

Davy Defensive Equity Income Fund

For Investment Professionals Only

Performance	1 Month (%)	Q2 2022 (%)	1 Year (%)	3 Years P.a. (%)	5 Years P.a. (%)
Davy Defensive Equity Income Fund (net of fees)	-4.15	-3.36	6.34	8.35	6.57
MSCI World Index ¹	-6.41	-10.80	-2.83	10.09	9.56

Source: IQ EQ Fund Management (Ireland) Limited (Class B Acc EUR) and Bloomberg as at 30 June 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 Defensive Equity Income Fund** is to provide long-term capital growth, with reduced levels of volatility compared to global equity markets. The Fund aims to reduce risk by investing in large global companies that pay out above average dividend yields and employs an options strategy to provide some downside protection against significant market falls.

which supported the euro value of US asset prices during the period.

Market direction during the quarter was dictated in large part by inflation data and increasingly hawkish comments from central bankers about the need for higher interest rates. There was also growing evidence towards the end of the quarter of the negative impact that inflation expectations are having on consumer and business sentiment as evidenced from surveys in major developed economies. Recession risk resulted in a renewal of the traditional performance relationship between bonds and equities: as equities weakened in response to the rising risk of recession, bonds began to rally.

Market comment

The equity market correction which began in early January continued through the second quarter, with the MSCI World Index falling by 10.80% in euro terms. This brought the year-to-date return to -13.53%. Euro-based investors benefited somewhat from a rally in the dollar

The war in Ukraine is also exacerbating inflationary pressures, particularly in the areas of food and energy. Nevertheless, most measures of broad commodity prices ended the quarter lower as recession fears grew. Meanwhile, China's zero-Covid strategy was in full effect during the

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Warning: Past performance is not a reliable guide to future performance. The value of your investment may go down as well as up. This product may be affected by changes in currency exchange rates. The Fund is actively managed. SFDR disclosures are available upon request from Davy House, 49 Dawson Street, Dublin D02 PY05.

quarter, with extended lockdowns in some major cities such as Shanghai driving down China's GDP growth expectations for 2022.

Within the equity market, the second quarter pattern followed that of the first as Technology and Consumer Discretionary stocks underperformed while Energy and Consumer Staples outperformed. The Energy sector was alone in producing a positive return during the second quarter, driven higher by energy prices.

Fund performance

The **Davy Defensive Equity Income Fund** returned -3.36% during the quarter versus an index return of -10.80%. Asset Allocation and Stock Selection contributed positively whilst Currency contributed negatively. The relative deduction of Currency to performance during the quarter was mainly due to the Fund's underweight to the US dollar, which strengthened during the quarter. Within Asset Allocation the Fund's underweight in the Information Technology and Consumer Discretionary sectors contributed positively to relative performance by +1.32%, while the Fund's overweight in Consumer Staples stocks added +0.44% to relative performance. The underweight in Energy stocks contributed -0.10% to relative performance in the quarter. Currency contributed -0.19% to relative performance, due mainly to the Fund's underweight to the US dollar, which strengthened during the quarter.

The **Options Strategy** contributed positively to relative performance as put options protected the portfolio as the market weakened during the quarter.

The top five equity contributors to relative performance during the quarter were Merck & Co Inc, Johnson & Johnson, Sanofi, Pfizer and Pepsi. The bottom five equity detractors to relative performance during the quarter were Rio Tinto, Intel, Siemens, Cisco and Samsung.

Johnson & Johnson, J&J performed well during the quarter in response to some positive news on its cancer treatment, Imbruvica. The company announced that more than three-quarters of patients with aggressive multiple myeloma responded positively in Phase 1 trials.

Furthermore, the company said that three years of treatment with Imbruvica led to "deep and durable" responses in leukaemia patients. In addition to this J&J is also working on spinning off its Consumer Health division. Separately, the company has entered a series of settlements for treatments associated with the opioid crisis. All these pieces of news contributed positively to the performance of the stock for the quarter.

Merck & Co Inc was a top contributor to the Fund in the second quarter. The US healthcare company is best known for its cancer drug Keytruda, diabetes drugs Januvia and Janumet, and HPV vaccine Gardasil. The strong performance during the quarter was largely due to the approval by the European Commission of Keytruda, an immunotherapy drug which, in combination with chemotherapy, helps to target certain types of breast cancer. This approval allows marketing of this Keytruda regimen in all 27 EU member states plus Iceland, Lichtenstein and Norway.

Rio Tinto, along with many other metals-related stocks, experienced a fall in its share price during the quarter. There were two main reasons for this: the first relates to the company's production results for Q1 2022; the second was related to China. Rio's production of iron ore and aluminium fell in the first three months of the year. However, on a positive note, the company did not reduce its guidance for the full year despite this. The factor weighing on the share price was due to the rising number of lockdowns in China caused by fears of rising Covid-19 cases. This sparked fears among investors that steel demand would continue to fall as activity in China stalled. Nevertheless, the company remains confident of its current earnings guidance.

Intel executives commented at a conference that the near-term business outlook has been deteriorating. The company has experienced several weak quarters in recent years. Despite this, Intel has committed to investing for future growth. The company also seems to be embracing change. Recently, Chief Executive Officer Pat Gelsinger took the helm and has promised massive restructuring. In fiscal 2022 (and probably fiscal 2023) Intel will raise capital expenditure as it is in an "investment phase". According to management, these investments

should lead to a double-digit growth in revenue, which is stemming in parts from Intel's traditional business and from the emerging businesses.

Sample portfolio transactions

There were no transactions during the period.

The QQE perspective

Last quarter we noted that, despite falling equity and bond prices and the uncertainty generated by the war in Ukraine, investors, by and large, remained confident in the resilience of the economic cycle. This was reflected in the superior performance of the People pillar of our proprietary Quality model. 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.

That confidence was evident through the second quarter as the People pillar continued to perform strongly at a time when Quality, as a style, was out of favour. Towards the end of the quarter, there was some evidence that investors were starting to lose faith in the economic cycle and starting to price in a recession. The most obvious sign was the rally in bonds late in the quarter while equities remained under pressure.

It will be interesting to follow the relative performances of the four pillars of our model in the months ahead as we go through another earnings season in which company managements will describe the current and future business environment. Uncertainty about future economic growth often tempts investors back into Quality companies that can deliver profitable growth for investors. It is this area of the market that we, as bottom-up investors, focus our attention.

Calendar year performance	2021 (%)	2020 (%)	2019 (%)	2018 (%)	2017 (%)
Davy Defensive Equity Income Fund (net of fees) (EUR)	22.8	-1.2	20.8	-3.5	-2.3
MSCI World Index (EUR)	31.1	6.3	30.0	-4.1	7.5
Merck & Co Inc	1.8	-7.2	22.3	40.0	-1.5
Johnson & Johnson	11.4	10.9	16.2	-5.1	24.4
Sanofi	16.8	-9.1	23.4	10.3	-3.5
Pfizer Inc	66.7	3.2	-6.9	24.8	15.9
Pepsi Co Inc	20.54	11.71	27.37	-4.81	17.81
Rio Tinto plc	0.6	30.6	35.4	0.3	31.5
Intel Corp	6.0	-14.7	30.7	4.2	30.8
Siemens AG	33.3	15.4	24.4	-13.5	2.4
Cisco Systems	45.8	-3.5	13.8	16.6	31.3
Samsung	-2.0	51.8	48.4	-21.6	43.9

Source: IQ EQ Fund Management (Ireland) Limited (Class B Eur) and Bloomberg as at 31st December 2021. Performance is quoted in local currency unless otherwise stated.

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*Information correct as of 3 February 2022

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