

Davy Defensive High Yield Fund

from New Ireland

Quarterly Update Q2 2019

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

For Investment Professionals Only

Performance	1 Month (%)	Q2 2019 (%)	1 Year (%)	3 Year (P.A.) (%)	5 Year (P.A.) (%)
Davy Defensive High Yield Fund* (Net of Fees)	2.8	2.0	10.7	4.1	6.2
MSCI World Index	4.3	2.5	9.0	10.8	10.6

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 June 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

The Fund returned 2.0% versus an index return of 2.5% during the quarter. The differential versus the MSCI World Index was driven by Stock Selection, which added +0.6% to relative performance. Asset allocation contributed -0.2% to relative performance during the quarter, while currency effects contributed +0.1%.

Microsoft was the strongest contributor to relative performance during the quarter, adding +0.3%. The global software company's market cap passed the \$1trn mark during April following an encouraging set of results that showed strength in all divisions. The prospects of sustained cash generation were boosted by a strong growth in the subscription-based Office365 product. There was also a rebound in Windows as PC shipments recovered from a shortage of chips in the prior quarter. Cloud-based revenues also exceeded expectations and allowed the company to forecast double-digit revenues and earnings for FY2020.

In contrast with Microsoft, **Intel** disappointed during the quarter and contributed -0.2% to relative performance. Revenues and margins disappointed and guidance for the current quarter was lower than expected. The memory division was particularly weak as prices

collapsed in this highly competitive segment. Clearly a solution to profitability is needed here, and new CEO Bob Swan suggested on a call with investors that he would be open to a partnership with another player to address this issue.

Asset Allocation contributed -0.2% to relative performance during the quarter. At a sector level, the largest contributors to this effect were the underweights in Consumer Discretionary and Technology stocks. The Fund has tended to be underweight these sectors due to the lack of high dividend yield opportunities.

Currency contributed +0.1% during the quarter. The Fund's underweight the Japanese yen and overweight Swiss franc drove this outcome.

The **options strategy** contributed -0.9% to the Fund relative performance during the second quarter as equity markets made gains during the quarter.

Sample Portfolio Transactions

During the quarter, the Fund reduced its holding in Microsoft somewhat.

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. This was reflected in May when the Fund outperformed the MSCI World Index by over 2.1%.

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 (EUR)	-4.1	7.5	10.7	10.4	19.5
Intel	4.2	30.8	8.8	-2.2	44.3
Microsoft	20.8	40.7	15.1	22.7	27.5

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 June 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.

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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