Davy **Discovery Fund** from **New Ireland**

Quarterly update Q1 2022

For Investment Professionals Only

This fund is provided by New Ireland Assurance plc and is managed by Davy Global Fund Management.

Performance	1 Month (%)	Q1 2022 (%)	1 Year (%)	3 Year (P.A.) (%)	5 Year (P.A.) (%)
Davy Discovery Fund[1] (Gross Of Fees)	1.22	-12.95	3.79	11.20	9.96
MSCI World Small and Mid-Cap Index (Total Return)	2.10	-4.61	7.21	12.39	9.08

Source: New Ireland ([1]Discovery Fund Series 6, performance is quoted gross of taxation and fund management charge) and Bloomberg as at 31st March 2022. The fund management charge and product charges will vary depending on the terms and conditions of your policy. The MSCI World SMID Cap Index captures mid and small cap representation across 23 Developed Markets (DM) countries. With 5,250 constituents, the index covers approximately 28% of the free float-adjusted market capitalization in each country.

Fund overview

The investment aim of the **Davy Discovery Fund** (the 'Fund') is to achieve long-term capital growth by investing in shares of small and medium sized companies on a global basis. These companies tend to demonstrate growth potential and may represent attractive investment opportunities. Investing during the early stage of a company's life cycle can lead to higher than average investment returns.

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 Discovery Equity Fund** returned -12.95% during the first quarter of 2022, underperforming its benchmark, the MSCI World SMID Index by -8.34%, in Euro terms. 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 IT. This was evidenced by the Fund's allocation to these growth-orientated sectors detracting from performance. 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 where growth becomes relatively more valuable, we believe that a growing number of smaller companies are now trading at a historic low versus large caps and that the opportunity to invest is increasingly attractive.

The top five equity contributors to relative performance during the quarter were Boliden, Henry Schein Inc, Lundin Energy AB, H&R Block Inc, and WEX Inc, which we view as high-quality stocks. The bottom five equity detractors from relative performance during the quarter were Vitrolife AB, Teradyne Inc, Rational AG, Croda International Ltd and Nemetscheck SE.

Boliden AB (BOL) is a high-quality integrated mining and smelting business, whose principal ores are copper, nickel and zinc. Copper and nickel will be key metals in the drive towards de-carbonisation over the next decade. BOL's integrated business model enables it to operate through the full value chain of metal production. In smelting, BOL has the highest exposure to scrap metal recycling among its major mining peers. This results in a stable ROCE and superior ESG credentials; AAA-rated by MSCI ESG, its latest set of results were solid and resulted in operating profits beating expectations. This was due to lower-than-expected CAPEX and cost inflation; 80% of power costs 80% hedged, which is why BOL is likely to face lower inflation than many of its peers in 2022. We have taken profits in this stock over the period due to its strong performance and as it is now trading at the upper end of its historic valuation range.

Henry Schein Inc (HSIC) is a BBB MSCI ESG-rated distributor of healthcare products and services to dental and medical practitioners, operating in 32+ countries. HS is a high quality stock whose latest set of results beat the markets' expectations, and management's guidance for 2022 is for operating margins to expand by 20-25bps due to better operating leverage, product and customer mix. This positive outlook, coupled with rising evidence that the slowdown in volumes in December and January was supply driven and has passed, has buoyed the stock. We have added to this position.

Vitrolife AB (VITR) is a high-quality stock selling specialised consumables and diagnostic technologies for invitro fertilization (IVF), with an MSCI ESG rating of AA. It has historically grown faster than the market due to innovation and strategic value-creating reinvestment. While its latest results missed expectations as the Omicron variant of Covid negatively affected IVF treatments, we view this as a short-term impact and not a change to VITR's long-term outlook or important secular trends such as personalised medicine. We see this short-term weakness as a buying opportunity and have topped up our position.

Teradyne Inc (TER) is a supplier of automation test equipment for industrial applications, it is a high-quality stock with a BB MSCI ESG rating. Its ESG rating was upgraded over the quarter due to improved human capital management as it has just settled an outstanding case relating to allegations of hiring discrimination, while enhancing its diversity recruitment practices and training. Its two divisions are semiconductor testing and Universal Robotics, which specialises in cobots (collaborative robots). Nonetheless, the cyclical nature of its semiconductor business means in the short term the stock can be volatile as tailwinds or headwinds from sales of wafer fab equipment into the foundry and logic markets drive expectations. TER has navigated the pandemic well and its supply chain continues to be largely unaffected, resulting in revenues and profits beating expectations.

Sample portfolio transactions

The Fund divested from several stocks during the quarter whose quality and growth characteristics had deteriorated. Stocks whose growth prospects we were concerned about included Appen, Perpetual and Xero. While Hello Fresh, Scotts Miracle Grow and Nordic Entertainment were sold as they were affected by higher commodity prices and consumers returning to the office. The proceeds were reinvested in stocks whose quality and growth prospects we believe are improving.

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". We saw avoiding deflation as 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 (%)
Davy Discovery Fund3 (Gross of Fees)	28.7	10.1	34.2	-9.1	15.3
MSCI World SMID Cap Index (NTR, EUR)	25.6	6.2	29.2	-9.2	8.1
MSCI World Index (EUR)	31.1	6.3	30.0	-4.1	7.5
Teradyne Inc	36.8	76.7	118.9	-24.4	66.2
Boliden	25.2	21.2	36.5	-28.5	20.4
Nemetschek SE	87.7	3.2	85.3	28.9	36.7
Croda International PLC	55.3	31.1	11.1	7.8	41.2
Henry Schein Inc	16.0	0.2	8.4	12.4	-7.9
Lundin Energy AB	51.8	-26.1	48.9	19.7	-1.0
H&R Block Inc	55.5	-27.8	-3.6	0.5	18.1
Vitrolife AB	160.2	9.3	34.9	18.7	61.8
Rational AG	18.99	7.43	46.93	-5.68	29.41
Wex Inc	-31.0	-2.8	49.6	-0.8	26.6

Source: New Ireland ([3]Discovery Fund Series 6, performance is quoted gross of taxation and fund management charge), MSCI and Bloomberg as at 31st December 2021. The fund management charge and product charges will vary depending on the terms and conditions of your policy. Performance is quoted in local currency unless otherwise stated.

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.

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

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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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