Q4 2022 Update

IQEQ

Davy Discovery Equity Fund

For Investment Professionals Only

Performance	1 Month (%)	Q4 2022 (%)	1 Year (%)	3 Years P.a. (%)	5 Years P.a. (%)
Davy Discovery Equity Fund (Net of fees)	-7.12	0.38	-25.99	1.22	4.24
MSCI World Small and Mid-Cap Index[1] (Total return)	-6.65	2.08	-13.62	4.84	6.21

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

1* The MSCI World SMID Cap Index shown above does not include fees or operating expenses and you cannot invest in it. 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 Equity 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 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

Euro-based investors saw modest gains in global equities during the final quarter of 2022, with the MSCI World Index adding 0.76% in euro terms. The outturn reflected a significant weakening of the US dollar which had been strong for most of 2022. This was a headwind for euro-based investors – dollar-based investors enjoyed a 10% return from global equities during the quarter.

Equity markets reached their lowest point for 2022 during October before rallying strongly for the rest of quarter. Sentiment was buoyed by rising expectations that inflation pressures were nearing a peak and that the pace of interest rate increases would abate early in the new year. Returns might have been stronger but for comments made by Federal Reserve Chair Jerome Powell at the Fed's December meeting, pouring cold water on such speculation. Powell stated that the Fed's expectation was for rates to peak at 5.1% in 2023, somewhat higher than market expectations.

Despite concerns about a possible recession in 2023, sectors exposed to the global economy, such as Energy, Industrials, and Materials, performed best during the quarter. The Technology and Consumer Discretionary sectors were among the worst performers. This pattern dominated returns during 2022. The Materials sector was boosted by hopes that China would ease Covid restrictions. The country's economy has been out of sync with other major economies such as the US and the Eurozone, due to its troubled property market and its "Covid-Zero" policy. The government relaxed Covid restrictions and pledged support for the property market during December, extending the rally in the Materials sector.

Several large technology and internet-related companies, which had sailed through 2021 due to consistent delivery of earnings as work-fromhome policies were implemented, faced multiple challenges during 2022. Rising interest rates pressured valuations of certain highly valued sectors such as Technology and Consumer Discretionary. There were also some notable earnings disappointments in the fourth quarter from internet heavyweights Meta Platforms and Alphabet, owners of Facebook and Google, respectively. Semiconductor manufacturing companies also disappointed during the quarter as the cycle turned down.

Fund performance

The **Davy Discovery Equity Fund** returned 0.38% in Q4 versus an MSCI World SMID Index return of 2.08%. In fact 2022 ended as it had begun with a sharp sell-off in equity markets. Although smaller companies fared marginally better than larger companies in December the best performing style over the period was Value, with Growth being the weakest. This was reflected by negative Asset Allocation contributions from growth-orientated sectors such as Information Technology and Communication Services where the Fund is overweight, while, from a Stock Selection perspective, stocks in these sectors made positive contributions to return (CapCom, TravelSky Technologies, Keywords Studios). We expect the coming earnings season to reflect the uncertain macro environment and will use this period to invest in attractively valued growing quality ESG-focused stocks.

The top five equity contributors to relative performance during the quarter were: Capcom Co Ltd, TravelSky Technology Limited, Keywords Studios Plc, Moncler SpA, and Yeti Holdings Inc. The bottom five equity detractors from relative performance during the quarter were: H&R Block Inc, Pinnacle Financial Partners Inc, Endava Plc, Teleperformance, and Tandem Diabetes Care Inc.

Capcom Co Ltd is a Japanese producer and distributer of computer games. Its leading franchises are Resident Evil, Street Fighter and Monster Hunter World. It is a high-quality stock with an A ESG rating from MSCI. Despite being one of the oldest players in the gaming industry, it has some of the fastest growing intellectual property (IP), due to ongoing investment in its hit franchises, validating its philosophy of quality over quantity. Its latest results beat expectations and management raised its FY22 guidance. The business has high earnings visibility and releases of new titles for Street Fighter in June 2023 is an exciting next step, supporting valuation into 2023.

TravelSky Technology Limited is the sole provider of IT solutions and services for China's aviation and travel industry. Its technologies enable airlines, customers, and agents to manage travel information, ticketing, baggage handling, accounting, and settlement. Importantly, China has removed quarantine for inbound travellers from 8th January 2023, which is positive news for air travel demand in Asia, driving share price higher as 2022 ends.

H&R Block Inc (HRB) is a tax preparation platform offering a combination of online and offline consumer tax services. HRB uses ESG tools to positively affect its business strategy, supporting its BBB rating. As the effects of the pandemic have subsided and the tax situation has normalised, revenues have resumed their steady pace. Consequently, HRB has had a solid run on the back of high labour-force participation rates and low unemployment rates. There are concerns about how the stock will perform as layoffs in high paying sectors such as technology take hold. This has made us cautious in the stock and why we have been taking profits.

Pinnacle Financial Partners Inc is a high-quality regional bank based in one of the fastest growing regions of the US, with a BBB MSCI ESG rating. As 2022 ended, bank stocks slumped as investors debated whether the Federal Reserve's aggressive interest rate hikes would lead to a recession in the US. Therefore, investors expect banking earnings to peak in 2023. However, Pinnacle continues to deliver on its growth plans, taking market share and hiring talent from its peers, offering consumers high-quality service driven banking. This should, longer-term, offset market sentiment.

Sample portfolio transactions

The Fund initiated positions in the Communication Services (Scout24 SE) and Consumer Staples (JDE Peets NV) sectors which, we believe, can weather a challenging macro environment. These positions were funded by exiting positions whose ESG and quality characteristics had changed.

The QQE perspective

2022 was a tough year for equities. Throughout the year we have described the tone of the market quarter-by-quarter through the lens of our Quality framework. Companies are ranked relative to each other under four pillars: Profitability, Persistence, Protection, and People. Each pillar comprises a set of characteristics which we believe are common to companies that outperform in the long run.

There was a considerable divergence in performance between the top and bottom performing pillars. The Persistence pillar, which reflects the consistency of profit growth, was the worst performer. Technology and internet-related stocks were well represented within this pillar due to their historically consistent profit growth. However, this narrative became undone during the year when many companies such as Meta, Microsoft and Alphabet disappointed.

The People pillar was the best performer during the year. The metrics that go into this pillar focus on dividend payments, movements in debt and equity issuance. Companies that manage their balance sheets well and reward shareholders consistently are represented by this pillar. Financial and Industrial stocks have a higher representation within the People pillar and these stocks were in favour during 2022.

As we enter 2023, there is a broad consensus that many economies will experience a mild recession towards the end of the year. In such circumstances, investors should start to place a premium on earnings consistency again. This will be reflected in better performance from the Persistence pillar. If we do not see this by mid-year, it may be signalling that investors think recession will be avoided.

Calendar year performance	2022 (%)	2021 (%)	2020 (%)	2019 (%)	2018 (%)
Davy Discovery Equity Fund (net of fees) (EUR)	-26.0	27.5	9.9	32.9	-10.7
MSCI World SMID Cap Index (NTR, EUR)	-13.6	25.6	6.2	29.2	-9.2
MSCI World Index (EUR)	-12.8	31.1	6.3	30.0	-4.1
CapCom	57.8	-18.2	123.6	41.6	23.0
Endava	-54.4	118.8	64.7	93.0	-
H&R Block	60.0	55.5	-27.8	-3.6	0.5
Keywords Studios	-7.3	2.9	90.9	40.2	-33.1
Moncler SpA	-21.6	28.7	25.1	40.1	11.7
Pinnacle Financial Group	-22.3	49.5	2.0	40.4	-29.8
Tandem Diabetes Care	-70.1	57.3	60.5	57.0	1,508.9
Teleperformance	-42.6	45.6	26.1	57.6	18.6
Travelsky Technology	26.4	-29.8	0.5	-3.4	-13.4
Yeti Holdings	-50.1	21.0	96.9	134.4	-

Source: IQ EQ Fund Management (Ireland) limited (Class A Acc Eur) and Bloomberg as at 30 December 2022. 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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*Information correct as of 3 February 2022

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