DAVY

Davy **ESG Equity** Fund

Quarterly update Q1 2022

For Investment Professionals Only

Performance	1 Month (%)	Q1 2022 (%)	1 Year (%)	3 Years (P.A.) (%)	5 Years (P.A.) (%)
Davy ESG Equity Fund (Net of Fees)	3.08	-5.07	15.98	15.96	12.42
MSCI World Index[1]	3.72	-3.06	16.32	15.33	11.54

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

[1] 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 aim of the **Davy ESG Equity Fund** (the 'Fund') is to achieve long-term capital growth. We aim to achieve this by using both quantitative and fundamental research that should result in a portfolio of high-quality companies that exhibit strong environmental, social and governance characteristics.

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 ESG Equity Fund** modestly underperformed the benchmark during the first quarter of 2022 returning -5.07%, net of fees versus the MSCI World Index at -3.06%. The quarter was dominated by the change in tone from the US Federal Reserve, the invasion by Russia of the Ukraine and a sharp rise in commodity prices. Indeed, markets were down 10% as the invasion began. The strength of the US dollar was of significant benefit to euro-based investors. The Fund's underperformance was driven by stock selection as quality as a style underperformed. Stock Selection was weakest within Industrials (Xylem, Fortune Brands) and Consumer Discretionary (Home Depot, Nike). Positive selection within Communication Services (Alphabet) was not enough to offset this. Asset allocation made a small positive contribution to performance as the Fund benefited by being overweight the Materials sector, the second best performing sector after Energy, up 33%, and by being underweight Consumer Discretionary, the worst performing sector. FX was a small detractor to performance being underweight the US dollar. The top three contributors to return were Equinor, Boliden and American Express. Despite the choppy start to 2022, the Fund remains ahead of the MSCI World Index over longer time periods.

The top five equity contributors to relative performance during the quarter were Equinor, Boliden, American Express, Rio Tinto, Loblaws. The bottom five equity detractors to relative performance during the quarter were Home Depot, TE Connectivity, Omron, Xylem and Nike.

Equinor, , the Norwegian oil and gas company and the second largest natural gas supplier to Europe was a top contributor to returns in the first quarter of 2022, rising over +45%. Indeed, the shares hit a new high on the last day of March. The shares were boosted by strong Q4 results reported in February which were ~20% higher than expected, and by the significantly higher oil and gas prices post the invasion of Ukraine by Russia. Equinor can be thought of as a natural hedge against inflationary pressures and rising geopolitical risks. High free cashflow generation and having hardly any debt has enabled the company to raise the dividend and plan a buyback of shares to the tune of USD 5bn. The company has ambitious transition plans with a net zero carbon emission long-term ambition by 2050. They are also active in renewables and were an early mover into offshore wind. Equinor are targeting renewable installation capacity of 12-16GW by 2030 and plan to spend $23bn on renewables through 2021-26. They are also involved in carbon capture and hydrogen projects. We believe Equinor is the most credible in attaining its 2050 net zero target versus peers.

Boliden, the Swedish miner specialising in copper and zinc, was also a top contributor to return as the shares rose over 35% to hit a new all-time high at the end of the quarter. Whilst Q4 results in February were positive with strong free cash flow seeing the group move to a net cash position, the supply risk coming from the Russia/Ukraine conflict has led to higher commodity prices and earnings upgrades and was the main driver of share price performance. Boliden remains one of the highest rated ESG performers in the sector given that they operate only in Europe and are thus less exposed to corruption, political instability and water stressed locations. They have a very strong safety culture with no fatalities in the past 3 years. They also produce the greenest copper in the world given that their AITIK copper mine uses hydroelectric power. Overall, their carbon intensity is 86% lower than the industry average.

Home Depot (HD), the world's largest home improvement retailer, was the main detractor from returns in the quarter. The shares declined almost -25% following a c. 9% fall on publication of their Q4 results in February. Despite a strong set of numbers where pricing power was to the fore, the shares were slammed as investors concluded that their market environment has peaked and will only get tougher going forward. However, HD has a strong track record of executing against its long-term goals and the shares have now derated and look attractive. Our view is that HD remains a high performing ESG company. Although exposed to lumber products, HD has strict sourcing policies that prevent the purchase of conflict materials and exploitation of the natural resources of developing countries. They also target a reduction in CO_2 emissions of 40% by 2030 and 50% by 2035 which incorporates a target to use 335MW of renewable energy by 2025 by using rooftop solar panels on their stores.

TE Connectivity (TE) detracted from returns as the shares declined almost -17% in the quarter. As a major supplier of sensors and connectors to the auto industry, it was no surprise that supply chain challenges are impacting the company as automotive manufacturers faced disruption to production and higher raw material inflation. Supply chain issues have worsened year to date, but demand remains very strong. TE continues to execute strongly and is benefiting from its broad-based exposure to secular growth areas such as EVs, factory automation and data centres. In automotive, TE acts as a broad proxy for the growth of electric vehicles globally as its role as a supplier to all EV manufacturers gives it ETF-like exposure to the electrification of transport as a theme. The company outperforms its peers on key ESG issues such as responsible sourcing of conflict materials, chemical safety and has a strategy focused on integrating clean technology in its product line.

Sample Portfolio transactions

During the quarter we initiated a position in NortonLifeLock. The company provides consumer cybersecurity solutions. It is a high-quality company with high returns and strong cashflow. They are currently in the process of acquiring Avast in Europe which will double their subscriber base. The company performs well in terms of ESG performance with strong Privacy & Data Security and Governance versus peers. The purchase was funded through a partial sale of Microsoft.

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 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 ESG Equity Fund (Net of fees) (EUR)	32.7	7.5	31.1	-1.6	7.1
MSCI World Index (EUR)	31.1	6.3	30.0	-4.1	7.5
Equinor ASA	67.0	-13.5	0.5	8.8	16.0
Boliden	25.2	21.2	36.5	-28.5	20.4
Home Depot Inc	59.5	24.5	30.5	-7.3	44.6
Rio Tinto	0.6	30.6	35.4	0.3	31.5
TE Connectivity Ltd	35.1	29.0	29.4	-18.9	39.9
Loblaws	67.9	-4.4	11.6	13.5	-2.2
Omron Corp	25.7	45.1	62.9	-39.6	51.9
Xylem Inc	18.9	30.9	19.6	-1.0	39.5
Nike Inc	18.7	41.0	38.1	19.9	24.7
American Express	36.9	-1.2	32.5	-2.6	36.2

Source: Davy Global Fund Management (Class A Acc in 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 Davy ESG Equity Fund (previously the Davy Ethical Equity Fund) is a sub-fund of Davy Funds plc, an open-ended umbrella investment company with variable capital and segregated liability between sub-funds incorporated with limited liability under the Companies Acts 2014, authorised by the Central Bank of Ireland as an Undertaking for Collective Investment in Transferrable Securities (UCITS). The Prospectus, Supplement and Key Investor Document for the fund are available in English from Davy Global Fund Management, Davy House, 49 Dawson Street, Dublin 2, Ireland or https://www.davygfm.com/funds-factsheets/asset-management. Investors should be aware that some of the Directors of the Company (Davy Funds plc) are also employed by the Investment Manager, Promoter and Distributor. Further information in relation to the management of potential conflicts of interest is available upon request.

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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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