

Davy Global Focus Fund

For Investment Professionals Only

| Performance | 1 Month (%) | Q2 2022 (%) | 1 Year (%) | 3 Years P.a. (%) | 5 Years P.a. (%) |
|--------------------------------------|-------------|-------------|------------|------------------|------------------|
| Davy Global Focus Fund (Net of Fees) | -3.46 | -7.85 | -8.63 | 7.65 | 7.63 |

Source: IQ EQ Fund Management (Ireland) Limited (Class A Acc Eur) and Bloomberg as at 30 June 2022.

The Davy Global Focus Fund was launched on 24 November 2017. The past performance chart reflects past performance data relating to the AIF version of this fund, the Focus Global Fund, prior to its merger with the UCITS version of the fund on 24 November 2017 (the "Merger"). Although such past performance data relates to a period prior to the Merger when the AIF version was not authorised as a UCITS, the investment policy, strategy and portfolio composition of original fund were substantially the same as the UCITS Fund's. In the circumstances, the past performance data included in this document is believed to be an appropriate reference for investors.

Fund overview

The aim of the **Davy Global Focus Fund** (the 'Fund') is to generate absolute returns over the medium term. Absolute returns are specific, consistent positive returns which are not necessarily dependent upon specific asset class exposure or upon continuous rising markets.

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

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

This is a marketing communication and NOT a contractually binding document. Please refer to the Prospectus and the KIID of the Fund and do not base any final investment decision on this communication alone. IQ EQ Fund Management (Ireland) Limited is an active fund manager.

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.

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 Global Focus Fund** returned -7.85% during the quarter versus the MSCI World Index return of -10.80%. The strategy outperformed its benchmark MSCI World NDTR in Q2 2022 in what have been challenging market conditions. This was aided by the decision to increase the Fund's holdings in cash and fixed income by an additional 5% to 35% during the period. Since the start of 2022, markets have been negatively affected by inflation, war in Ukraine and China's recurring lockdowns. The market is laser-focused on inflation levels and likely policy responses by central banks. These concerns were exacerbated in late June when Federal Reserve Chairman Powell responded to questions about inflation as if the Fed had made a policy mistake. This is probably why the ECB and the Bank of England have delayed their policy responses, while the Federal Open Market Committee (FOMC) had opted for a more aggressive pre-emptive strike. For our part, we anticipate self-correcting forces will win out and will soon begin to push inflation rates lower as this is a supply-side shock caused by the resumption of the normal course of business activities post lockdown resulting in fewer rate hikes than currently anticipated. From a style perspective the power of quality as a style was reinforced this quarter with profitability as a factor positively contributing to performance. During periods of uncertainty, we believe patience is key, which is why we have taken advantage of market conditions to seek quality ESG stocks whose valuations have become increasingly attractive.

The top five equity contributors to relative performance during the quarter were TravelSky Technology Limited, Masco Corporation, Pfizer Inc, Gentex Inc and Pax Global Technologies Inc.

The bottom five equity detractors from relative performance during the quarter were NVIDIA Corporation, Cognex Corporation, Alphabet, Boliden and Intuitive Surgical.

TravelSky Technology Limited is the dominant provider of information technology solutions for China's aviation and travel industry, with a BB ESG rating from MSCI. Its core technologies are aviation services, enabling airlines, customers and agents to manage travel information, such as ticketing, baggage handling, accounting, settlement and clearing. Similar to its international peers these products and services are used by all industry participants, but unlike its peers it has a monopoly position in its home market of China. The stock has retreated due to the pandemic and continued uncertainties around air-travel and Covid-19 resurgence in 1H22. We believe negatives are now fully priced-in and, with its growth potential in system integration, we expect air-travel demand to improve as 2022 progresses, causing the stock to re-rate.

Masco Corporation (MAS) is global manufacturer of brand-name consumer products for construction and home improvement. Its well-known brands include: Delta Faucet's Water Sense fixtures, Hansgrohe's EcoSmart, and Behr's low-VOC paint products. This suite of environmentally-friendly products has allowed it to achieve an A MSCI ESG rating. Over the period we have owned the stock it has divested its windows and cabinetry product lines in favour of plumbing and decorative architectural products which generate better cash flows. Management has increased its guidance for FY2022 twice this year, despite the headwinds facing the housing sector in the US. This highlights its credentials as a high-quality business with a portfolio of stable, low-ticket, high-margin products with a strong stable balance sheet.

NVIDIA Corporation (NVDA) is a high-quality stock, manufacturing chips principally used in the computer gaming sector and it has a AAA MSCI ESG rating. It is an attractive, high-quality business that is well-positioned to capitalise on market demand as there is a shift toward technologies like Artificial Intelligence (AI) and machine learning. As an example, the company has recently struck a deal with Jaguar Land

Rover to deliver automated driving features and other services using AI. Despite the market correction semiconductor shortages persist. The seeds of these shortages were planted in 2020 when the world was in the grip of the pandemic. However, in recent times NVDA's stock been a victim of the growth sell-off and worries building around gaming Graphic Processing Units (GPU's). Curiously, NVDA's stock has fallen almost as much as it did during the prior crypto bubble burst. However, long-term investors are more focused on datacentre demand rather than short-term concerns over gaming. We will look to take advantage of this by increasing our position over time depending on market conditions.

Cognex Corp. (CGNX) specialises in machine vision technology, an area integral in factory automation. Its dominance in machine vision helps to support a very high level of profitability which we expect to continue due to its technological advantage. This advantage is sustained by a high level of R&D investment. From an end market perspective, demand remains strong for autos, EV batteries and consumer electronics, with factory automation playing a significant role in progressing climate change adaptation. It helps manufacturers speed-up production, reduce inefficiency and waste, lowering carbon intensity at factories. Cognex has been performing in line with many high-growth/high-multiple industrials over the last six months as supply chain pressures and likely lower demand from a major logistics customer is affecting sentiment. Unhelpfully towards the end of the period there was a fire at a plant in Indonesia where a material portion of the company's finished and unfinished goods and component inventory was lost. While the fire will have a minimal impact on 2Q22 and management hope to mitigate its impact over the next 6 months, it does present some execution risk. We intend to add to this position at an appropriate time.

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 performance 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 on.

| Calendar year performance | 2021 (%) | 2020 (%) | 2019 (%) | 2018 (%) | 2017 (%) |
|--------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Davy Global Focus Fund (net of fees) | 23.6 | 11.6 | 25.2 | -7.4 | 11.2 |
| MSCI World Index NDTR (MSDEWIN) | 31.1 | 6.3 | 30.0 | -4.1 | 7.5 |
| NVIDIA Corporation | 125.5 | 122.3 | 76.9 | -30.8 | 82.0 |
| Cognex Corp | -2.8 | 47.6 | 45.5 | -36.5 | 92.9 |
| Pfizer Inc | 66.7 | 3.2 | -6.9 | 24.8 | 15.9 |
| Boliden | 25.2 | 21.2 | 36.5 | -28.5 | 20.4 |
| Masco Corporation | 29.6 | 15.8 | 66.3 | -32.7 | 40.5 |
| TravelSky Technology Ltd | -29.8 | 0.5 | -3.4 | -13.4 | 45.4 |
| Masco Corporation | 29.6 | 15.8 | 66.3 | -32.7 | 40.5 |
| Gentex Inc | | | | | |
| Pax Global Technologies | -16.7 | 94.9 | 32.0 | -17.4 | -30.7 |
| Intuitive Surgical Inc | 31.8 | 38.4 | 23.4 | 31.2 | 72.6 |

Source: IQ EQ Fund Management (Ireland) Limited 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 Global Focus 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://iqeq.com/ucits>. 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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About us*

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*Information correct as of 3 February 2022

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