

# Davy Defensive High Yield Fund

from New Ireland

## Quarterly update Q1 2022

For Investment Professionals Only

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

| Performance   | 1 Month (%) | Q1 2022 (%) | 1 Year (%) | 3 Year (P.A.) (%) | 5 Year (P.A.) (%) |
|---|-------------|-------------|------------|-------------------|-------------------|
| Davy Defensive High Yield Fund <sup>1</sup> (Net of Fees) | 1.95        | 0.26        | 14.07      | 10.98             | 7.02              |
| MSCI World Index <sup>2</sup>                             | 3.72        | -3.06       | 16.32      | 15.33             | 11.54             |

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 31<sup>st</sup> March 2022. The fund management charge and product charges will vary depending on the terms and conditions of your policy.

<sup>2</sup>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.

### 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 aims to reduce risk by investing in large global companies that pay out above average dividend yields and the Fund employs an options strategy to provide some downside protection against significant market falls.

### Market comment

Equity markets recovered some poise in the latter half of March to finish a volatile quarter well above the lows of February in the days following the Russian invasion of Ukraine. The MSCI World Index returned -3.06% to euro-based investors during the quarter, helped significantly by strength in the dollar, which was driven by a flight to safety.

The quarter was dominated by an increasingly hawkish tone from central banks, particularly the US Federal Reserve (Fed), and the war in Ukraine. Fears of a wage-price spiral due to supply chain disruptions and a tight labour market were at the root of a change in message from the Fed early in the year which pressured bonds and drove a rotation in equity markets. The war between Russia and Ukraine exacerbated inflation fears due to the importance of the two countries in the supply of a broad range of energy and food-related commodities.

There was a wide dispersion of returns among the various sectors of the equity market during the quarter. Energy and commodity-related stocks were the best performers as prices of oil, gas and metals soared in response to the supply disruption caused by the war. Last year's best performers in the technology, internet-related sectors lagged as interest rates rose during the quarter.

### Fund performance

The **Davy Defensive High Yield Fund** returned 0.26% during the first quarter of 2022 versus the MSCI World Index return of -3.06%. Asset allocation and stock selection both contributed to relative performance during the quarter whilst currency marginally detracted.

The Fund's underweight in the Information Technology and Consumer Discretionary sectors contributed positively to relative performance, while its overweight in Materials stocks marginally contributed to relative performance. The overweight in industrial stocks had a relatively flat contribution to relative performance in the quarter. The Fund's underweight exposure to the US Dollar detracted from relative performance during the quarter.

The **Options Strategy** contributed + 0.32% to relative performance as put options protected the portfolio as the market weakened during the quarter.

The top five equity contributors to relative performance during the quarter were Chevron, Rio Tinto, Exxon, Zurich Insurances and Telus. The bottom five equity detractors from relative performance during the quarter were Home Depot, JP Morgan Chase, TSMC, Hong Kong Exchanges and Pfizer.

**Rio Tinto PLC** (RIO) is a mining company that is made up of four business units based on its primary products: Iron Ore (60% of revenues), Aluminium (20%), Copper & Diamonds (12%), and Energy & Minerals (8%). RIO boasted record 2021 profits due to high commodity prices, which more than offset supply chain issues. Group revenue and cash flow surged 42% and 58% from 2020. This resulted in the stock being able to continue to pay special dividends on top of a strong cash flow yield of 16.8%.

**Zurich Insurance** performed strongly during the month. Investors recognised the benefit that Zurich and others in the insurance sector will achieve in a rising rate environment. The company is expected to see improved investment returns as yields rise. Moreover, the pricing environment for non-life product is holding up well, particularly in the US. As outlined by the company in December, reserves development continues to improve for the company, reducing the potential for future volatility of earnings and share price.

**Home Depot Inc. (HD)** is the world's largest home improvement retailer, with c. 2,200 stores in the US, Canada, and Mexico. It offers an assortment of building materials, home improvement products, lawn and garden products, and decor products, as well as home improvement installation services, tool and equipment rental. Our view is that it is a high-quality stock which scores well on sustainability measures. A typical store is interconnected with its e-commerce business. This integrated business model is expected to insulate the retailer from online competition. HD's latest results were in line with expectations, but management's outlook for 2022 was viewed as being too conservative and the stock weakened somewhat during the quarter after a very strong performance in 2021.

**Taiwan Semiconductor Manufacturing Co. (TSMC)** is one of the world's largest semi-conductor foundries with an excellent sustainability record. TSMC is firmly positioned as the key enabler of the new computing revolution in the semiconductor industry, with multiple architectures, chip platforms and design teams competing to push computing and AI innovation. After a strong 2020, where the stock re-rated sharply, and further strength in 2021, the stock weakened in the first quarter. The company's earnings guidance for this year beat lofty market expectations on revenue, growth, and capex. We think that this should position TSMC for strong growth into the next few years, ultimately allowing the company to outgrow the Foundry industry significantly in 2022 and beyond.

### Sample portfolio transactions

During the quarter we added engine manufacturer and distributor, Cummins, to the portfolio. The company score well on our quality metrics, has an excellent record of cash generation and dividend payments and is an industry pioneer in clean tech and sustainability. We funded the purchase through a sale of Exxon. Exxon's share price has recovered strongly over the past 18 months and the dividend yield premium to the market has largely corrected.

### The QQE perspective

The change in tone within the equity market at the start of the year was very much on the side of continued economic expansion and rising rates. The war in Ukraine has cast a shadow on growth prospects, particularly within Europe, and exacerbated what is now seen as the "inflation problem". We saw avoiding deflation as the aim of the zero interest rates and quantitative easing policies of past two years.

Our quality model guides stock selection within our equity portfolios. It assigns a quality rank to each stock in a broad universe based on four pillars of Profitability, Persistence, Protection and People. In the first quarter, the People pillar, which rates companies based on capital allocation, was the best performing of the four pillars. In the past, such outperformance has reflected investor confidence in the economic cycle. This is an important support to markets as we enter another quarterly earnings season during which company managements face heightened risks. Against this uncertain background, we are confident that our quality framework will stand our clients in good stead.

| Calendar Year Performance                     | 2021 (%) | 2020 (%) | 2019 (%) | 2018 (%) | 2017 (%) |
|---|----------|----------|----------|----------|----------|
| Davy Defensive High Yield Fund3 (Net of fees) | 23.4     | -0.3     | 21.5     | -2.9     | -2.7     |
| MSCI World Index (EUR)                        | 31.1     | 6.3      | 30.0     | -4.11    | 7.5      |
| Chevron Corp                                  | 46.3     | -26.0    | 15.3     | -9.8     | 10.6     |
| Rio Tinto Plc                                 | 0.6      | 30.6     | 35.4     | 0.3      | 31.5     |
| Exxon Mobil Corp                              | 57.6     | -36.2    | 7.3      | -15.1    | -3.8     |
| Zurich Insurances Group AG                    | 12.8     | 0.3      | 43.6     | 4.8      | 12.5     |
| Telus Corp                                    | 23.6     | 5.2      | 16.3     | -0.6     | 16.3     |
| Home Depot                                    | 59.5     | 24.5     | 30.5     | -7.3     | 44.6     |
| Hong Kong Exchanges                           | 9.3      | 71.6     | 14.6     | -2.9     | 33.9     |
| JP Morgan Chase & Co                          | 27.7     | -5.5     | 47.3     | -6.6     | 26.7     |
| Pfizer Inc                                    | 66.7     | 3.2      | -6.9     | 24.8     | 15.9     |
| Taiwan Semiconductor Manufacturer             | 12.1     | 92.7     | 64.8     | -3.6     | 42.3     |

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 31st December 2021 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 Global Fund 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.

MSCI Inc. (MSCI). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be reproduced, disseminated or used to create any financial products, including any indices. This information is provided on an 'as is' basis. The user assumes the entire risk of any use made of this information. MSCI, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. MSCI and the MSCI indexes are services marks of MSCI and its affiliates.

Davy Global Fund Management Limited, trading as Davy Global Fund Management, is regulated by the Central Bank of Ireland. In the UK, Davy Global Fund Management Limited, trading as Davy Global Fund Management, is deemed authorised and regulated by the Financial Conduct Authority. Details of the Temporary Permissions Regime, which allows EEA-based firms to operate in the UK for a limited period while seeking full authorisation, are available on the Financial Conduct Authority's website. In Luxembourg, Davy Global Fund Management Limited is authorised by the Central Bank of Ireland and is subject to limited regulation by the Commission de Surveillance du Secteur Financier. Details about the extent of our authorisation and regulation by the Financial Conduct Authority and Commission de Surveillance du Secteur Financier are available from us upon request.

The information contained herein does not purport to be comprehensive and is strictly for information purposes only. It does not constitute an offer or an invitation to invest. No party should treat any of the contents herein as advice in relation to any investment. While all reasonable care has been given to the preparation of this information, no warranties or representation expressed or implied are given or liability accepted by Davy Global Fund Management or its affiliates or any directors or employees in relation to the accuracy, fairness or completeness of the information contained herein. Any opinion expressed (including estimates and forecasts) may be subject to change without notice. We or any of our connected or affiliated companies or their employees may have a position in, or may have provided within the last twelve months, significant advice or investment services in relation to any of the securities or related investments referred to in this document.

The MSCI World Quality Index is based on MSCI World, its parent index, which includes large and mid-cap stocks across 23 Developed Market (DM) countries. The index aims to capture the performance of quality growth stocks by identifying stocks with high quality scores based on three main fundamental variables: high return on equity (ROE), stable year-over-year earnings growth and low financial leverage. The MSCI Quality Indexes complement existing MSCI Factor Indexes and can provide an effective diversification role in a portfolio of factor strategies.

#### **Davy Global Fund Management**

Davy House, 49 Dawson Street, Dublin 2, D02 PY05, Ireland.  
T +353 1 614 8874 E [assetmanagement@davygfm.com](mailto:assetmanagement@davygfm.com)

[www.davygfm.com](http://www.davygfm.com)

**Confidential © Davy 2022**

As a valued client of Davy Global Fund Management, this communication has been sent to you as part of our service offering. If you are not a client of Davy Global Fund Management, you can opt out of further similar communications at any stage by emailing: [davygfm.com](mailto:davygfm.com). The Davy Group Privacy Notice can be found at [www.davygfm.com](http://www.davygfm.com).

Davy Global Fund Management Limited, trading as Davy Global Fund Management, is regulated by the Central Bank of Ireland. In the UK, Davy Global Fund Management Limited, trading as Davy Global Fund Management, is deemed authorised and regulated by the Financial Conduct Authority. Details of the Temporary Permissions Regime, which allows EEA-based firms to operate in the UK for a limited period while seeking full authorisation, are available on the Financial Conduct Authority's website. In Luxembourg, Davy Global Fund Management Limited is authorised by the Central Bank of Ireland and is subject to limited regulation by the Commission de Surveillance du Secteur Financier. Details about the extent of our authorisation and regulation by the Financial Conduct Authority and Commission de Surveillance du Secteur Financier are available from us upon request.

No part of this document is to be reproduced without our written permission. This document has been prepared and issued by Davy Global Fund Management on the basis of publicly available information, internally developed data and other sources believed to be reliable. The information contained herein does not purport to be comprehensive and is strictly for information purposes only. It does not constitute an offer or an invitation to invest. No party should treat any of the contents herein as advice in relation to any investment. While all reasonable care has been given to the preparation of this information, no warranties or representation expressed or implied are given or liability accepted by Davy Global Fund Management or its affiliates or any directors or employees in relation to the accuracy, fairness or completeness of the information contained herein. Any opinion expressed (including estimates and forecasts) may be subject to change without notice. We or any of our connected or affiliated companies or their employees may have a position in, or may have provided within the last twelve months, significant advice or investment services in relation to any of the securities or related investments referred to in this document.