DAVY ASSET MANAGEMENT

FOR INVESTMENT PROFESSIONALS ONLY

DAVY DEFENSIVE HIGH YIELD FUND

FROM NEW IRELAND

Q3 2018 UPDATE

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

PERFORMANCE	1 MONTH (%)	Q3 2018 (%)	1 YEAR (%)	3 YEARS P.A. (%)	5 YEARS P.A. (%)
DAVY DEFENSIVE HIGH YIELD FUND (NET OF FEES)	0.9	4.5	3.0	4.1	5.9
MSCI WORLD INDEX	0.7	5.5	13.2	12.0	12.5

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 28th September 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 Q3, the Fund returned 4.5% versus an index return of 5.5%. Stock Selection contributed positively to relative performance while Asset Allocation contributed negatively. Currency was broadly neutral during the quarter. Stock Selection within the Financials, Technology and Healthcare sectors was the largest contributor to Fund relative performance during the quarter. At stock level, **Pfizer** and **Taiwan Semiconductor Manufacturing Company (TSMC)** were the best performers in the portfolio during the third 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 rose during the quarter.

Within the Stock Selection return, Pfizer was the biggest single positive contributor to relative performance during the quarter, contributing +0.4%. The company released Q2 earnings in July that exceeded market expectations. More importantly, management also delivered an upbeat outlook for their current drug pipeline, which will underpin organic growth in the years ahead. The stock rose by over 23% in euro terms during the quarter.

At a sector allocation level, the Information Technology sector, which the Fund is underweight, performed strongly during the quarter driven by Apple, whereas the Materials sector, which the Fund is overweight lagged the market on trade war concerns. Apple contributed -0.4% to Stock Selection during the quarter. The company announced a sharp uplift in service revenue, driving the stock up 23% in euro terms during the quarter. The Fund does not hold Apple due to its relatively low dividend yield.

Currency exposure was broadly neutral during the quarter. The euro, which had weakened during July and early August, rallied in the second half of Q3 to finish broadly unchanged against the dollar. The pattern was repeated for the euro against sterling.

SAMPLE PORTFOLIO TRANSACTIONS

During the quarter, the Fund reduced its holding in Microsoft somewhat. The stock has been a very strong performer, rising by 40% in euro terms in the first three quarters of 2018. This performance had brought the absolute weighting in the stock to 5% by July and at this stage some profit was realised on the position.

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. The options strategy has, in past times of elevated volatility, demonstrated its ability to provide downside protection.

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
TSMC	42.3	31.1	4.9	31.2	4.4
Apple Inc	48.5	12.5	(3.0)	40.6	8.1
PFIZER INC	15.9	4.5	7.1	5.3	26.2
Microsoft Corp	40.7	15.1	22.7	27.5	44.3

Source: New Ireland (Davy Defensive High Yield Fund Series 6, performance is quoted gross of taxation and net of fund management charge), MSCI and Bloomberg as at 28th September, 2018. 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.

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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