

DAVY DEFENSIVE HIGH YIELD FUND

FROM
NEW IRELAND

Q2 2018 UPDATE

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

PERFORMANCE	1 MONTH (%)	Q2 2018 (%)	1 YEAR (%)	3 YEARS P.A. (%)	5 YEARS P.A. (%)
DAVY DEFENSIVE HIGH YIELD FUND (NET OF FEES)	-0.2	3.7	-2.1	0.9	5.0
MSCI WORLD INDEX	-0.1	7.2	8.5	6.8	12.3

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 June 2018. 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 21 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

In Q2, the Fund returned 3.7% versus an index return of 7.2%. Asset Allocation between sectors was the largest detractor from relative performance as the Information Technology and Consumer Discretionary sectors, which the Fund is underweight, performed strongly during the quarter. More broadly, the underperformance of the High Yield and Value factors, which the Fund is generally exposed to, continued during the second quarter. The Fund's risk managed option overlay, which protects the Fund during sharp market declines, had a negative impact on Fund performance as markets started to rise.

Following a major positive contribution in Q1, Taiwanese semiconductor manufacturer, **TSMC**, was the biggest detractor of relative performance during the Q2, contributing -0.34%. The chipmaker lowered its full year 2018 revenue expectations in April, following a slowdown in chip sales to Apple. The smartphone maker was believed to be working through an inventory of processors during the quarter. We view this slowdown as a temporary phenomenon related to the iPhone product cycle. TSMC also took a more cautious view of the cryptocurrency demand for chips following the collapse in the bitcoin price.

Elsewhere within the Technology sector, strong rebounds from **Apple** and **Facebook** impacted the Fund negatively, while a 14% rally in **Microsoft** shares contributed +0.23% to performance. The Seattle based software maker produced a strong set of earnings in April that showed revenue acceleration across all divisions and steadily increasing annuity revenues. These include revenues from recurrent subscriptions that bode well for future cash flows.

US pharmaceutical company **Merck** also performed strongly during the quarter, adding 0.24% to relative performance. Following a torrid couple of quarters, the company's key lung cancer drug, Keytruda, showed positive efficacy in trials.

Currency exposure was a negative contributor during the quarter. The recovery in the US dollar was the main driver of this. The Fund is underweight dollar assets as many of the large cap technology and consumer stocks, such as Google, Amazon and Facebook do not pay dividends.

SAMPLE PORTFOLIO TRANSACTIONS

Within the Financials sector, the Fund added to holdings in two insurance companies. Allianz is one of the strongest capitalised insurers in the sector with a dividend yield of 4.5% and the ability to grow the dividend in real terms. New business margins for the company are tracking ahead of target and costs are under control.

French insurer Axa has seen share price weakness since the announcement of the \$15bn deal to acquire XL in March. Moreover, the deal to IPO 28% of the US business failed to achieve the expected proceeds leading to further weakness in May. However, following the two deals, Axa will be a more diversified group with expected lower market risk. In the past, investors have placed a discount on the company's share price due to the equity market risk associated with the US business. That discount should fall as the company reduces its holding in this business. On a secure dividend yield of 6.1%, investors are being rewarded for holding the stock.

Having reduced the holding in US tobacco stock Altria back in July 2017, the Fund added to the stock in May, following a 17% decline in the share price. Having de-rated from a P/E of over 20x earnings to less than 14x in the space of a year, and carrying a dividend yield of 4.9%, we believe that many of the risks that concern investors are in the current price.

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 Defensive High Yield Fund (Net of fees)	(2.7)	7.1	7.3	14.3	7.6
MSCI World Index	7.5	10.7	10.4	19.5	21.2
Taiwan Semiconductor	42.3	31.1	4.9	31.2	4.4
Merck & Co.	(1.5)	15.1	(3.9)	16.9	26.8
Apple Inc	48.5	12.5	(3.0)	40.6	8.1
Facebook Inc	53.4	9.9	34.1	42.8	105.3
Microsoft Corp	40.7	15.1	22.7	27.5	44.3

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

The Davy Defensive High Yield Fund from New Ireland is a life wrapped fund which invests directly in units of the Davy Defensive Equity Income Fund (UCITS), which is managed by Davy Asset Management. Discussions around the Fund herein relate to the UCITS fund. 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.

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