

# DAVY GEARED HIGH YIELD FUND

FROM  
NEW IRELAND

## Q3 2017 UPDATE

This fund is provided by New Ireland Assurance plc and is managed by Davy Asset Management.

PERFORMANCE	1 MONTH (%)	Q3 2017 (%)	1 YEAR (%)	3 YEARS P.A. (%)	5 YEARS P.A. (%)
DAVY GEARED HIGH YIELD FUND (GROSS OF FEES)	4.1	(0.1)	8.2	8.1	13.1
MSCI WORLD INDEX	2.8	1.1	12.3	10.1	12.9

Source: New Ireland (Geared High Yield Fund Series 6, performance is quoted gross of taxation and fund management charge) and Bloomberg as at 30th September 2017. The fund management charge and product charges will vary depending on the terms and conditions of your policy.

### FUND OVERVIEW

The aim of the **Davy Geared High Yield Fund** (the 'Fund') is to achieve long-term capital growth through investments in companies which can generate higher than average dividend yields. The Fund targets a dividend yield 1% above the market and actively borrows to increase equity exposure. Loans are established within the Fund, so it is the Fund that is liable not the investor.

### FUND PERFORMANCE

The Geared High Yield Fund fell 0.1% during the quarter. Stock Selection was the biggest detractor from relative performance with a negative contribution from both High Yield and Value factors, which lagged the broader market.

The Fund's holding in US communications company WPP detracted 0.4% from performance during the quarter, falling 14% in euro terms as the company delivered its second quarter results. The company was forced to cut full year growth forecasts for the second time as advertising spend by consumer goods companies, who make up the firm's largest clients, and increasing digital disruption from the likes of Facebook and Google hurt revenues. The company recovered a small amount towards the end of the quarter as Consumer Staples companies such as Unilever and Nestle announced that they would be increasing advertising spend in response to sluggish growth. Consumer goods companies are amongst the biggest spenders on advertising and an increase in spending would have a positive read through for WPP.

The Fund's holding in US Tobacco Company, Altria which sells brands including Marlboro and Chesterfield in the US, detracted 0.45% from Fund performance during the quarter, falling 17.7% in euro terms. The stock fell following an FDA announcement that it will explore the reduction of nicotine levels in conventional cigarettes to non-addictive levels. The position has been reduced within the Fund from 3% to c1.5%.

Integrated US oil company Chevron contributed positively to Stock Selection during the quarter as the share price rose 8% in euro terms as the oil price recovered during the quarter following production cuts by OPEC and as the company posted strong earnings growth at the second quarter results.

Asset Allocation detracted from relative performance primarily driven by an overweight to the Consumer Staples sector and an underweight to the Information Technology sector. The Fund tends to be overweight the Consumer Staples sector due to the large number of high quality dividend paying companies in the sector. The Fund has a natural underweight to the Information Technology sector due to the scarcity of available dividend yield. Currency had a positive impact on performance. At the end of the month, the gearing of the Fund was at 17%.

### SAMPLE PORTFOLIO TRANSACTIONS

The Fund reduced its holdings in AT&T and Verizon, during the quarter. The Fund also sold out of General Electric and Reckitt Benckiser and added Ferrovial and Airbus to the portfolio.

The holdings in the US Telco names, Verizon and AT&T, were reduced as the intense competitive landscape in the U.S. remains stubbornly intact meaning potential for margin improvement is low. The Fund is currently in the process of looking for new ideas within the telecommunications space in North America.

Earlier in the year, the Fund's position in General Electric was reduced by 50% on fears that GE was entering a phase of cash flow draining intense capital investment in many areas of the business including restructuring. Free cash has steadily been declining at GE, as the portfolio was preened and refocused. In September, the decision was taken to remove GE entirely from the portfolios.

The Fund added a position in Ferrovial, one of the world's leading infrastructure companies. Ferrovial operates a high quality portfolio of infrastructure assets, toll road and airports, which are differentiated by their pricing power and solid traffic trends. Services performance is now

improving, after a soft 2016. Strong performance is expected in the near term. Crucially, Ferrovial's dividend looks secure given it is covered by recourse FCF over 2017-19.

Airbus, manufacturer of commercial airplanes and military equipment, was also added to the Fund in the quarter. The investment rationale centres around the margin expansion and cash flow growth which is expected to follow the ramp up in production in A320 and A350 models. The strength of the order book provides a degree of surety that this growth will be achieved. We project cash flow yield to grow from 1.8% currently to >7% by 2020 on revenues of more than €80bn. Given the strength of the anticipated cash flows there is significant scope for return of capital to shareholders through buybacks, regular and special dividends.

With ongoing event risk and increased volatility on the horizon we believe that the high yield style will once again benefit from its intrinsic defensive attributes. The underlying equity book generally has lower volatility, lower beta and higher market capitalisation.

CALENDAR YEAR PERFORMANCE	2016 (%)	2015 (%)	2014 (%)	2013 (%)	2012 (%)
Davy Geared High Yield Fund	10.7	11.8	18.9	22.2	20.6
MSCI World Index	10.7	10.4	19.5	21.2	14.0
Chevron	36.6	(16.2)	(7.0)	19.3	5.1
WPP	19.6	19.6	0.3	59.6	35.8
Altria	20.5	23.1	34.5	28.6	11.8

Source: New Ireland (Geared High Yield Fund Series 6, performance is quoted gross of taxation and fund management charge) MSCI and Bloomberg as at 30th September 2017. The fund management charge and product charges will vary depending on the terms and conditions of your policy. Performance is quoted in local currency unless otherwise stated.

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

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.

MSCI Inc. (MSCI). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be reproduced, disseminated or used to create any financial products, including any indices. This information is provided on an 'as is' basis. The user assumes the entire risk of any use made of this information. MSCI, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. MSCI and the MSCI indexes are services marks of MSCI and its affiliates.

**Davy Asset Management** Davy House, 49 Dawson Street, Dublin 2, Ireland  
T +353 1 614 8874 E [assetmanagement@davy.ie](mailto:assetmanagement@davy.ie)  
[www.davyassetmanagement.com](http://www.davyassetmanagement.com)

Confidential copyright Davy 2017

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. No part of this document is to be reproduced without our written permission. 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.