Q4 2022 Update

Davy Global Bond Fund

For Investment Professionals Only

Performance	1 Month (%)	Q4 2022 (%)	1 Year (%)	3 Years P.a. (%)	5 Years P.a. (%)
Davy Global Bond Fund (Net of Fees)	-1.39	-0.28	-14.50	-4.32	-1.77
JP Morgan Global Bond Index[1]	-1.92	-0.69	-13.98	-4.38	-1.82

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

[1]The JPM Global Bond (Euro Hedged) Index shown above does not include fees or operating expenses and you cannot invest in it.

Fund overview

The aim of the **Davy Global Bond Fund** (the 'Fund') is to protect capital against volatility, deflation and bear markets by investing primarily in global sovereign bonds.

Market comment

Bonds began the fourth quarter on a positive note with yields falling (prices rising) on hopes that central banks may be close to a peak in interest rates. However, those hopes were dashed in mid-December with the US Federal Reserve ("Fed") and the European Central Bank ("ECB") signalling that they were likely to raise interest rates by more than the market expected. Subsequently, the Bank of Japan ("BoJ") raised its cap on 10-year Japanese Government Bond ("JGB") yields allowing them to move higher. These events led bonds to sell-off into year end, resulting in the JP Morgan Global Bond Index (euro hedged) ending the quarter in negative territory at -0.69%.

Corporate bonds and other Fixed Income sectors generally outperformed government bonds during the period. They were supported by relatively resilient economic data, particularly in the US, improved risk appetite and less primary market issuance. As a result, the yield demanded by investors to hold these bonds fell relative to the yield on highly rated "risk free" government bonds such as US Treasuries and German Bunds.

Fund performance

The Fund outperformed its benchmark, the JP Morgan Global Index (euro hedged), by circa 0.40% (net) during the quarter.

The main positive contributor to performance was the Fund's active duration (interest rate risk) management which profited from a long US Treasury position (closed early December), a tactical short position in Euro Government Bonds which was initiated following the hawkish ECB meeting in mid-December (closed late December) and an underweight in JGBs (with maturities of between seven and ten years), which profited when the BoJ raised its cap on 10-year bond yields.

Spread positioning also contributed positively to performance with many of the Fund's non-benchmark exposures continuing to recover from the sell-off exacerbated by the Russian invasion of Ukraine in the first half of 2022. These include overweight positions in corporate, government agency and supranational bonds. In addition, an overweight in Mexican government bonds also contributed positively. These gains were partially offset by the Fund's UK Gilt curve positioning, where an underweight in the belly of the curve detracted from performance.

Positioning

We had been very bullish on US Treasuries coming into the fourth quarter. However, we took profits on that long position in early December as we thought yields had fallen by too much relative to incoming data which was indicating to us that the Fed may have to tighten monetary policy by more than the market expected.

We then switched to a tactical short duration position in Euro Government Bonds following the particularly hawkish ECB meeting in mid-December. However, yields climbed swiftly higher into year-end and we closed this position. As we enter the new year we find valuations more consistent with fundamentals and therefore, with the exception of Japan where we remain short, the Fund is positioned neutral duration relative to its benchmark.

The outlook for bond yields is finely balanced between two opposing forces. On the one hand, yields are facing upward pressure from central banks raising interest rates to try and contain inflation expectations. However, on the other hand, yields are facing downward pressure from the potential for a global recession in the coming quarters which might lead central banks to cut interest rates to restimulate their respective economies.

We think these competing dynamics are likely to result in yields trading in a wide range in the coming months. This volatility will hopefully allow us to continue to capitalise on extreme swings in yields through active duration management, i.e. going long (short) when we think yields have risen (fallen) by too much.

The Fund's non-benchmark weightings in government agency, supranational, municipal and corporate bonds are currently at moderate levels. They, and particularly corporate bonds, have had a strong run in recent months and we have been selectively reducing exposure or allowing them to mature. We would like to wait for recession risks to moderate and/or a correction (leading to better valuations) before significantly increasing the Fund's exposure to these sectors.

Calendar year performance	2022 (%)	2021 (%)	2020 (%)	2019 (%)	2018 (%)
Davy Global Bond Fund (Net of fees) (EUR)	-14.5	-3.4	6.0	5.2	-0.8
JPMorgan Global Bond Index (Euro Hedged)	-14.0	-3.1	4.9	4.6	-0.3

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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