

FOR FINANCIAL ADVISORS ONLY

# Davy Global Brands Fund

*From Irish Life*



*Davy Asset Management is regulated by the Central Bank of Ireland.*

A strong brand can be a source of extraordinary **sustainable competitive advantage**

The Davy Global Brands Fund aims to invest in 40-60 **quality global stocks** which have strong brand characteristics

## Overview

A strong brand can be a source of sustainable competitive advantage. This is often referred to as a “moat” as it forms an obstacle/barrier through an associated brand loyalty that makes it more difficult for other companies to compete effectively in the market place. This can lead to superior pricing power which in turn is reflected in higher than average profitability and returns.

We believe branding is one of the few sources of such long-term competitive advantage. The power of brands is often under appreciated by the market. This presents investors with an opportunity for profitable investment through the Davy Global Brands Fund over the medium term.

The Davy Global Brands Fund (the ‘Fund’) invests in 40 to 60 quality global companies with strong brand characteristics. The investment manager seeks to reduce risk by investing across a broad range of sectors and geographies.

“The single most important decision in evaluating a business is pricing power. If you’ve got the power to raise prices without losing business to a competitor, you’ve got a very good business.”

**Warren Buffett,**  
Chairman & CEO, Berkshire Hathaway



# Why Invest In Brands?

Companies with strong brand characteristics have a sustainable competitive advantage which is often difficult to replicate. The power of brands is often under appreciated by the market. This presents investors with an opportunity for profitable investment over the medium term. Strong brand recognition tends to be driven by innovation (Apple), advertising (Nike), customer loyalty (Diageo), copyrights (Microsoft) and distribution networks (Amazon.com).

## Brands – Sustainable Competitive Advantage:



- 1 Brands indicate a certain level of quality and consistency which differentiates them from their competitors. This creates an **emotional bond** which inspires loyalty and repeat purchase.
- 2 Brand loyalty and repeat business act as a **barrier to entry** for competitors.
- 3 Purchasers of branded goods and services are relatively **less price sensitive** than those of unbranded goods or services.
- 4 Over time, successful brand owners tend to achieve **superior profitability and returns** due to this pricing power.
- 5 Strong brand characteristics often deliver superior profitability and **cash flow** that can be **reinvested** in the brands to further strengthen their market position.

## Examples of Brands Standing the Test of Time

One of the key characteristics of strong successful brands is that they have withstood the test of time with a track-record of consistent profit generation.



1886



1903



1907



1923

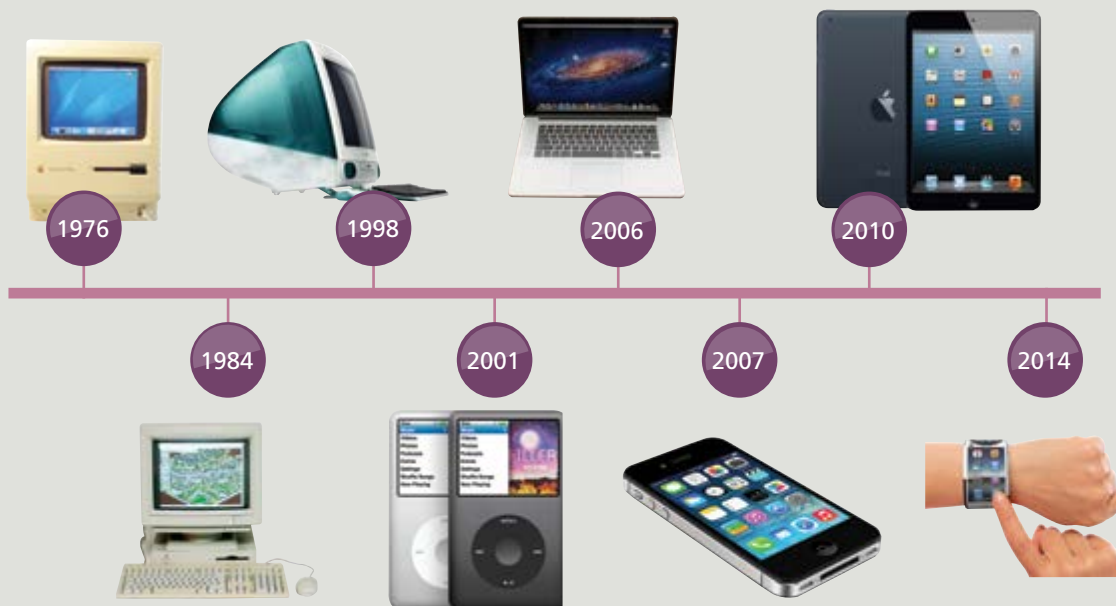


1937

### Example: Evolution of a Brand

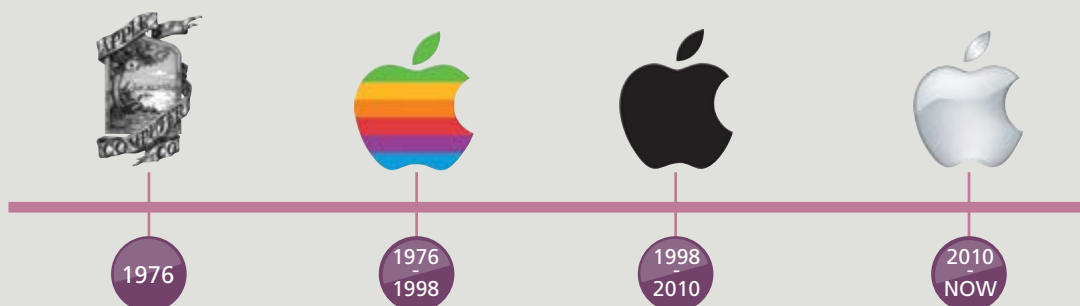
Apple was once a largely unknown brand within the technology sector. The company was founded in 1976 and first listed in 1980 with a market capitalisation of just \$100 million<sup>1</sup>. Today there are few people on the planet who have not encountered an Apple device. Apple has evolved over the last 30 years to become one of the largest companies in the world.

Building on its iconic brand, Apple has achieved a dominant position in its market through continuous innovation and design over the last 30 years. The journey first started with the Macintosh/Apple 1 computer in the 1980s to today's version of the iPhone. Apple sold its 500,000,000th iPhone in early 2014.



Apple has an unmatched following and customer loyalty; its brand promises advanced functionality and customer experience. The emotional bond generated by its brand and repeat business is demonstrated by the success of the iPhone. Apple's market share of the smartphone industry is twice that of its closest rival<sup>3</sup>.

Apple continues to re-invest in its brand image to further differentiate itself from competitors.



**WARNING:** Please note this example has been provided for informational purposes only. The investment manager has discretion to choose which stocks the Fund holds.

1. <http://fortune.com/2012/10/05/apple-from-1980-to-2012/>

2. <http://www.forbes.com/sites/markrogowsky/2014/03/25/without-much-fanfare-apple-has-sold-its-500-millionth-iphone/>

3. <http://www.forbes.com/sites/gordonkelly/2014/03/21/the-majority-of-iphone-users-admit-to-blind-loyalty-why-this-a-problem-for-apple/>

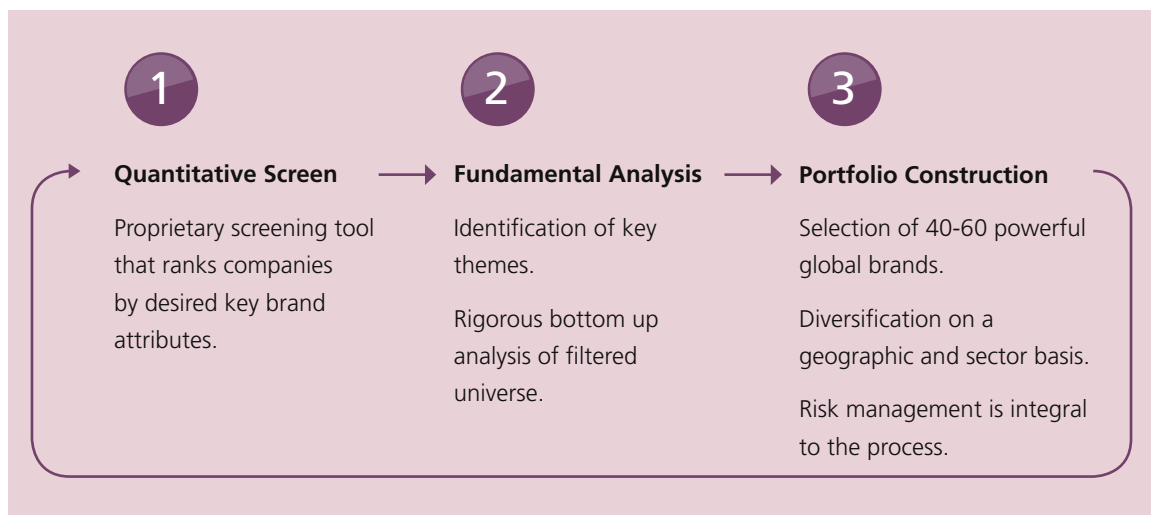
# Davy Global Brands Fund - Investment Process

## Investment Objective

The Fund invest in companies which own some of the world's strongest brand names together with companies which own brands that, in our opinion, may become the next great global brands. We believe that companies with strong brand characteristics can deliver strong risk-adjusted returns due to more sustainable growth profiles, global footprint, and high barriers to entry. Whatever the environment, we believe that investing in attractively valued, high quality brand characteristics that are financially sound and highly cash generative can form a key part of a successful investment strategy.

The Fund uses a **disciplined** and **structured** investment process.

## INVESTMENT PROCESS



**WARNING:** Please note the factors listed are neither comprehensive nor exhaustive. There may be other factors that influence the investment process.

We use a proprietary quantitative screen to filter the investable universe. In our view, the lack of a common market definition of a brand provides an opportunity to those who can identify and assess the key attributes of a brand's strength. We have created a bespoke metric of brand critical success factors to identify and assess the key attributes of a brand strength. Potential investment candidates are further assessed against a checklist of desired brand attributes.

The investment manager then undertakes fundamental research of the highest ranked names and develops an investment insight based on the key growth drivers of the business, the competitive landscape, the strategic outlook for the company and the associated risks.

We combine our bottom-up stock picking approach with a top-down thematic methodology. These themes offer exposure to long-term structural growth trends and allow us to invest in brands that we believe are winners. Attractively valued higher-quality companies with superior long-term track records of growth with exposure to our themes provide, in our view, the best opportunities for investors.

Finally, from the list of these candidates the investment manager selects 40-60 global companies, which will be structured to provide broad diversification across geographic regions and industry sectors.

Through original and rigorous fundamental analysis of companies we focus on:

- ▶ understanding what a company does differently,
- ▶ sources of competitive advantage,
- ▶ the company and its industry's position over the medium term, and
- ▶ an evaluation of the company's Return on Capital.

After this analysis, we build an investment thesis on the critical insights that we believe differ from the market view.

By their very nature, brands are mainly present in Consumer sectors, but not exclusively so. **Powerful brands resonate with their relevant consumers in sectors such as Healthcare and Technology where the boundary between technology and consumer is increasingly blurred.** We retain the flexibility to invest in a broad range of sectors and themes across the market.

Notwithstanding the robustness of brands across the market, the Consumer sector will remain a key driver of the Fund given the preponderance of strong brands in this area.

#### Example of a Theme: Consumer Spending



#### Consumer Appetite as a Driver of Global Growth

The Fund will look to take advantage of trends in consumer spending. Some of the key growth drivers are Emerging Market Consumers, Ageing Consumers and Digital Consumers.

##### ▶ Emerging Market Consumers

- The Emerging Market consumer provides a rich source of growth for companies with strong brand characteristics. Consumer spending in Emerging Markets has outpaced that of Developed Markets every year since 2000. Growth in consumer spending in Emerging Markets is set to be three times that of Developed Markets between 2013 and 2020<sup>4</sup>. Companies with strong brand characteristics are targeting disproportionate growth among these consumers. But, differentiation is key to avoiding the problem of intense competition which can be seen in many areas of Emerging Markets related consumption today. We look to invest in areas with high barriers to entry and where brands have a identifiable competitive advantage.

4. Source: "Reaching the Emerging Middle Classed beyond Bric" Euromonitor International 2013.

### ▶ Ageing Consumers

- Both the Developed and Emerging Market consumer profile is ageing quickly. The share of older people (60 years and older) increased globally from 9.2% in 1990 to 11.7% in 2013 and will grow to 21.2% by 2050<sup>5</sup>.
- Some brands play increasingly to the needs of this demographic. This covers a broad range of offerings - from servicing the increased demand for leisure activities that suit the older consumer (e.g. Cruise Line Companies; Hotels) to brands and franchises that cater for increased Health & Wellness demands of the ageing consumer.

### ▶ Digital Consumers

- Transformative consumption patterns offer growth potential for both new and existing brands. The world of the internet is changing the way we consume. Some branded good companies have been investing ahead of others to anticipate the evolving needs of the digital consumer, for example the switch to mobile consumption.

#### **Fund Structure**

The Fund is a unit linked fund of Irish Life available through a life assurance policy. The value of an investor's policy is linked to the performance of the Fund.

#### **Fees & Charges**

Please contact Irish Life for information on all applicable fees and charges.

#### **Investor Suitability & Risks**

The Irish Life policy documentation will contain information on the relevant risks. Potential investors should read these documents carefully and seek independent financial advice based on their personal circumstances prior to any investment decision.

**WARNING:** The value of your investment may go down as well as up.

**WARNING:** If you invest in this product you may lose some or all of the money you invest.

**WARNING:** Past performance is not a reliable guide to future performance.

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