

# Davy Conservative Income & Growth Fund

from Irish Life

## Quarterly update Q3 2019

This fund is provided by Irish Life Assurance plc and is managed by Davy Asset Management.

For Investment Professionals Only

Performance	1 Month (%)	Q3 2019 (%)	1 Year (%)	3 Year (P.A.) (%)	5 Year (P.A.) (%)
Davy Conservative Income and Growth Fund* (Net of Fees)	0.29	0.19	2.03	0.38	1.74
3M EURIBOR +2%	0.14	0.41	1.68	1.67	1.77

Source: Irish Life Investment Managers Ltd. (\*Performance is quoted gross of tax and net of fund management charge) and Bloomberg as at 30th September 2019. The fund management charge and product charges will vary depending on the terms and conditions of your policy.

### Fund overview

The **Davy Conservative Income and Growth Fund** (the 'Fund') is a low risk, return seeking fund, which may be appropriate for conservative investors. The aim of the Fund is to produce positive returns above cash (3-month Euribor +2.0%) on a rolling 12-month basis in a low risk and opportunistic way. The Fund offers investors exposure to short dated (max three years duration) government bonds, high quality equities and cash.

### Market comment

Global equity markets rose by 5.02% in a volatile third quarter dominated by slowing growth, tumbling bond yields, political drama in the UK and rising trade tensions. The MSCI World Index has now risen by an impressive 23.32% in euro terms in the first three quarters of 2019. Some central banks have been active in recent weeks, with the European Central Bank and the Federal Reserve cutting rates in the face of weakening sentiment. While the initiation of impeachment process against the US president grabbed the headlines late in the quarter, the trade war and rate cuts remain the main movers of markets.

Global government bonds also had a very strong quarter, with the JP Morgan Global Bond Index (euro hedged) up 2.4%, alongside the trade war developments economic data disappointed, particularly in Europe and China. We believe a sustainable rise in yields is unlikely until there is a deal, or at least a truce, in the US/China trade war. We believe US and China will want to do a deal, the longer the trade war lasts, the riskier it becomes for the global economy and financial markets.

### Fund performance

The Fund returned 0.19% for the third quarter, net of fees in euro terms. The Fund is now +2.58% ahead of its benchmark year-to-date after fees. The equity basket contributed positively to performance, while the bond portfolio was slightly down during the quarter. As at the end of September 85.3% and 14.7% were allocated to cash and short-dated government bonds (max. maturity of 3 years) and high-quality equities respectively.

The top five contributors to relative performance within the equity basket were Ferrovial, Nestle, Merck, Microsoft and BNP Paribas. While L Brands, Pfizer, Apple (not held), Metlife and Siemens were the top five detractors during the period.

**Ferrovial**, the Spanish infrastructure company, outperformed during the quarter returning 17.77%. The group's exposure to relatively non-cyclical areas of operation, such as toll roads and airport concessions, was viewed as a haven as economic momentum slowed. The fall in bond yields is also positive for valuation of the group's regulated cash flows.

**Pfizer**, the US pharmaceuticals company, underperformed during the quarter returning -12.55%. Pfizer announced that it would combine its Upjohn business, which includes its off-patent branded products with generics drugs maker Mylan, to form a \$20bn off-patent business. Pfizer will own 57% of the new company. The move was greeted with caution by some rating agencies who downgraded the company's debt as the Upjohn business's cash flow exits Pfizer.

The bond portfolio, which consists of short dated (less than three years) Spanish and Slovenian bonds, was down 0.09% during the quarter. Eurozone bond yields fell in July and August, driven by a fall in global yields amid escalating trade tensions between the US and China as well as expectations of renewed easing by the ECB. Yields rose again in September after rebounding from historically low levels.

Spanish spreads tightened which contributed positively to performance, but this was offset by the position in Slovenian bonds.

### Current asset allocation

The current Asset Allocation is 85.5% cash and short-dated government bonds (max. maturity of 3 years), with 14.5% allocated to high-quality equities. should see material credit rating upgrades in the foreseeable future.

## The QQE Perspective

As noted in the last of our working series, Quality Matters – Asymmetric Returns, outperforming the market during Down markets is favourable to outperforming in Up markets, due to the long-term effect of compounding returns. If an investment outperforms in a Down market, it has less to recoup and will then be ahead over a longer period, assuming it performs in-line with the market as it rebounds – a simple case of compounding.

During the quarter, we took a deeper dive into the four individual sub-pillars making up the DAM QUALITY model – Profitability, Persistence, Protection, and People – we believe that these four pillars are essential

to achieving better positive asymmetric returns. We found that whilst three of the four sub-pillars of QUALITY provide asymmetric returns, none do so to the same extent as QUALITY, highlighting that QUALITY is more than the sum of its parts.

Future analysis of QUALITY and its four sub-pillars will extend to include a wider universe to better understand the nuances.

**Details of our analysis can be found in the insights section of our website** <http://www.davyassetmanagement.com/insights>

Calendar Year Performance	2018 (%)	2017 (%)	2016 (%)	2015 (%)	2014 (%)
Davy Conservative Income & Growth Fund* (EUR)	-2.40	-0.48	0.10	6.42	8.28
3m Euribor +2%	1.66	1.66	1.80	1.97	2.22
MSCI World Index (EUR)	-4.11	7.51	10.73	10.42	19.50
JP Morgan Global Bond Index	-0.26	0.40	2.25	1.05	8.47
Ferrovial	-2.58	15.63	-15.26	31.25	21.79
Nestle	-1.78	18.21	1.14	5.23	15.30
Merck & Co	40.00	-1.47	15.05	-3.87	16.95
Microsoft	20.80	40.72	15.07	22.70	27.54
BNP Paribas	-33.06	7.17	21.57	8.83	-10.52
L Brands	-54.23	-3.86	-27.27	15.76	45.68
Pfizer	24.82	15.88	4.46	7.10	5.30
Apple	-5.39	48.48	12.48	-3.02	40.62
MetLife	-15.81	8.49	15.96	-8.30	2.95
Siemens	-13.50	2.45	35.17	-0.76	-2.57

Source: Irish Life Investment Managers Ltd. (\*Performance is quoted gross of tax and net of fund management charge), Euribor and Bloomberg as at 30th September 2019. 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.

The MSCI World Index captures large and mid-cap representation across 23 Developed Markets (DM) countries. With 1,650 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The J.P. Morgan Global Government Bond Index (GBI) series tracks fixed rate issuances from high-income countries spanning the globe.

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

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