Third Addendum to the Prospectus dated 21 December 2018

DAVY FUNDS PLC

(the **"Company")**

An open-ended umbrella investment company with variable capital and segregated liability between sub-funds incorporated with limited liability in Ireland under the Companies Act 2014 with registration number 533779

This Addendum is supplemental to, forms part of and should be read in conjunction with, the Prospectus of the Company, the first and second addenda to the Prospectus and the supplements of the Funds (the "Supplements").

The Directors of the Company, whose names appear in the section of the Prospectus entitled **Management of the Company**, accept responsibility for the information contained in this Addendum. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. The Directors accept responsibility accordingly.

Words and expressions defined in the Prospectus shall, unless the context otherwise requires, have the same meaning when used in this Addendum. For the purposes of interpretation, in the event of any conflict between this Addendum and the Prospectus or Supplements, any such conflict shall be resolved in favour of this Addendum.

Dated: 10 March 2021

AMENDMENTS TO THE PROSPECTUS

With effect as and from the date of this Addendum, the Prospectus is amended as follows:

1. The following new definitions shall be inserted into the **Definitions** section of the Prospectus.

"**ESG**", means environmental, social and/or governance.

"**SFDR**", means Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, as amended and as may be further amended.

"**Sustainability Risk",** means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of an Investment.

"Sustainability Factors", means environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

2. The following new section entitled **"SFDR-related Disclosures"** shall be inserted as a new section 3.16 of the Prospectus.

"3.16 SFDR-related Disclosures

3.16.1 <u>Sustainability Risk</u>

Integration of Sustainability Risk

In compliance with its obligations under the SFDR, the Company has established an iterative and systematic process for the integration of Sustainability Risk within its organisational, risk management and operational structures which provides for the identification, monitoring and ongoing management of Sustainability Risks which may impact the Funds. As the Company has appointed the Investment Managers as the entities responsible for all investment decisions relating to the Funds, in practice, the Company will rely upon the investment decision-making processes of the Investment Managers to ensure that Sustainability Risks posed to the Funds are integrated effectively. The policy of the Company is to rely upon the processes which are adopted by the Investment Managers in relation to the integration of Sustainability Risk in respect of the Funds, as summarised below.

The Investment Managers integrate Sustainability Risks into their investment decisions, meaning the Investment Managers assess the Sustainability Risks associated with asset allocation by following processes pursuant to which they first endeavour to identify such risks (if any) and, where relevant, monitor and manage any such risks identified in a manner considered appropriate to the particular investment strategy of the Fund and consistent with the best interests of Shareholders. While the integration of Sustainability Risks forms part of the overall investment decision-making process, the manner in which this integration will be achieved will vary between Funds, depending on the degree to which Sustainability Risks are considered relevant to the particular strategy or asset class.

Sustainability Risk Identification

The risk integration process involves considering the ESG characteristics of a target asset to support the identification of Sustainability Risk, based on qualitative indicators, as part of the investment due diligence and ongoing risk management processes. Target assets can be classified for example, but not solely by: (i) asset class e.g. to capture specific ESG-factor sensitivities of different economic activities; (ii) by sector, e.g. to enhance understanding of Funds' exposures vulnerable to transition risks, for instance, in the form of regulatory changes or technological progress affecting those specific sectors; (iii) by issuer/counterparty e.g. to identify entity-specific exposure to ESG factors; (iv) by geography e.g. to identify the asset proportions potentially vulnerable to the impact of physical risks such as higher sea-levels, droughts or other climate-related regional issues; and (v) by maturity or position in the life cycle of the asset. This classification system allows for the enhancement of the list of relevant ESG factors through the use of specific indicators that support the evaluation of ESG risks by the Investment Managers.

Sustainability Risk to assets can be measured by applying one or more risk indicators to help capture ESG risks including the application of market taxonomies, standards and labels along with other qualitative information and forward-looking/long-term investment benchmarks.

Sustainability Risk Monitoring & Management

Once assets have been classified according to their ESG characteristics, a risk-based, exposure assessment is applied in respect of the potential impact of ESG risks, taking due account of the materiality of the ESG risk as driven by the ESG characteristics of its exposure. In order to support an adequate assessment of ESG risks, formal feedback loops operate between the classification and assessment processes to detect any potential errors or inconsistencies in the classification cycle and/or room for improvement (e.g. more granularity) in terms of the data collection and documentation processes as well as on the methodology applied.

The ESG risk assessment method may use ESG ratings provided by specialised rating agencies (e.g. Sustainalytics or MSCI), ESG evaluations provided by credit rating agencies, internal evaluation models or publicly available ESG scoring models to evaluate the performance of an investment in terms of ESG. This then may be used to complement the initial and ongoing due diligence to ensure investments are in compliance with the objectives, investment strategy and risk limits of the Funds in accordance with the Investment Managers' risk management framework.

The identification of Sustainability Risks may lead to risk mitigation actions including the implementation of exclusionary policies, proactive divestment and stewardship/investor activism. The risk integration process, however, faces a range of challenges including those set out below. As a result, the assessment of Sustainability Risk may prove inconclusive. The Investment Managers' discretion to make investment decisions is, as such, not constrained by potential Sustainability Risks associated with the relevant investments. Additionally, the Investment Managers' evaluation of relevant data may be subjective and could change over time in light of emerging Sustainability Risks or changing market conditions and the approach taken to the integration of Sustainability Risks into investment decision-making processes may evolve over time in line with the continually evolving nature of Sustainability Risks and the availability of relevant data.

Sustainability Risk Integration Challenges

The Sustainability Risk integration process faces a range of challenges including:

- uncertainty: transition risks are inherently challenging to assess as the timing and effect of policies and interventions are driven by regulators and national and EU policymakers, as are physical risks e.g. the financial impact of emissions reduction is an ever evolving question;
- lack of data: the lack of reliable, comparable, available data is a key challenge to assessing ESG risks;
- historical data: while historical data is used to assess ESG risks, its ability to estimate future risks is more limited; and
- time-horizons: ESG risks are generally considered long-term risks likely to materialise beyond the standard time horizons used in tools to assess financial risks impacting the Funds.

Sustainability Risk Impact

Sustainability Risk is an evolving, multi-faceted and multi-point impact risk category that can drive a multitude of prudential risks relevant to a diverse range of asset classes but perhaps most significantly in the case of corporate and sovereign debt, equities and real estate. Given the systemic and pervasive impacts of climate change and other ESG factors, Sustainability Risk is likely to have an impact on the returns of the Funds.

ESG Factors & Sustainability Risks

Environmental risks are driven by the negative impact of environmental factors on investments. Environmental risks are the financial risks arising from a Fund's exposure to assets that may potentially contribute to or be affected by climate change and other forms of environmental degradation such as air pollution, water pollution, scarcity of fresh water, land contamination, biodiversity loss and deforestation.

Governance factors cover governance practices of investee entities and Fund counterparties, including the extent to which ESG factors are reflected in such entities' or issuers' policies and procedures. Governance factors can lead to governance risks, that can also impact Shareholder interests in several ways including a poor code of conduct or failure to take action on anti-money laundering which can hamper both its financial and non-financial resources, thus affecting its potential to perform and generate returns.

Social factors are related to the rights, well-being and interests of people and communities, which may have an impact on the activities of investee entities and Fund counterparties. Social factors may give rise to financial risks. For example, various policy actions have been taken in response to social movements demanding equal pay, equal representation and workplace diversity. Such social changes can constitute a risk for entities unable or unwilling to adapt, for example due to a poor corporate culture. Such companies may be the target of complaints, lawsuits and/or market pressure and/or may suffer reputational damage. In addition, significant levels of research have identified a strong positive correlation between female representation within the leadership of organisations and their financial performance. As a result, in turn, an over-representation of one gender within the decision-making body may put a company at a relatively higher risk.

Sustainability Risks & Financial Risks – the transmission channels

As a fundamental first step, the risk integration process, whilst acknowledging that different sectors have different risk exposures, provides for the identification of material ESG factors which may give rise to Sustainability Risks. The relevant ESG factors are those identified under the SFDR and related European legislation and include: climate-related and other environmental factors such as greenhouse gas (GHG) emissions and energy use and efficiency; social factors such as diversity and issues related to the management of human capital; and governance factors such as anti-corruption and anti-bribery.

In accordance with recognised best practice, the risk integration process provides for the assessment of the negative impact of identified ESG factors or Sustainability Risk, not as a principal risk but instead, as a cross-cutting risk type that manifests through established standalone risk types of market, counterparty, operational, liquidity, etc. Therefore, as ESG factors are relevant for all risk types, the risk integration process incorporates an assessment of the interconnections between ESG risks and financial risks as an important step in developing a clear map of ESG factors to risk. Such interconnections are assessed by establishing how a Fund's exposures to ESG factors may be transmitted to financial risks (i.e. the relevant transmission channels). The main transmission channels through which ESG factors can impact on investments are: (i) the physical risk channel, through which physical events such as extreme weather events and gradually deteriorating conditions in climate give rise to financial risks; (ii) the transition risk channel through which exposure to entities negatively affected by the transition to a sustainable economy give rise to financial risks; and (iii) the liability risk channel, where financial risks stem from exposure to entities potentially held accountable for the negative impact of their activities on ESG factors. ESG risks may manifest, through transition, physical and liability channels, as one or more material financial risks including counterparty or credit, liquidity, market and/or operational risk.

3.16.2 Principal Adverse Impacts of Investment Decisions on Sustainability Factors

While details of the processes in place relating to the integration of Sustainability Risks pertaining to the Funds are set out above, taking due account of the nature and scale of its activities and the wide and varied range of financial products it makes available, the Company, in accordance with Article 4(1)(b) of the SFDR, has elected for the time being not to consider (in the manner specifically contemplated by Article 4(1)(a) of the SFDR) the principal adverse impacts of investment decisions of the Funds on Sustainability Factors. The Company considers this a pragmatic and economical approach to compliance with its obligations under the SFDR."

AMENDMENTS TO THE SUPPLEMENTS

With effect as and from the date of this Addendum:

1. The Supplements for the following sub-funds of the Company, each dated 21 December 2018:

   - **Global Equity Income Fund**;
   - **Davy Discovery Equity Fund**;
   - **Davy Global Equity Fund**; and
   - **Davy Global Focus Fund**;

   are each updated to include a new section 3.1(d) entitled "***Environmental and/or Social Characteristics of the Fund***", as follows:

   "(d) ***Environmental and/or Social Characteristics of the Fund***

   The Fund will not invest in securities which contribute to unethical acts or omissions, such as shares of companies with a record of violating fundamental humanitarian principles or violations of human rights or with exposure to cluster munitions, land mines or thermal coal.

   *In selecting investments for the Fund, the Investment Manager assesses the environmental, social and governance ("**ESG**") profile of issuers, using ESG and fundamental research models which include sector-specific frameworks aimed at highlighting materially impactful ESG issues within a given sector. The research process applied by the Investment Manager in order to assess the ESG profile of potential investments relies on a combination of independent issuer-specific research from MSCI ESG, data inputs from CDP, ISS, company reports, Bloomberg and sell-side research as well as in-house fundamental research. Building on the output of this research process, the Investment Manager will then engage directly with issuers to gain further detail of and insight into the ESG profile of potential investments. In this way, risks or opportunities relating to the ESG profile of potential investments are identified, which are not typically highlighted by traditional fundamental research.*

   Once these steps have been taken, the Investment Manager will consider whether an adjustment to the discount rate used to value the investment should be applied, based on its ESG profile. Issuers with superior ESG profiles may be afforded premium valuations relative to issuers with inferior ESG profiles. This premium may be justified by reference to the superior awareness and management by the relevant issuer of long-term ESG-related business risks, consistent with the profile of attractive long-term investment propositions. Additionally, the market may fail to incorporate this ESG premium, leading to stocks with attractive ESG profiles trading below their true intrinsic value. The Investment Manager will then use this adjusted valuation to select stocks and adjust weights within the portfolio.

   In addition to supporting the research process described above, the Investment Manager believes that engagement with underlying issuers can drive improved management of relevant ESG-related issues arising at the portfolio level and therefore the Investment Manager follows a structured engagement process with issuers in respect of ESG-related matters identified during the research phase."

2. The Supplement for **Davy Defensive Equity Fund** dated 21 December 2018 is updated to include a new section entitled "***Environmental and/or Social Characteristics of the Fund***" immediately following the existing section of the Supplement entitled "***Investment Restrictions***", as follows:

   *"**Environmental and/or Social Characteristics of the Fund***

   The Fund will not invest in securities which contribute to unethical acts or omissions, such as shares of companies with a record of violating fundamental humanitarian principles or violations of human rights or with exposure to cluster munitions, land mines or thermal coal.

   *In selecting investments for the Fund, the Investment Manager assesses the environmental, social and governance ("**ESG**") profile of issuers, using ESG and fundamental research models which include sector-specific frameworks aimed at highlighting materially impactful ESG issues within a given sector. The research process applied by the Investment Manager in order to assess the ESG profile of potential investments relies on a combination of independent issuer-specific research from MSCI ESG, data inputs* *from CDP, ISS, company reports, Bloomberg and sell-side research as well as in-house fundamental research. Building on the output of this research process, the Investment Manager will then engage directly with issuers to gain further detail of and insight into the ESG profile of potential investments. In this way, risks or opportunities relating to the ESG profile of potential investments are identified, which are not typically highlighted by traditional fundamental research.*

Once these steps have been taken, the Investment Manager will consider whether an adjustment to the discount rate used to value the investment should be applied, based on its ESG profile. Issuers with superior ESG profiles may be afforded premium valuations relative to issuers with inferior ESG profiles. This premium may be justified by reference to the superior awareness and management by the relevant issuer of long-term ESG-related business risks, consistent with the profile of attractive long-term investment propositions. Additionally, the market may fail to incorporate this ESG premium, leading to stocks with attractive ESG profiles trading below their true intrinsic value. The Investment Manager will then use this adjusted valuation to select stocks and adjust weights within the portfolio.

In addition to supporting the research process described above, the Investment Manager believes that engagement with underlying issuers can drive improved management of relevant ESG-related issues arising at the portfolio level and therefore the Investment Manager follows a structured engagement process with issuers in respect of ESG-related matters identified during the research phase."

3. The Supplement for the **Davy Global Bond Fund**, dated 21 December 2018, is updated to include a new section 3.1(e) entitled "***Environmental and/or Social Characteristics of the Fund***" as follows:

   "(e) ***Environmental and/or Social Characteristics of the Fund***

   *In selecting sovereign debt investments for the Fund, the Investment Manager assesses the environmental, social and governance ("**ESG**") profile of the relevant country, using country level ESG-related data which is sourced from providers such as the United Nations, the International Monetary Fund and the World Bank. Utilising data of this nature, the Investment Manager has developed a proprietary model which allows it to rank almost 200 countries in terms of their overall ESG risk profile, as well as across several other key metrics. This model also allows the Investment Manager to track whether key ESG risks associated with any of the relevant countries are improving or disimproving over time. A more in-depth analysis of the issuer country's ESG risk profile is carried out during the credit analysis phase of the Investment Manager's research process.*

   In selecting corporate debt investments for the Fund, the Investment Manager assesses the ESG profile of the relevant issuers using independent issuer-specific research from MSCI ESG, data inputs from CDP, company reports, Bloomberg and sell-side research. The Investment Manager varies the emphasis of its assessment of different ESG factors depending on the sector in which the issuer operates, placing due weight on the types of ESG risks specific to the investment. As part of its research process, the Investment Manager also considers the ESG risks inherent in the countries and regions in which the issuers of corporate debt investments operate (which may constitute a material consideration in the context of certain issuers), using the proprietary model described in the paragraph above.

   By taking account of ESG factors when assessing sovereign debt investments, the Investment Manager's understanding of the long-term debt sustainability of a country may be enhanced in a manner not afforded by traditional metrics applied to the assessment of such investments. With respect to corporate debt investments, the Investment Manager's assessment of ESG factors impacting those investments can highlight ESG-related risks or opportunities which are not typically identified by traditional fundamental research.

   The Fund will not invest in securities which contribute to unethical acts or omissions, such as securities of issuers with a record of violating fundamental humanitarian principles or violations of human rights or with exposure to cluster munitions, land mines or thermal coal."

a) The Supplement for the **Davy Strategic: Global Quality Equity Fund**, dated 10 July 2020, is updated to include the following text as a new paragraph immediately following the first paragraph (commencing "*The Investment Manager will invest in the asset classes*…") of section 3.1(c) of the Supplement entitled "***Investment Strategy****:*":

"The Fund will not, however, invest in securities which contribute to unethical acts or omissions, such as shares of companies with a record of violating fundamental humanitarian principles or violations of human rights or with exposure to cluster munitions, land mines or thermal coal."