DAVY ASSET MANAGEMENT

FOR INVESTMENT PROFESSIONALS ONLY

DAVY DEFENSIVE HIGH YIELD FUND

FROM NEW IRELAND

Q4 2017 UPDATE

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

PERFORMANCE	1 MONTH (%)	Q4 2017 (%)	1 YEAR (%)	3 YEARS P.A. (%)	5 YEARS P.A. (%)
DAVY DEFENSIVE HIGH YIELD FUND (NET OF FEES)	(1.0)	0.5	(2.7)	3.8	6.6
MSCI WORLD INDEX	0.6	3.9	7.5	9.5	13.7

Source: New Ireland (Davy Defensive High Yield Fund Series 6, performance is quoted gross of taxation and net of fund management charge) and Bloomberg as at 29th December 2017. The fund management charge and product charges will vary depending on the terms and conditions of your policy.

The performance of the New Ireland Davy Defensive High Yield Fund encompasses both the past performance of the Davy Defensive High Yield Fund, a sub-fund of the Skyline Umbrella Fund plc, from 30th September 2011 to 21st July 2015 and the past performance of the Davy Defensive Equity Income Fund (formerly Defensive Income Fund), a sub-fund of Davy Funds plc, from its launch on 22nd July 2015 to report date.

FUND OVERVIEW

The aim of the **Davy Defensive High Yield Fund** (the 'Fund') is to provide long-term capital growth, with reduced levels of volatility compared to global equity markets. The Fund reduces risk by investing in large global companies that pay out above average dividend yields and employs an Options strategy to provide some downside protection against significant market falls.

FUND PERFORMANCE

The Fund rose 0.5% in the fourth quarter, versus an index return of 3.9%. During Q4 both High Yield and Value factors underperformed. The Fund's risk managed option overlay, which protects the Fund during sharp market declines, had a slight negative impact on Fund performance as markets trended upwards and the put options expired out of the money. The Fund also gave away upside as a number of call options expired in the money.

Stock Selection detracted from fund performance as the High Yield and Value factors that the Fund is exposed to lagged the broader market.

Global pharmaceutical company Merck underperformed during the quarter, with the share price falling 12.7% in Euro terms despite reporting 3rd quarter results that were broadly in line with market expectations. The share price fell as the company announced it would be changing the medical trial target outcome for cancer drug Keytruda. Merck hopes that by changing the end point target it can reach a larger addressable market for the drug. The change will delay the trial outcome by at least a year however, lending a march to potential rivals as they seek to bring their own drugs to market.

Despite the negative Stock Selection effect the Fund had a number of strong individual contributors during the quarter, including both L Brands and Microsoft.

Ladies apparel and beauty products retailer L Brands added to relative Fund performance during the quarter as the share price rose 44.2% in Euro terms. Having been one of the worst performers in the portfolio for the first half of the year, the turnaround story at L Brands gained momentum during the quarter as company revenues stabilised and outlook improved.

Microsoft, a top ten holding in the Fund, returned 13.6% in Euro terms over the quarter and contributed to relative performance having reported solid Q3 results in October that beat analyst expectations. The main highlights of the results included the Commercial Cloud annualized revenue run rate growing to 57% year-over-year, LinkedIn revenue performing better than internal expectations and the group achieving their largest revenue beat on a percentage basis in two fiscal years. Microsoft performed well into year-end with the potential of the US tax reform package fomenting in investors' minds.

Asset Allocation was the largest detractor from relative performance as the growth exposed Consumer Discretionary and Information Technology sectors, which the Fund is underweight, led the market higher, and the Consumer Staples and Telecommunications sectors, which the Fund is overweight, underperformed. 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 and Consumer Discretionary sectors due to the scarcity of available dividend yield. Currency had a positive impact on performance.

SAMPLE PORTFOLIO TRANSACTIONS

The Fund sold out of its holding in AT&T and added to Telus during the quarter. The Fund also reduced its holding in Swedbank.

The decision to sell out of AT&T followed on from the decision to reduce the position size earlier in the year. The US Telco landscape remains intensely competitive with potential for margin improvement low. Having sold out of AT&T the Fund added Canadian telecom provider Telus to the portfolio. The Canadian Telecoms market is more attractive and more mature market than the US. The market is consolidated with three nationwide carriers that control 93% of subscribers. Telus is the market leader in revenue growth and benefits from a favourable business mix and an accelerating free cash flow profile that make it attractive.

The Fund reduced its holding in Swedbank during the quarter. Swedbank has a large exposure to mortgage and real estate lending in Sweden, where there have been early signs of weakness in the property market.

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 Defensive High Yield Fund (Net of fees)	7.1	7.3	14.3	7.6	6.5
MSCI World Index	10.7	10.4	19.5	21.2	14.0
Merck & Co.	15.1	(3.9)	16.9	26.8	13.1
L Brands	(27.3)	15.8	45.7	34.4	29.2
Microsoft Corp	15.1	22.7	27.5	44.3	5.8

Source: New Ireland (Davy Defensive High Yield Fund Series 6, performance is quoted gross of taxation and net of fund management charge), MSCI and Bloomberg as at 29th December, 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.