Q4 2022 Update

IQEQ

Davy Strategic: Global Quality Equity Fund

For Investment Professionals Only

Performance	1 Month (%)	Q4 2022 (%)	1 Year (%)	3 Years P.a. (%)	5 Years P.a. (%)
Davy Strategic: Global Quality Equity Fund[1] (Net of Fees)	-8.43	-0.09	-18.04	9.05	9.43
MSCI world index[2]	-7.62	0.76	-12.78	6.72	8.67

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

[1*]Investment Management of the Davy Strategic Global Equity Fund was assumed by Davy Asset Management during the month of September 2018 and subsequently by Davy Global Fund Management in November 2019. On 31 May 2019 the Davy Strategic Global Equity Fund implemented its current investment strategy. For more information please contact IQ EQ Fund Management (Ireland) Limited On 10 July 2020 the Davy Strategic Global Equity fund changed its name to the Davy Strategic: Global Quality Equity Fund.
[2*]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 investment objective of the **Davy Strategic: Global Quality Equity Fund** (the "Fund") is to provide long-term capital growth by investing in global quality equities with consideration given to ESG criteria. The Fund adopts a Quantamental (quantitative and fundamental) approach to select and manage the investments.

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 Strategic: Global Quality Equity Fund** returned -0.09% in the quarter, underperforming the MSCI World Index by 0.85% (net euros). In fact, 2022 ended as it had begun, with a sharp sell-off in equity markets. Value was the best performing style but as the Fund is underweight sectors exposed to this style (Energy, Financials), the contribution to performance was negative, while positive contributions to performance came from Stock Selection in the Information Technology sector (Mastercard), which our model rates as high-quality, not Asset Allocation. Looking forward, we expect the coming earnings season to reflect macro uncertainty and will continue to invest in attractively valued growing quality ESG-focused stocks.

The top five equity contributors to relative performance during the quarter were: Rio Tinto Plc, The Proctor & Gamble Company, Novo Nordisk A/S, Merck & Co. Inc, and Mastercard Inc. The bottom five equity detractors from relative performance during the quarter were: Tesla Inc, Alphabet Inc, Apple Inc, Meta Platforms Inc, and Roche Holding AG.

Rio Tinto Plc (RIO) is a high-quality mining company which produces Iron Ore (60% of revenues), Aluminium (20%), Copper & Diamonds (12%), and Energy & Minerals (8%). Its ESG credentials stem from its initiatives to manage its ability to mitigate its operational impact on local ecosystems and its goal to produce green aluminium. They seek to replace carbon anodes in the smelting process with inert anodes which emit oxygen rather than CO_2, thus lowering carbon emissions. Recent performance is due to strong commodity prices, which is positive for miners, and the likely positive impact from the easing of Covid restrictions in China.

Procter & Gamble Company (PG) is a quality stock with an A ESG rating from MSCI, reflecting its robust carbon data-gathering and efforts to minimize harmful chemicals. As one of the world's largest consumer goods companies, its brands are household names e.g. Pantene, Gillette, Oral-B, Tide/Ariel, Pampers, Charmin, etc. During the quarter it had a successful capital markets day, emphasising its focus on supply chain and digital efforts, which drive productivity and sustain product superiority. We expect PG to fare better than many of its peers due to the defensive nature of its product portfolio.

Tesla Inc (Tesla) manufactures electric vehicles (EVs) and a range of clean energy products, such as solar energy and power storage. It is a high-quality stock, whose products are bold, distinctive, elegant, and fun to drive. Its focus on clean tech and low carbon footprint means it leads it peers and has resulted in an A ESG rating. Recent poor stock performance is due to the supply of EVs exceeding demand for the first time since the pandemic. Obviously, a worsening macro backdrop and increasing competition means there are hurdles to overcome. Nonetheless, Tesla is attractively valued relative to history and not saddled with the pension and other legacy costs that burden carmakers.

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 large 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.

Sample portfolio transactions

In line with the Fund's strategy of holding high-quality stocks with robust ESG characteristics, we exited positions in companies whose ESG and quality metrics did not match the strategy such as Adyen NV, Align Technology Inc, Hong Kong Exchanges & Clearing, Kimberly-Clark Corporation, Meta Platforms Inc, S&P Global Inc, Thomson Reuters Corporation, and Veeva Systems Inc. This funded purchases in higher quality stocks such as Chevron Corporation and APA Corporation over the quarter.

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 Strategic: Global Quality Equity Fund (Net of Fees)	-18.0	36.3	16.0	31.5	-8.0
MSCI World Index (EUR)	-12.8	31.1	6.3	30.0	-4.1
Alphabet Inc	-39.1	65.3	30.9	28.2	-0.8
Apple	-26.4	34.6	82.3	89.0	-5.4
Mastercard	-2.7	1.2	20.2	59.2	25.3
Merck	49.4	1.8	-7.2	22.3	40.0
Meta	-64.2	23.1	33.1	56.6	-25.7
Novo Nordisk	29.6	75.6	12.8	32.9	-8.6
Procter & Gamble	-5.0	20.5	14.1	39.7	3.6
Rio Tinto	31.9	0.6	30.6	35.4	0.3
Roche Holding AG	-21.4	26.3	1.3	33.1	2.5
Tesla	-65.0	49.8	743.4	25.7	6.9

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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The MSCI World Quality Index is based on MSCI World, its parent index, which includes large and mid-cap stocks across 23 Developed Market (DM) countries. The index aims to capture the performance of quality growth stocks by identifying stocks with high quality scores based on three main fundamental variables: high return on equity (ROE), stable year-over-year earnings growth and low financial leverage. The MSCI Quality Indexes complement existing MSCI Factor Indexes and can provide an effective diversification role in a portfolio of factor strategies.

About us*

We are IQ-EQ, a leading investor services group employing over 4,000 people across 24 jurisdictions worldwide. We bring together that rare combination of global expertise with a deep understanding of the needs of our clients. We have the know how and the know you to support fund managers, global companies, family offices and private clients.

*Information correct as of 3 February 2022

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