DAVY

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Davy **Trilogy II** 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 Trilogy II Fund* (Gross of Fees)	1.75	2.50	8.03	7.31	8.24

Source: New Ireland (*Trilogy II Fund Series 6, Performance is quoted gross of taxation and fund management charge) 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 aim of the **Davy Trilogy II Fund** (the 'Fund') is to generate long-term capital growth by investing in three distinct asset classes (equities, bonds and property). The Fund invests only in equities that pay higher than average dividends on a sustained basis, high grade corporate bonds and commercial property.

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. The European Central Bank and the Federal Reserve have been active in recent weeks, 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 2.43%, 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 2.50% during the quarter and has risen by 10.30% year to date. The equity portfolio outperformed its benchmark driven by Stock Selection while the bond portfolio marginally underperformed during the quarter.

Within the equity portfolio the top five contributors to relative performance were Taiwan Semiconductor Manufacturing Company (TSMC), UPS, Procter & Gamble, JP Morgan and Ferrovial. 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 contributing 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.

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.

European corporate bonds were positive for the third quarter of 2019 with the Bank of America AAA-A Euro Corporate Index rising by 1.07%. Credit spreads fell (causing prices to rise) on the back of a more accommodative ECB and Fed. Within the bond portfolio security selection detracted from performance offsetting the positive contribution from sector allocation.

The Property portfolio managed by State Street Global Advisors performed well during the quarter returning 0.8%.

Sample portfolio transactions

The Fund mix currently stands at 39% equities, 49% property and 12% bonds.

During the quarter, the Fund reduced its holding in Microsoft somewhat. Stock price movement had brought the absolute weighting in the stock to 5% during the quarter.

With ongoing event risk and increased volatility on the horizon, we believe that a diversified portfolio with high yielding equities, bonds and property which is actively managed will benefit from its intrinsic defensive attributes.

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 Trilogy II Fund* (EUR)	1.26	4.37	5.87	15.80	24.55
ICE BoA Merrill Lynch AAA-A Euro Corporate	-0.39	1.50	4.20	-0.28	8.41
MSCI World Index (EUR)	-4.11	7.51	10.73	10.42	19.50
JP Morgan Global Bond Index (EUR)	-0.26	0.40	2.25	1.05	8.47
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 (*Trilogy II Fund Series 6, Performance is quoted gross of taxation and 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 terms unless otherwise stated.

ICE BofAML Euro Corporate Index tracks the performance of EUR denominated investment grade corporate debt publicly issued in the eurobond or Euro member domestic markets. Qualifying securities must have an investment grade rating (based on an average of Moody's, S&P and Fitch) and at least 18 months to final maturity at the time of issuance.

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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