
Irish Equity Fund
Philip Kearney
Senior Equity Fund Manager, Ireland

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Philip Kearney is Senior Equity Fund Manager, Ireland at Aviva Investors responsible for Irish equity portfolios. Philip, why did the domestic equity market have such a strong second quarter when the economic backdrop is so gloomy?

Well that's right, Irish equities actually rose by 23% in the period which represents a record quarterly return, and it was actually the best performing index in Europe in that period. And it's now more than 40% higher than its trough in early March. But the main driver of performance in the period was really a global one rather than a local one. Q2 globally was all about a willingness on the part of the investor to take on more risk, and he did so because the slowdown in the pace of economic contraction was becoming more apparent. So having been the worst performer in Europe in the crash, Irish equities benefited substantially from this risk trade. Investors returned to those stocks that had previously been most beaten up and the Irish featured highly there. In fact they actively sought out those stocks that were beaten up so much.

Who have been the main beneficiaries of this risk rally?

Well the banks were more than 200% higher as financials rallied across the globe and as domestically, of course, the likelihood of nationalisation reduced substantially. Heavily indebted companies like Smurfit Kappa, and independent news and media also more than doubled in the period as, again seeking that risk, investors looked at those companies that they'd previously avoided, in this case companies with stretched balance sheets. On the other hand though, certain

companies got left behind and those companies were the really high quality solid defensive companies that were left behind at least from a relative performance point of view. Names like CRH, Ryanair, Kerry Group, DCC.

Given that backdrop, how has the fund performed?

Well the portfolio underperformed slightly in the period against that risk-taking backdrop that I alluded to, but it still managed to record an absolute gain of more than 21% in the period.

And what's the outlook for domestic equities over the next quarter?

Well obviously the economic backdrop remains extremely difficult in Ireland, there's no getting away from that. In recent times more than 60% of the ISEQ's earnings have come from either the Irish or UK economies so the economic backdrop there is going to be a significant headwind. Additionally, it's likely that little will be finalised in relation to the National Asset Management Agency over the summer months and the banks loan loss cycle is likely to be in full swing. So the banks are going to remain extremely volatile and we're happy to retain a small underweight there. The rest of the market has benefited substantially from this broader global risk rally, but we as a house think that this rally is beginning to peter out so it's difficult for the market to make many more further gains in the period. As a result, we're happy to stick with the high quality names I already alluded to, core holdings for us like CRH, Kerry Group, DCC and Ryanair.

Philip Kearney, thank you very much.

Thank you.

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

The value of your investment may go down as well as up.

The fund may be affected by changes in currency exchange rates.

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