

DAVY GEARED HIGH YIELD FUND

FROM
NEW IRELAND

Q1 2018 UPDATE

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

PERFORMANCE	1 MONTH (%)	Q1 2018 (%)	1 YEAR (%)	3 YEARS P.A. (%)	5 YEARS P.A. (%)
DAVY GEARED HIGH YIELD FUND (GROSS OF FEES)	-4.0	-8.9	-10.1	-0.8	8.2
MSCI WORLD INDEX	-3.1	-3.7	-1.3	3.2	10.6

Source: New Ireland (Geared High Yield Fund Series 6, performance is quoted gross of taxation and fund management charge) and Bloomberg as at 29th March 2018. 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 Q1, the Fund returned -8.9% versus an index return of -3.7%. Stock Selection was the largest detractor from relative performance as the High Yield and Value factors, which the Fund is generally exposed to, lagged the broader market. Growth and Momentum factors, to which the Fund has limited exposure, outperformed strongly in the first quarter, as they did in 2017.

Ladies apparel and beauty products retailer **L Brands** reduced Fund performance as the share price fell sharply during the quarter, having rallied strongly in the prior quarter. L Brands continues to divide investors who are weighing the prospect of a turnaround for the company against a more troubled outlook for traditional retailers and a decline in demand for structured bras, a very important category for their Victoria's Secret brand. The share's underperformance largely followed disappointing sales figures during the holiday season in the US, compounded by a February sales update that failed to meet investor expectations.

Despite the negative Stock Selection effect the Fund had a number of strong individual contributors during the quarter, including both **Airbus** and **Taiwan Semiconductor Manufacturing Company**. Airbus contributed positively to the Fund during the quarter, as the shares rose 13.0%. Airbus delivered a strong set of full-year results in February that saw the share price rise by 10.3% on the day. Despite engine problems associated with the ramp up of the A320neo jet, the company announced cash flows well ahead of expectations. Airbus also appeared to have ring-fenced issues associated with the A400M military programme, which has plagued Airbus, following negotiations with key stakeholders.

Taiwan Semiconductor Manufacturing Company (TSM) posted another strong quarter of performance following a good set of full year results and guidance ahead of investor expectations for the coming year. TSM contributed to relative performance as the share price rose 7.7% in euro terms during the quarter. TSM benefits from the continued growth in demand for processor chips that it manufactures for customers including Apple, Broadcom, AMD and Nvidia.

In line with much of 2017, Asset Allocation reduced relative Fund 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 quarter the gearing level on the Fund was 27%.

SAMPLE PORTFOLIO TRANSACTIONS

The Fund sold out of its holding in WPP, and Eastman Chemical Company was added to the portfolio.

The decision to sell WPP followed a review of the underlying investment thesis. Advertising agencies face a tough climate at the moment as clients trim spending and companies such as Google and Facebook gather an ever-larger share of corporate marketing budgets. The industry continues to evolve rapidly in response to shifts in consumer viewing habits and media consumption. We added Eastman Chemical Company to the Fund during the quarter. Eastman is a diversified chemicals company. Over the past number of years management has been transitioning the company away

from commodity type chemicals towards speciality chemicals. Speciality chemical companies can enjoy greater stability of earnings and cash flows and trade at higher multiples to their commodity exposed peers. Eastman has an excellent management team in place who can continue to lead the company through this transition.

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

CALENDAR YEAR PERFORMANCE	2017 (%)	2016 (%)	2015 (%)	2014 (%)	2013 (%)
Davy Geared High Yield Fund	0.3	10.7	11.8	18.9	22.2
MSCI World Index	7.5	10.7	10.4	19.5	21.2
Airbus	34.6	3.8	52.9	(24.9)	91.7
L Brands Inc	(3.9)	(27.3)	15.8	45.7	34.4
Taiwan Semiconductors	42.3	31.1	4.9	31.2	4.4

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