DAVY

Davy Strategic: **Global Quality Equity 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 Strategic: Global Quality Equity Fund[1] (Net of Fees)	3.64	-7.28	17.73	19.25	12.90
MSCI World Index[2]	3.72	-3.06	16.32	15.33	11.54

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

[1] Investment Management of the Davy Strategic Global Equity Fund was assumed by Davy Asset Management during the month of September 2018 and subsequently by Davy Global Fund Management in November 2019. On the 31st May 2019 the Davy Strategic Global Equity Fund implemented its current investment strategy. For more information please contact Davy Global Fund Management. On the 10th July 2020 the Davy Strategic Global Equity fund changed its name to the Davy Strategic: Global Quality Equity Fund.

[2] The MSCI World Index shown above does not include fees or operating expenses and you cannot invest in it. 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 investment objective of the **Davy Strategic: Global Quality Equity Fund** (the 'Fund') is to provide long-term capital growth by investing in global quality equities with consideration given to ESG criteria. The Fund adopts a Quantamental (quantitative and fundamental) approach to select and manage the investments.

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 Strategic: Global Quality Equity Fund** returned -7.28% (net of fees) during Q1 2022. 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 Fund's exposure to high quality stocks resulted in its underweight exposure to more cyclical sectors such as Financials and Energy, which detracted from performance. 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 we believe that 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 Rio Tinto, AbbVie Inc, Lundin Energy, KDDI Corporation and Visa Inc. The bottom five equity detractors from relative performance during the quarter were Home Depot Inc, Meta Platforms Inc, Shopify Inc, Adobe Inc and Microsoft Corporation.

Rio Tinto Plc (RIO) is a high-quality mining company that is made up of four business units. Its primary products are Iron Ore (60% of revenues), Aluminium (20%), Copper & Diamonds (12%), and Energy & Minerals (8%), with an A rating from MSCI ESG. RIO boasted record FY21 financials due to high commodity prices which more than offset supply chain issues. Group revenues and EBITDA surged 42% and 58% versus 2020. This resulted in the stock being able to continue to pay special dividends as well as deliver an FCF yield of 16.8%.

Abbvie is a high-quality global biopharmaceutical company with a BBB ESG rating from MSCI. Its products address some of the world's most complex and serious diseases. Its primary drug is Humira, used for rheumatoid arthritis; it accounts for c. 37% of total net revenues. Other key drugs include Imbruvica (10%) used to treat cancer and Mavyret (3%) for hepatitis C. The market had been concerned over its over-reliance on Humira, which is due to come off patent in 2023 and face competition from biosimilars. The firm is successfully diversifying its product range into areas such as Botox and Neuroscience, decreasing the stock's risk profile, while increasing its growth potential.

Home Depot Inc (HD) is the world's largest home improvement retailer, with ~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 is AA rated by MSCI ESG. A typical store has ~105,000 square feet of indoor retail space and is interconnected with an e-commerce business. This integrated business model is expected to insulate the retailer from tougher comparisons in 2022. However, higher input prices mean HD management's outlook for 2022 was viewed as not being conservative enough by analysts, and the stock has de-rated.

Meta Platforms Inc. (FB) is a global technology company with a stated mission to make the world more open and connected. It has over 2bn users, operating some of the world's largest social networking platforms. Its offering includes popular mobile applications such as Messenger and WhatsApp, which are amongst the most frequently used applications globally. Most of FB's revenue is derived from advertising (99%), with a significant proportion of this (>90%) coming from mobile. Management's objective is to monetize these platforms through focused advertising on Facebook and Instagram using Canvas Ads, Dynamic Ads and video for a wide variety of products. Management's recent comments about Apple's iOS changes, as well as FB's focus on video and young adults in the near-to-medium term, and the metaverse long-term, suggest some short-term headwinds may take time to overcome. We believe that it is a high-quality attractively valued growing company and we view the recent pull-back in the stock as a buying opportunity.

Sample Portfolio transactions

The Fund exited Amazon.Com, Ansys, CostCo, CSL, Dupont De Nemours, ETSY, Garmin, HelloFresh, Nabtesco, Nestle, ServiceNow, Shopify, SIKA, Take-Two and Teradyne. These transactions are in line with the quality philosophy of the Fund.

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 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 (%)
Global Equity Income Fund (Net of fees) (EUR)	27.5	-4.2	27.4	-4.4	0.9
MSCI World Index (EUR)	31.1	6.3	30.0	-4.1	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: Davy Global Fund Management (Class A Acc Eur) and Bloomberg as at 31st December 2021. Performance is quoted in local currency unless otherwise stated.

Warning: Past performance is not a reliable guide to future performance. The value of the investment can reduce as well as increase and, therefore, the return on the investment will also be variable. Changes in exchange rates may have an adverse effect on the value price or income of the product.

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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.

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