

DAVY TRILOGY II 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 TRILOGY II FUND (GROSS OF FEES)	0.2%	2.4%	4.4%	5.3%	10.9%

Source: New Ireland (Trilogy II Fund Series 6, Performance is quoted gross of taxation and fund management charge) as at 29th June, 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 Trilogy II Fund** (the 'Fund') is to generate long-term capital growth by investing in three distinct asset classes (equities, bonds and property). The Fund invests only in equities that pay higher than average dividends on a sustained basis, high grade corporate bonds and commercial property.

FUND PERFORMANCE

The Fund returned +2.4% during the second quarter of 2018. During the quarter, the Corporate Bonds, High Yield Equities and Property components returned 0.0%, 5.0% and 0.9% respectively.

Eurozone corporate bonds were slightly positive for the second quarter with the ICE BoA Merrill Lynch AAA-A Euro Corporate Bond index up 0.21%. Weaker than expected European economic data combined with a dovish ECB meeting in June was supportive for corporate bonds. The Corporate Bond Fund was broadly flat during the second quarter. The main contributor to performance during the quarter was the Fund's curve positioning and allocation to the Consumer Cyclical and Utilities sectors. The main detractor from performance was the Fund's positioning in the Industrial and Financial sectors. Yields are currently at extreme lows, which is leading investors to search for higher yields. We therefore continue to be underweight the AAA-AA category where yields are lowest.

The High Yield equities basket added 5.0% in the quarter. The underperformance of the high yield and value factors, which the Fund is generally exposed to, continued in the second quarter. 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. Currency exposure was a negative contributor during the quarter. The Property portfolio managed by State Street Global performed very well during the quarter.

SAMPLE PORTFOLIO TRANSACTIONS

The Fund mix currently stands at 36.8% High Yield Equities, 50.3% Property and 12.9% Corporate Bonds. Within the equity basket, the Fund added to holdings in the Financials sector. **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 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 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	2017 (%)	2016 (%)	2015 (%)	2014 (%)	2013 (%)
Davy Trilogy II Fund	4.4	5.9	15.8	24.6	8.5
ICE BoA Merrill Lynch AAA-A Euro Corporate	1.5	4.2	(0.3)	8.4	1.1
Allianz	27.3	1.0	24.6	10.0	29.2
Axa	7.9	0.2	37.0	(0.7)	58.9
Altria	9.4	20.5	23.1	34.5	28.6

Source: New Ireland (Trilogy II Fund Series 6, Performance is quoted gross of taxation and fund management charge), MSCI 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. Performance is quoted in local terms unless otherwise stated.

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