DAVY

Davy **Global Equity Income** Fund

Quarterly update Q1 2022

For Investment Professionals Only

Performance	1 Month (%)	Q1 2022 (%)	1 Year (%)	3 Years (P.A.) (%)	5 Years (P.A.) (%)
Global Equity Income Fund (Net of Fees)	2.76	-0.30	15.73	11.37	8.05
MSCI World Index[1]	3.72	-3.06	16.32	15.33	11.54

Source: Davy Global Fund Management (Class H Acc 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 **Global Equity Income Fund** (the 'Fund') is to achieve long-term capital growth through investment in companies which expect to generate a higher-than-average dividend yield. The Fund targets a dividend yield 1% greater than the market dividend yield. The concept is that dividends are the foundation of total returns over the long term.

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 Global Equity Income Fund** returned -0.30% during the first quarter of 2022 versus an 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 top five equity contributors to relative performance during the quarter were Chevron, Rio Tinto, Exxon, Zurich Insurances and Telus. The bottom five equity detractors to 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 (Zurich) 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. 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". 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 H Acc in EUR) and Bloomberg as at 31st December 2021. Performance 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.

The Global Equity Income 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.

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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