

Davy Defensive High Yield Fund

from New Ireland

Quarterly update Q3 2019

This fund is provided by New Ireland 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 Defensive High Yield Fund* (Net of Fees)	3.33	4.39	10.63	5.73	5.68
MSCI World Index	3.16	5.02	8.49	11.33	10.39

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 30th September 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.

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.

Fund performance

The Fund returned 4.39% during the period and is up 16.76% year-to-date. Stock Selection was the main driver of returns during the quarter as the equity portfolio outperformed the MSCI World Index during the period. In a rising market the Options Strategy detracted from performance, Asset Allocation also took from relative performance during the period.

Stock Selection contributed positively to performance during the third quarter. The top five contributors to relative performance were Taiwan Semiconductor Manufacturing Company (TSMC), UPS, Procter & Gamble, JP Morgan and Ferroviol. While Pfizer, Apple (not held), Rio Tinto, Altria Group and L Brands, were the top five detractors during the period.

TSMC, the world's largest semiconductor foundry, outperformed during the quarter returning +24.84%. The company is benefiting from a dominant position in the latest generation of semiconductors and is likely to gain market share in the roll-out of fifth-generation wireless technology. In July the company released earnings that exceeded expectations and calmed market nerves about falling chip demand in light of the slowdown in smartphone sales. TSMC will raise capex in 2020 to meet demand for its high-powered chips.

Procter & Gamble, one of the world's largest consumer goods companies, outperformed during the quarter returning +19.25%. The company reported robust organic sales growth of +5% in the quarter vs 4.5% market expectations and raised the full year sales guidance to +4%. PG also raised its adjusted free cash flow productivity guidance to at least 100% (greater than 90% prior) for FY19 and expects to pay over \$7 billion in dividends and repurchase approximately \$5 billion of common shares.

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.

Rio Tinto, the international mining company, underperformed during the quarter returning -9.13%. The company reported during the quarter and despite earnings being in line, the iron ore division, which contributes over 50% of sales has seen price declines due to the increase of supply into the market.

Sample portfolio transactions

There have been no transactions within the Fund this quarter.

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 Defensive High Yield Fund* (Net of fees)	-2.91	-2.65	7.10	7.27	14.32
MSCI World Index (EUR)	-4.11	7.51	10.73	10.42	19.50
Taiwan Semiconductor Manufacturing Company	-3.57	42.31	31.14	4.94	31.15
UPS	-15.48	7.14	22.71	-10.93	8.67
Procter & Gamble	3.62	12.69	9.37	-9.96	15.42
JP Morgan	-6.65	26.73	34.57	8.37	9.88
Ferrovial	-2.58	15.63	15.26	31.25	21.79
Pfizer	24.82	15.88	4.46	7.10	5.30
Apple	-5.39	48.48	12.48	-3.02	40.62
Rio Tinto	0.44	21.36	-0.69	15.80	13.54
Altria Group	-27.09	9.45	20.46	23.10	34.52
L Brands	-54.23	-3.86	-27.27	15.76	45.68

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 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.

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

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