

DAVY 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 HIGH YIELD FUND (GROSS OF FEES)	0.4	2.8	2.0	8.0	11.3
MSCI WORLD INDEX	0.6	3.9	7.5	9.5	13.7

Source: New Ireland (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 High Yield Fund** (the 'Fund') is to achieve long-term capital growth through investments in companies which expect to generate a higher than average dividend yield. The Fund targets a dividend yield 1% greater than the market dividend yield. The concept is that dividends are the foundation of total returns over the long term.

FUND PERFORMANCE

In Q4, the Fund returned 2.8% 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.

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 High Yield Fund	11.1	11.3	16.0	17.0	15.7
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

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