

DAVY GEARED 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 GEARED HIGH YIELD FUND (GROSS OF FEES)	0.4	2.3	0.3	7.5	12.5
MSCI WORLD INDEX	0.6	3.9	7.5	9.5	13.7

Source: New Ireland (Geared High Yield Fund Series 6, performance is quoted gross of taxation and 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.

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

In Q4, the Fund returned 2.3% versus an index return of 3.9%. 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. 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. At the end of the month, the gearing of the Fund was at 25%.

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 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
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 (Geared High Yield Fund Series 6, performance is quoted gross of taxation and 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.

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 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.