Q4 2022 Update

Davy Global Focus Fund

For Investment Professionals Only

Performance	1 Month (%)	Q4 2022 (%)	1 Year (%)	3 Years P.a. (%)	5 Years P.a. (%)
Davy Strategic: Global Focus Fund (Net of Fees)	-7.16	-1.45	-17.96	4.20	5.58

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

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 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-from-home 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, the respective owners of Facebook and Google. Semiconductor manufacturing companies also disappointed during the quarter as the cycle turned down.

Fund performance

The **Davy Global Focus Fund** returned -1.45% in the quarter, as markets suffered more setbacks. 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 and the worst was Growth. As the Fund is underweight these types of sectors (i.e. Financials), they did not make a positive contribution to performance. While the Fund's allocation to equities is unchanged over the period and equities as an asset class are increasingly attractively valued, the current macro environment makes us cautious. We expect the coming earnings season to reflect this and will use it to invest in attractively valued quality ESG focused stocks.

The top five equity contributors to relative performance during the quarter were: Intuitive Surgical Inc, TravelSky Technology Limited, Cummins Inc, Adobe Inc, and NVIDIA Corporation. The bottom five equity detractors from relative performance during the quarter were: Alphabet Inc, Roche Holding AG, Masco Corporation, Microsoft Corporation and Sonova Holding AG. Intuitive Surgical Inc (ISRG) designs and manufactures advanced robotic surgical system - the Da Vinci system being the global market leader. The Da Vinci system includes a surgeon console, a patient-side cart, a high-performance vision system, proprietary wristed instruments, and surgical accessories. Patients operated on using Da Vinci experience smaller incisions, shorter hospital stays and recovery times, all of which contribute to its A ESG rating. Although the resumption of surgical procedures is fluid globally, ISRG reported stronger-than-expected Q3 results as both procedures and placements came in well ahead of expectations. Looking forward the outlook for procedures is positive with guidance moving up, and does not include an additional penetration in China.

TravelSky Technology Limited is the sole provider of Information Technology 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 in as 2022 ends.

Alphabet Inc is a holding company composed of Google and a collection of businesses called Other Bets. Its internet sites are amongst the most visited internet properties globally, while its online advertising platform continues to take share from offline formats. Alphabet's Q3 results reflected the uncertain macro environment, with revenue growth decelerating year-on-year and headcount growth being larger than expected. Recent share price weakness reflects these concerns with greater expense discipline needed to drive operating leverage. The stock will continue to be supported in the short-term by buybacks.

Roche Holding AG is the second largest pharmaceutical company globally. It is best known for its strong oncology franchise (Herceptin and Avastin) and product innovation. Additionally, it is viewed as being one of the most sustainable companies in the Health Care sector as it scores highly for promoting access to health care in emerging markets, giving it an A ESG rating. A challenge for this super tanker is to meaningfully grow its top line given its size as revenues are over CHF60bn. Disappointingly, its Q3 results missed expectations and its new Alzheimer drug did not make the gradewhich resulted in the stock de-rating. We are unlikely to increase our exposure at the moment.

Sample portfolio transactions

We exited positions in Boliden AB, Nabtesco Corporation, Peptidream Inc and Pfizer Inc, whose investment cases no longer fulfilled our quality ESG investment criteria.

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 Global Focus Fund (Net of Fees) (EUR)	-18.0	22.8	-1.2	20.8	-3.5
MSCI World Index (EUR)	-12.8	31.1	6.3	30.0	-4.1
Adobe	-40.7	13.4	51.6	45.8	29.1
Alphabet	-39.1	65.3	30.9	28.2	-0.8
Cummins	14.1	-1.7	30.5	38.1	-22.1
Intuitive	-26.1	31.8	38.4	23.4	31.2
Masco	-32.1	29.6	15.8	66.3	-32.7
Microsoft	-28.0	52.5	42.5	57.6	20.8
NVIDIA	-50.3	125.5	122.3	76.9	-30.8
Roche Holding	-21.4	26.3	1.3	33.1	2.5
Sonova Holding AG	-37.8	57.1	4.5	39.7	7.1
Travelsky	26.4	-29.8	0.5	-3.4	-13.4

Source: IQ EQ Fund Management (Ireland) Limited (Class B 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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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 IQ EQ Fund Management (Ireland) Limited, 5th Floor, 76 Sir John Rogerson's Quay, Dublin Docklands, Dublin 2, D02 C9D0, Ireland or Davy Funds Plc | IQ-EQ (iqeq.com). 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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*Information correct as of 3 February 2022

Reference: HM531_21012023_1

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