comment

The *Davy Discovery Equity Fund* is an actively managed global equity fund which invests in small and mid caps. It follows the premise, underpinned by empirical research, that long-term market outperformance with lower risk (volatility) is better achieved by investing in quality equities with growth potential than by classic value or growth investments alone. Quality shares with growth potential (quality/growth) should contribute to outperformance by minimizing risk, especially in market weaknesses.

An integrated, clearly structured, clearly defined and consistent bottom-up investment process is used by the fund to pursue the empirically supported investment philosophy. This allows the formation of a relatively concentrated portfolio of ~40-60 positions by means of a multi-level (perspective) stock selection from an investable universe of ~10000 shares with a market capitalization of ~200 million to ~15 billion USD. A relative portfolio concentration can be regarded as conducive to a bottom-up and stockpicker-oriented fund. The pronounced active management (high active share (>= 80%); currently ~ 98%) is not completely without market orientation/not completely free of benchmark. Possible benchmark deviations of +-15% (USA and Europe) and +-10% (Asia ex Japan and Japan) are defined for the investment regions. Even if the fund, with a maximum cash ratio of 10%, enables a certain cash management (also as a control/risk minimisation element), in the sense of an equity investment the aim is always to achieve the highest possible investment ratio.

The heart of the investment process is the proprietary definition of the Quality characteristic. It is given by four pillars Profitability, Persistence, Protection and People. Each pillars attributes are clearly defined, so rankings of shares can be derived. In terms of profitability as a prerequisite for long-term stable performance advantages, we find, for example, considerations of a company's margin situation, return on equity, return on assets and, in particular, cash flow. Market entry barriers should also be identified, e.g. through strong brands or patents. Persistence means the maintenance and growth opportunity of profitability through innovation and necessary cost control, but also, for example, through the potential use of economies of scale. Protection ensures a stable balance sheet structure and, in particular, attractive debt levels (keyword: leverage). People determines the extent to which management ensures target-oriented capital allocation and discipline, which is ultimately reflected, for example, in an attractive dividend - and intelligent debt policy (e.g. bond issues). A comprehensive proprietary database derived from these considerations enables an efficient, data-supported ranking of the most attractive stocks with high quality and growth potential. In the case of valuation attractiveness and acceptable liquidity, this *quant*itative selection framework is supplemented by in-depth fund*amental* analysis. Uniform templates are always used for the fundamental analysis element. Efficiency, uniformity and consistency are also the desired analytical characteristics here. This quantamental approach to the process is complemented by integrated risk management. ESG aspects (ESG risks) are also taken into account, with a focus on the significant business risks that can be derived from this. Risk management also includes several levels/perspectives of consideration. In addition to the process already mentioned, risk managers monitor the fund after compliance with the tracking error target (3%-5% - 3-year horizon), beta, concentration risks (e.g. position or sector sizes), etc. continuously and in the sense of an overall view monthly, quarterly and annually. Deviations from desired levels of attractiveness or risk in the portfolio, but also relative advantages of alternative investment opportunities lead immediately to the review of affected portfolio elements (individual positions or e.g. sectors) with the possibility of quick portfolio adjustments. However, excessive action is avoided, particularly with regard to the long-term orientation of the fund strategy.

The quantamental approach of the fund should make it possible to access as broad as possible a universe of opportunities, taking into account both objective (data-supported) and subjective research aspects and ensuring this through a disciplined, logically structured and comprehensible process flow.

The Davy Discovery Equity Fund receives the rating **AAA-**, in particular with regard to its target achievement competence in the mentioned manner.

Investment Process

Investment Manager for the Davy Discovery Equity Fund is Davy Asset Management Ltd, a leading Irish provider of asset management services, part of the Davy Group, founded in 1926. An 8-member equity investment team (6 portfolio managers (with analytical tasks) and 2 analysts) is involved in the investment process. Overall responsibility lies with the fund managers Chantal Brennan (Research Director) and Jeremy Humphries.

The fund invests globally in small and mid caps with market capitalisations of ~200 million to ~15 billion USD. Deviations of +-15% (USA, Europe) and +-10% (Asia ex Japan, Japan) from the benchmark MSCI World SMID Index (€Net) are defined for active management. Position sizes are limited to max. 7.5% (typically ~0.5%-3.5%). In the manner of a stock picker, there is a concentrated portfolio of ~40-60 positions. In a pure bottom-up approach, investments are made in Quality/Growth. A quantamental investment process is used - a combination of quantitative and fundamental management approaches that build on each other and complement each other in the investment process and risk management. This is based on the fund's philosophy that the empirically supported assumption should be followed that an investment in quality equities with growth and growth potential - in the long-term investment horizon relevant to the fund - is more promising (performance) and risk-reducing (volatility) than classic investments in pure value or pure growth.

The fund manager has developed a proprietary multi-factor quality model based on four pillars, which is the starting point and heart of the investment process. These pillars are Profitability, Persistence, Protection and People. They are intended to ensure the long-term, stable and sustainable competitiveness and profitability of the relevant companies. Profitability requires a strong margin situation, attractive return on equity, return on assets, return on invested capital and strong free cash flows on assets. Persistence aims to ensure that a company can maintain a high level of profitability and promise of high returns over the long term, even across a wide range of market conditions. Cost control, innovative strength and the fertilization of economies of scale are relevant criteria here. Protection, for example, requires a stable balance sheet structure and, in particular, an attractive debt structure - measured by the respective business model as well as the corporate (including demand structure) and economic environment. Classic market risk of the share via the beta is also taken into account. People deals, for example, with the question of how the responsible persons shape the allocation of capital. Dividend policy and the design of the debt structure (see also bond and subscription rights issues) play a role here. Dividend distributions that make sense are assessed positively here, as long as they do not burden the ability to innovate. Companies that are well positioned on these four pillars are said to have an attractive long-term performance as well as high relative stability in periods of weakness.

In order to select suitable securities stringently and effectively from a possible universe of ~10000 shares, which should also have sufficient liquidity, the fund management uses a very comprehensive proprietary database, which contains all relevant key figures updated. The result is an adjusted number of shares through an adjustment for unattractive stocks, a ranking of the most attractive stocks according to these quality standards and the control of the required growth attractiveness. An ESG analysis also flows into this evaluation process. For this purpose, the analysis results of an external data provider (MSCI) are accessed. In particular, this is based on an ESG-related adjustment of the cost of equity. The main objective and thus also the type of ESG observation is to focus on ESG-related business risks of a company under consideration. This is followed by an in-depth fundamental analysis.

In order to ensure a uniform and comparable approach and evaluation method, a uniform template is used in each case, in which and with which the relevant results can be recorded and processed. It is ensured that both stock specific and statements at sector considerations are possible. These reports provide information on investment reasons. In particular, the justifications for the underlying profit estimates and immanent risks are recorded. For the discounted cashflow approach used, consideration is given to base, bull and bear phases. The findings from the comprehensive company meetings also serve as input. The direct exchange with companies not only serves to obtain information but also to control the quality of the analysis and enables the fund manager to exercise any influence it may have on the management. Here in particular also with a view to ESG criteria. (The services of Institutional Shareholder Services, Inc. are used to ensure that this is also effectively guaranteed in the voting processes at company meetings.)

Integrated independent risk management is part of the investment process. It is structured over several levels. In addition to risk reduction through careful stock selection and the weighting of positions according to the degree of conviction, risk analysis also takes place via classic risk measures such as tracking error (fund target: 3%-5% vs. BM; 3 years), beta or active share, but also with a view to concentration risks and liquidity risks. In addition to the continuous monitoring of the fund specifications in terms of specific investment levels (e.g. max. position size), the above-mentioned values are discussed in the team at defined time intervals. In addition, the fund is stressed in various market scenarios. The results of this multipart risk analysis are communicated to the board.

The fund has a clear sales discipline of its own. Changes in quality or valuation aspects are the primary reasons for position reductions, changes, and increases. In addition, the fund manager also makes use of classic considerations with regard to relative valuation (see e.g. momentum and sentiment considerations).

It is important for the understanding of the fund that the investment process is not data-driven despite the intensive use of the proprietary (valuation-)database, but rather supported by data analysis.

At team level, the weekly Research Meeting also provides an opportunity for intensive exchange across other *Davy Asset Management* investment teams.

Quality Management

The risk structure of the fund is reviewed at various levels. Compliance with specified fund characteristics, such as benchmark deviations or concentration risks, is continuously monitored (system-supported). Performance and attribution analyses also take place continuously. Great importance is attached to establishing a high contribution of the stock selection targeted by the process. In addition, by visualizing the stock universe according to conditions such as quality vs. valuation or quality vs. growth, a quick comparison overview is created for the fund which can always be called up and which can also be oriented towards the different regions (such as the USA, Europe, Japan) in comparison.

Team

The *Discovery Equity Fund has* been managed by *Chantal Brennan* since 2014. In 2015 *Jeremy Humphries* joined. *Chantal Brennan* developed and implemented the investment philosophy and process. Mr. *Humphries* is responsible, among other things, for the quantitative analysis within the process. Both fund managers have many years of investment experience in the relevant area. The other colleagues in the 8-strong equity investment team also complement each other in terms of sector-related skills. The entire team has in-depth academic knowledge and professional experience in the relevant fields, such as mathematics, economics or statistics.

Investment Characteristics

Important external factors	*Important control factors*
Equity market (volatility)	Asset selection (Stock Selection)
Equity market (level)	Asset weighting (Position Size)
Liquidity	Sector weighting
Economic environment	Country allocation
	Cash holdings

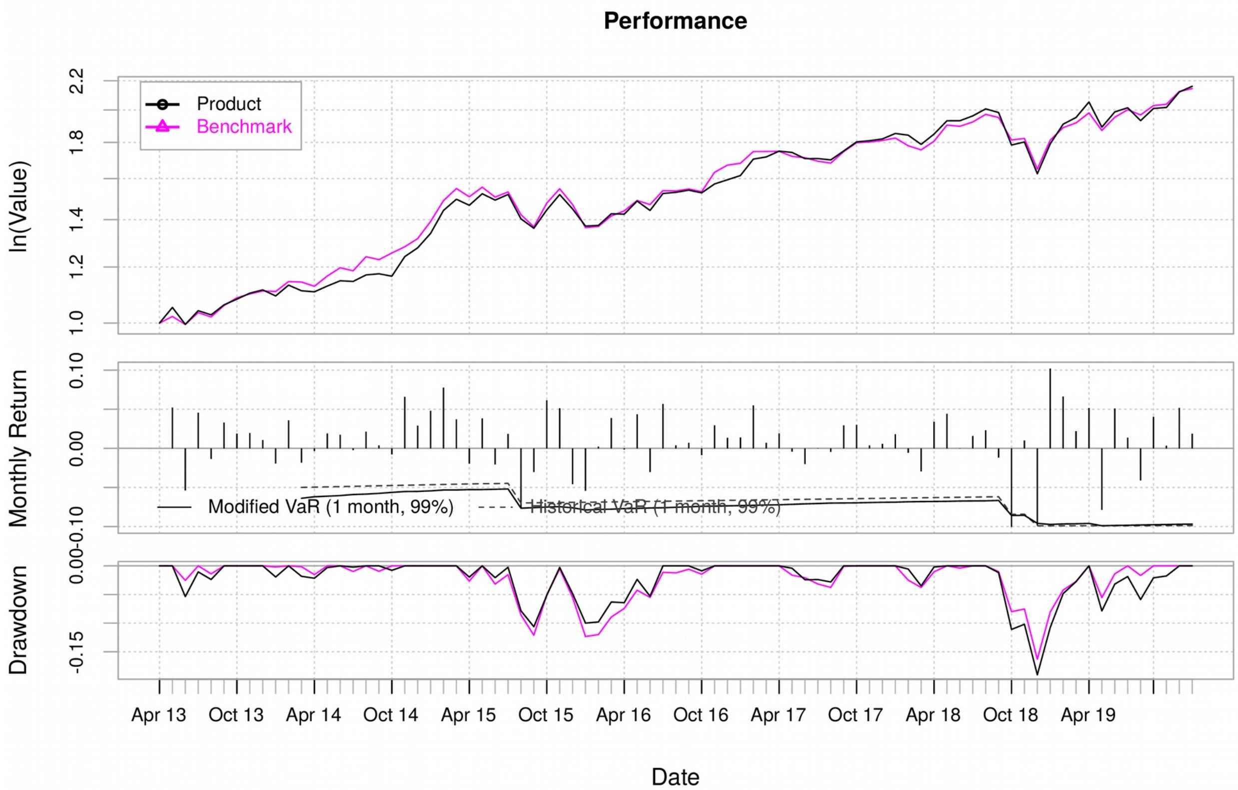
Product History

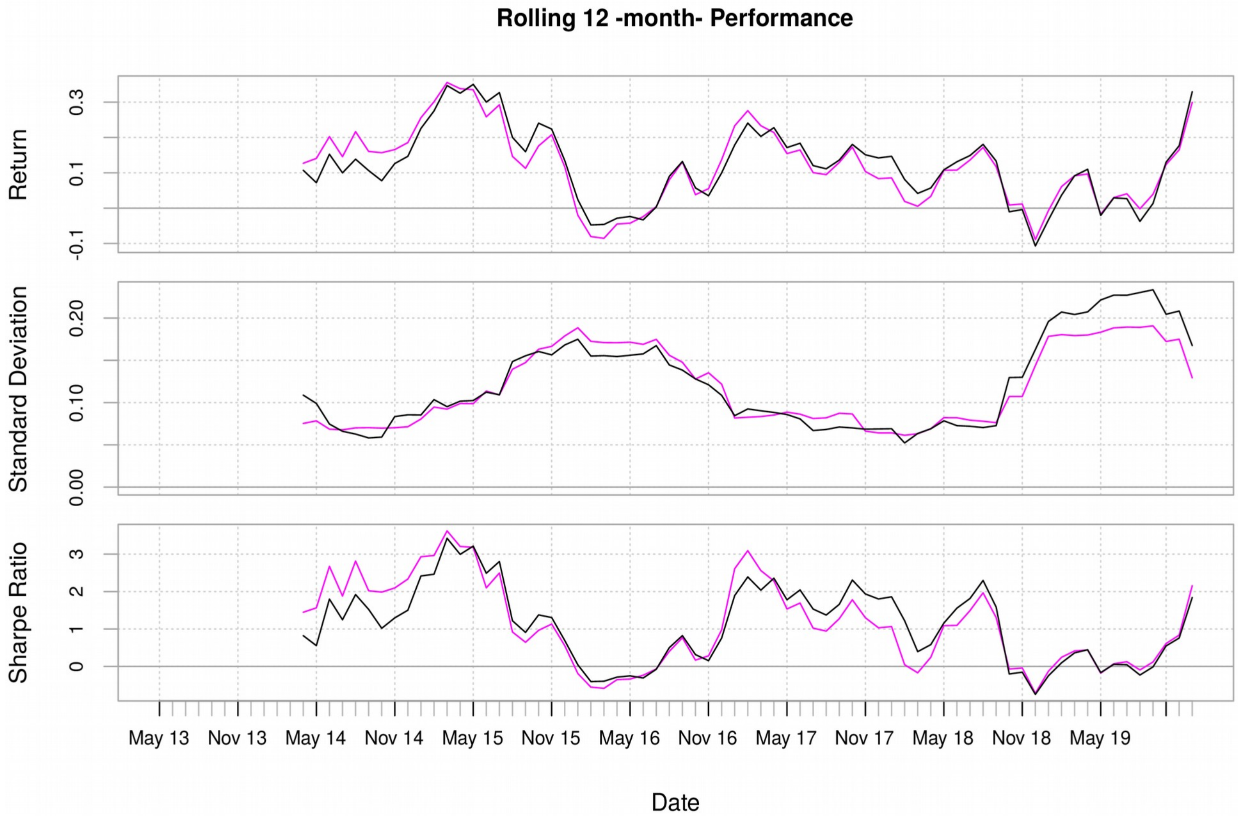
Monthly Returns

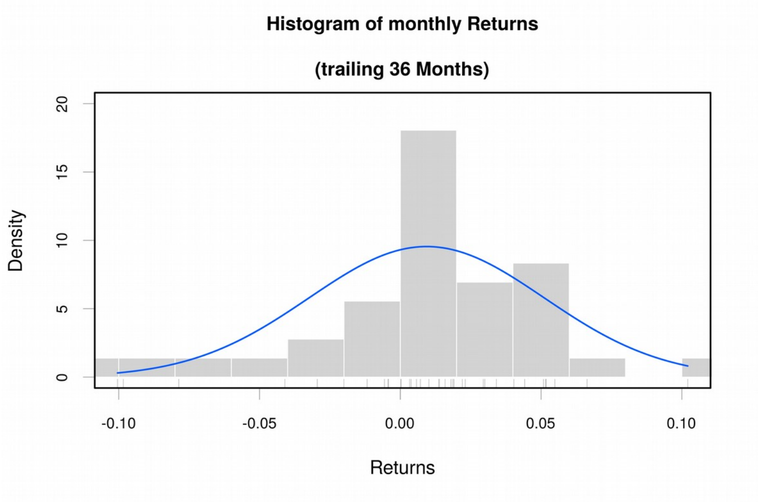
	2013	2014	2015	2016	2017	2018	2019
Jan	-	-1.9	4.8	-5.4	1.4	1.8	10.2
Feb	-	3.6	7.8	0.2	5.5	-0.6	6.6
Mar	-	-1.8	3.7	3.9	0.7	-2.9	2.2
Apr	-	-0.3	-2.0	-0.1	1.9	3.4	5.2
May	5.2	1.9	3.8	4.4	-0.4	4.4	-7.9
Jun	-5.4	1.7	-2.1	-3.0	-2.0	0.0	5.1
Jul	4.6	-0.2	1.8	5.7	0.0	1.6	1.4
Aug	-1.3	2.1	-7.6	0.4	-0.4	2.3	-4.1
Sep	3.3	0.4	-3.0	0.7	2.9	-1.2	4.0
Oct	1.9	-0.8	6.1	-0.9	3.0	-10.0	0.3
Nov	2.0	6.6	5.1	2.9	0.4	1.0	5.2
Dec	1.1	2.9	-4.6	1.4	0.6	-9.8	1.9
Product	11.4	14.7	13.5	10.0	14.2	-10.7	32.9
Benchmark	11.0	18.6	11.7	13.7	8.3	-8.9	29.9

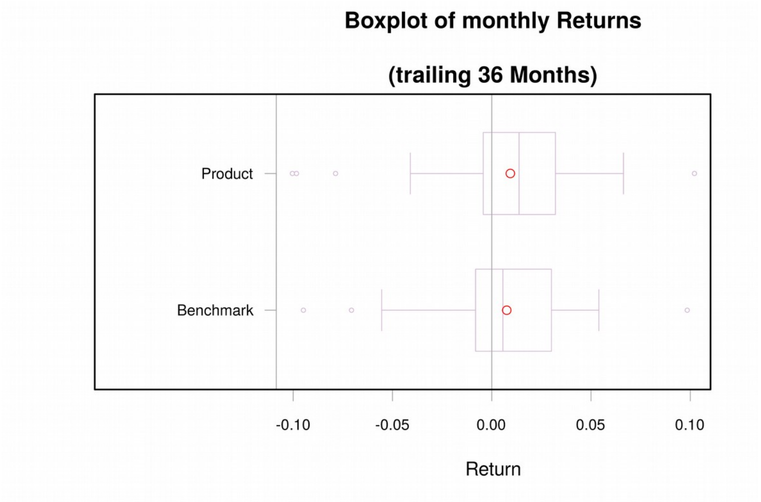
Statistics per end of Dec 19	*6 M*	*1 year*	*2 years*	*3 years*	*5 years*
Performance (annualised)	18.18%	32.94%	8.95%	10.68%	11.09%
Volatility (annualised)	11.26%	16.75%	17.20%	14.48%	14.11%
Sharpe-Ratio	1.58	1.95	0.50	0.71	0.76
Best monthly result	5.18%	10.21%	10.21%	10.21%	10.21%
Worst monthly result	-4.10%	-7.87%	-10.04%	-10.04%	-10.04%
Median of monthly results	1.62%	3.12%	1.70%	1.38%	1.36%
Best 12-month result		32.94%	32.94%	32.94%	32.94%
Worst 12 month result		32.94%	-10.71%	-10.71%	-10.71%
Median of 12-month results		32.94%	2.91%	8.10%	9.96%
Maximum loss period	2	6	7	7	13
Maximum loss	-4.10%	-7.87%	-19.03%	-19.03%	-19.03%

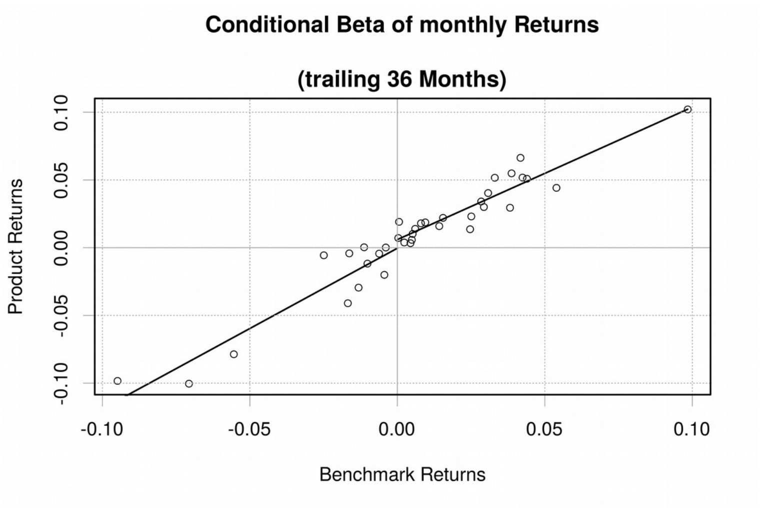
	Fund vs. Benchmark (trailing 36 Months)
Jensen Alpha	0.00
Annualized Jensen Alpha	0.01
Beta	1.14
R-squared	0.92
Correlation	0.96
Tracking Error	0.04
Active Premium	0.02
Information Ratio	0.46
Treynor Ratio	0.09


Performance
Product
Benchmark
ln(Value)
Monthly Return
Modified VaR (1 month, 99%)
Historical VaR (1 month, 99%)
Drawdown
Apr 13
Oct 13
Apr 14
Oct 14
Apr 15
Oct 15
Apr 16
Oct 16
Apr 17
Oct 17
Apr 18
Oct 18
Apr 19
Date


Rolling 12 -month- Performance
Return
Standard Deviation
Sharpe Ratio
May 13
Nov 13
May 14
Nov 14
May 15
Nov 15
May 16
Nov 16
May 17
Nov 17
May 18
Nov 18
May 19
Date


Histogram of monthly Returns
(trailing 36 Months)
Density
0
5
10
15
20
-0.10
-0.05
0.00
0.05
0.10
Returns


Boxplot of monthly Returns
(trailing 36 Months)
Product
Benchmark
-0.10
-0.05
0.00
0.05
0.10
Return


Conditional Beta of monthly Returns
(trailing 36 Months)
Product Returns
-0.10
-0.05
0.00
0.05
0.10
Benchmark Returns

Explanations

TELOS Rating Scale	
AAA	The investment process complies with highest quality standards
AA	The investment process complies with very high quality standards
A	The investment process complies with high quality standards
+ / -	further differentiate within a rating level

The **Product Profile** contains general information on the fund, the investment firm, and the responsible fund manager.

The **Investor's Profile** enables the investor to quickly match his or her expectations with the "official" classification of the product by the investment firm.

The **TELOS Comment** section summarises the main insights of the rating and constitutes an important supplement to the rating grade. The subsequent sections contain descriptive information on the investment process, the quality management, and the responsible team.

The **Investment Characteristics** lists – from the point of view of the fund management – the most important external determinants influencing the performance of the fund, as well as the essential factors employed for its control.

The **Product History** presents – by means of graphs and tables – the development of the fund in comparison with the money market and a benchmark (where appropriate) in respect of performance and risk criteria. All calculations are based on month-end data. Fund data and benchmark data are provided by the investment firm.

The *performance* of the fund is calculated based on reinvested prices: profit distributions are being invested in new shares of the fund immediately. Thereby, the performance of distributing and nondistributing funds is mutually comparable. This approach corresponds to the "BVI method" of performance calculation, advocated by the association of the German investment fund industry. If the fund management is guided by a *benchmark*, the performance of the latter is shown as well. Otherwise, a suitable comparative index is chosen for illustration purposes – in agreement with the investment firm.

The *Sharpe Ratio* provides information about the "excess return" of the fund with regard to a risk free financial investment – here represented by the money market – as a proportion of the total risk taken. The risk free rate is from IMF and published on FRED.

The *median of monthly results* is characterised by the fact that half of all monthly returns occurring in the observed period are either at least or at most as large as this value. As a result, this measure is less sensitive to "outlier results" than, for instance, the mean (average) value of monthly returns. In an analogous way, the *median of 12-month results* should be interpreted. The *longest loss* period is the number of months needed by the fund in order to recover losses by reaching or exceeding a level that had been achieved previously in the period under consideration. If this level could not be reached again, the end of the period is used. Accordingly, the *maximum loss amount* is the largest loss which the fund suffered in the period under consideration – starting from the highest value reached earlier during this period.

Jensen Alpha measures the beta-risk-adjusted (cf. beta) outperformance of the fund versus the benchmark and is calculated using monthly returns. A positive value indicates the generation of added-value by the fund's management.

Beta is a measure of the fund's market risk exposure. A Beta larger (smaller) than one indicates that the fund will be more (less) volatile than the benchmark.

R^2 is the square of the correlation coefficient (cf. correlation). It is the measure of the quality of a linear fit on the fund's vs. the market's returns. It ranges between 0 (bad fit) and 1 (good fit).

Correlation is a measure of how the fund and the market move in relation to each other. Correlation ranges between -1 and +1. The extreme values i.e. -1/+1 indicate that the fund and the market always move in lockstep, for -1 in opposite directions, for +1 in the same direction. 0 indicates there is no clear relationship.

The *tracking error* is the standard deviation of differences between fund and benchmark returns. The lower the tracking error, the more closely the portfolio follows the index.

Active Premium or excess return measures the Out/Underperformance of a fund vs. its benchmark.

The *Information Ratio* is the active Premium divided by the tracking error. The higher the information ratio, the higher the active premium of the fund, given the same level of risk.

The *Treynor Ratio* is the return in excess of the riskfree rate, divided by beta. The Treynor ratio is a beta-risk-adjusted measure of outperformance vs the riskfree rate.

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