

Davy Defensive High Yield Fund

from New Ireland

Quarterly Update Q1 2019

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

For Investment Professionals Only

| Performance | 1 Month (%) | Q1 2019 (%) | 1 Year (%) | 3 Year (P.A.) (%) | 5 Year (P.A.) (%) |
|---|-------------|-------------|------------|-------------------|-------------------|
| Davy Defensive High Yield Fund* (Net of Fees) | 2.3 | 9.6 | 12.5 | 4.8 | 6.4 |
| MSCI World Index | 2.7 | 14.5 | 13.9 | 11.2 | 11.3 |

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 March 2019. 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 the first quarter of 2019, the Fund returned 9.6%. The differential in the equity basket was driven by Stock Selection and Asset Allocation, which both contributed -0.9% to relative performance during the quarter, while currency effects contributed -0.2%. Stock selection within the Communication Service and Information Technology sectors were the largest contributors to relative performance. During the period the Fund's risk managed options strategy detracted from performance.

Aerospace and defence company **Airbus** was the biggest positive contributor to relative performance during the quarter, adding +0.4%. The stock rebounded strongly during the quarter following a better-than-expected set of results in February. The management team also took the opportunity to raise their guidance for profit growth in 2019. In spite of some disappointment regarding the future of the A380, the company has a strong order book for the A320 and is seeking to raise the quarterly deliveries rate for the model. Following some weakness in the fourth quarter of last year, the stock rose by 40.4% during the first quarter of 2019.

Telecoms company **Vodafone** contributed -0.1% to Stock Selection during the quarter. In spite of management reiterating their cash flow targets for 2019, the stock fell on the first quarter earnings release

in January. Service revenue growth was weaker than expected and the market is concerned about how the company will deal with the increased debt from the purchase of assets from Liberty Global and upcoming spectrum auctions in Germany. At current valuation levels, we believe that the market is already pricing in a dividend cut from the company and that progress on cost cutting and asset sales will allay fears about the balance sheet.

On balance Currency detracted from performance during the quarter. Strength in the US dollar, Canadian dollar and Australian dollar drove this effect.

The **options strategy** also detracted from Fund relative performance during the first quarter, reversing much of the gains made in the fourth quarter of 2018, as equity markets recovered all of the losses made during the fourth quarter of 2018.

Sample Portfolio Transactions

During the first quarter of 2019, the Fund exited its position in BMW and added Samsung. Global demand for automobiles is plateauing due to growth from ride-on-demand and an increase in competition from electric vehicles. Samsung is one of the world's largest semiconductor manufacturers. Samsung will benefit from a structural trend of growth from high power computers, high-end consumer devices and rising semiconductor adoption within the auto sector.

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 | 2018 (%) | 2017 (%) | 2016 (%) | 2015 (%) | 2014 (%) |
|---|----------|----------|----------|----------|----------|
| Davy Defensive High Yield Fund* (Net of fees) | -2.9 | -2.7 | 7.1 | 7.3 | 14.3 |
| MSCI World Index | -4.1 | 7.5 | 10.7 | 10.4 | 19.5 |
| Airbus SE | 2.8 | 34.6 | 3.8 | 52.9 | -24.9 |
| Vodafone Group plc | -29.9 | 24.6 | -4.5 | 4.2 | -3.5 |

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

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