

Davy Global Focus Fund

Quarterly update Q1 2022

For Investment Professionals Only

Performance	1 Month (%)	Q1 2022 (%)	1 Year (%)	3 Year (P.A.) (%)	5 Years\$ (P.A.) (%)
Davy Global Focus Fund (Net of Fees)	2.15	-8.27	7.43	11.15	9.44

Source: Davy Global Fund Management (Class A Acc Eur) and Bloomberg as at 31st March 2022

The Davy Global Focus Fund was launched on 24 November 2017. The past performance chart reflects past performance data relating to the AIF version of this fund, the Focus Global Fund, prior to its merger with the UCITS version of the fund on 24 November 2017 (the "Merger"). Although such past performance data relates to a period prior to the Merger when the AIF version was not authorised as a UCITS, the investment policy, strategy and portfolio composition of original fund were substantially the same as the UCITS Fund's. In the circumstances, the past performance data included in this document is believed to be an appropriate reference for investors.

Fund overview

The aim of the **Davy Global Focus Fund** (the 'Fund') is to generate absolute returns over the medium term. Absolute returns are specific, consistent positive returns which are not necessarily dependent upon specific asset class exposure or upon continuous rising markets.

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 Focus Global Fund** returned -8.27% during the first quarter of 2022 versus the MSCI World Index return of -3.06%. The end of the quarter has seen markets begin to recover from the shock of the Russian invasion of Ukraine. This contrasts positively with the start of the period where heightened risk aversion saw markets sell off as concerns about Ukraine, global supply chains, Omicron and the impact a more hawkish Fed could have on global growth. This resulted in a sell-off in more cyclically-exposed areas of the market such as Industrials and Consumer Discretionary. This was evidenced by the Fund's allocation to these sectors detracting from performance whereas its ~30% cash and fixed income positively contributed. While the Fed has sought to manage the inflationary shock from Covid by raising rates, it has coincided with a surge in commodity prices, resulting in a shock to the cost of living. This is hurting consumers' pockets and has the potential to push Western economies into recession. Thus in this environment growth becomes relatively more valuable, with the compression in valuation multiples making the opportunity to invest increasingly attractive.

The top five equity contributors to relative performance during the quarter were NVIDIA Corporation, Cognex Corporation, Automatic Data Processing Inc, Pfizer Inc and Boliden AB. The bottom five equity detractors from relative performance during the quarter were Travelsky Technology Ltd, Masco Corporation, HelloFresh SE, Rational and Scotts Miracle Grow Company.

NVIDIA Corporation is a high-quality stock manufacturing chips principally used in the computer gaming sector, and it has a AAA MSCI ESG rating. The stock is performing strongly buoyed by semiconductor shortages the seeds of which were planted in 2020 when the world was in the grip of the pandemic. Increasing demand

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for high-performance silicon chips is leading to improved pricing power through the semiconductor supply chain. Its 4QFY21 results beat analysts' expectations in terms of both earnings and revenues. It posted record revenue in its gaming, data centre, and professional visualization businesses. It is an attractive, high-quality business that is well-positioned to capitalise on market demand as there is a shift toward technologies like artificial intelligence (AI) and machine learning.

Cognex Corp. (CGNX) specialises in machine vision technology and is AA-rated by MSCI ESG. This technology is used to automate manufacturing and distribution processes in a variety of end-markets, including consumer electronics, automotive, consumer products, food and beverages, pharmaceuticals, medical devices, retail distribution, and ecommerce. While the firm's 4Q21 profit decreased from last year, Cognex shook off the prior quarter's weakness to provide earnings strongly beating expectations. Revenue also gained, up \$20.5 million from the same period last year, and beaching the \$1bn mark for the full year for the first time. 1Q22 projections also beat consensus, as the company sees the trends in machine vision growing stronger over the coming year.

TravelSky Technology Limited is the dominant provider of information technology solutions for China's aviation and travel industry, with a BB ESG rating from MSCI. Its core technologies are products and services for aviation, which enable airlines, customers and their agents to conduct electronic transactions and manage travel-related information, such as ticketing, baggage handling, distribution accounting, settlement and clearing. Similar to its international peers, these products and services are used by all industry participants, but unlike its peers it holds a monopoly position in its home market of China. The stock retreated last year due to delays to the recovery in international air-travel and Covid-19 resurgence in 3Q21. FY21 results missed the street's expectations on margin erosion and a 57% year-on-year decline in its Aviation Information Technology business line. We believe negatives are now fully priced in and with its growth potential in system integration, we expect air-travel demand to improve in 1H22, causing the stock to re-rate.

Masco Corporation is a global manufacturer of brand-name consumer products for the building and home improvement markets. Its well-known brands include Delta Faucet's Water Sense fixtures,

Hansgrohe's EcoSmart, and Behr's low-VOC paint products. Its suite of environmentally-friendly products is enabling it to maintain its A MSCI ESG rating. Over the period during which the Fund have owned the stock, it has divested its windows and cabinetry product lines in favour of plumbing and decorative architectural products which generate better cash flows. The effects of these decisions were evident in its 4Q21 results. EPS for the quarter were down on 4Q20 but in line with consensus. Its plumbing and decorative segments delivered 5% and 15% sales growth respectively, with operating margins of 12.7% and 16.6%. FY22 also remains in-line with expectations. These results, yet again highlight its credentials as a high-quality business with a portfolio of stable, low ticket, high margin products with a stable balance sheet.

Sample Portfolio transactions

The Fund divested from several stocks over the period whose quality characteristics had begun to deteriorate. They included Alarm.Com, H&R Block, Protolabs, TJX Companies and Xero. While Hello Fresh, Scotts Miracle Grow and Nordic entertainment were sold as they are affected by higher commodity prices and consumers returning to the office. The proceeds were reinvested in fixed income.

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". Our view is that avoiding deflation was the aim the zero interest rates and quantitative easing policies of the 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 Global Focus Fund (net of fees)	23.6	11.6	25.2	-7.4	11.2
MSCI World Index NDTR (MSDEWIN)	31.1	6.3	30.0	-4.1	7.5
JP Morgan Global Bond Index (EUR)	-3.1	4.9	4.6	-0.3	0.4
NVIDIA Corporation	125.5	122.3	76.9	-30.8	82.0
Cognex Corp	-2.8	47.6	45.5	-36.5	92.9
Pfizer Inc	66.7	3.2	-6.9	24.8	15.9
Boliden	25.2	21.2	36.5	-28.5	20.4
Automatic Data Processing Inc	42.6	6.0	32.7	14.2	16.5
TravelSky Technology Ltd	-29.8	0.5	-3.4	-13.4	45.4
Masco Corporation	29.6	15.8	66.3	-32.7	40.5
Hello Fresh SE	6.9	238.7	205.4	-48.7	-
Rational	18.99	7.43	46.93	-5.68	29.41
Scotts Miracle Grow	-18.0	96.5	77.0	-41.0	14.5

Source: Davy Global Fund Management and Bloomberg as at 31st December 2021. Performance is quoted in local currency unless otherwise stated.

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