Q4 2022 Update

IQEQ

Davy ESG Equity Fund

For Investment Professionals Only

Performance	1 Month (%)	Q4 2022 (%)	1 Year (%)	3 Years P.a. (%)	5 Years P.a. (%)
Davy ESG Equity Fund (Net of Fees)	-6.30	4.88	-9.24	8.97	10.80
MSCI world index[1]	-7.62	0.76	-12.78	6.72	8.67

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

[1]"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 aim of the **Davy ESG Equity Fund** (the 'Fund') is to achieve long-term capital growth. We aim to achieve this by using both quantitative and fundamental research that we believe will result in a portfolio of high-quality companies that exhibit strong environmental, social and governance characteristics.

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 ESG Equity Fund** rose +4.88%, net of fees, in the quarter compared to the MSCI World Index return of +0.76%. Quality, as a style to which the Fund is aligned, continued to underperform both Value and Growth. Overall, Stock Selection was the main driver of the strong relative outperformance with Asset Allocation and Currency also contributing positively to returns. Selection was strongest within the Consumer Discretionary (TJX, Nike) and Technology (Oracle, VISA) sectors and weakest within Communication Services (Alphabet) and Energy (Equinor). The Fund did benefit from not owning Apple, Amazon, Meta Platforms or Tesla which underperformed. Asset Allocation was positive benefitting most by being overweight the Industrials and Materials sectors which outperformed, and by being underweight the worst-performing sector, Consumer Discretionary. In terms of Currency, an underweight position in the US was beneficial as the dollar weakened during the quarter.

The top five equity contributors to relative performance during the quarter were: Oracle, Merck, Nike, TJX Companies, and Total Energies. The bottom five equity detractors to relative performance during the quarter were: Alphabet, Waste Management Inc, Microsoft, Daikin, and CapGemini.

Oracle, the US software giant, gained almost 24% in the 4th quarter and was the main contributor to returns. Although still off the highs back in January, the shares outperformed the sector and the market in 2022. Most of the strength in the share price occurred in October in anticipation and delivery of an upbeat financial analysts' meeting. The company provided long-term guidance out to 2026 which was positive and confirmed that Oracle has reached the inflection point in its cloud transition. Organic revenue growth is expected to grow by 11.2% CAGR from 2022 to 2026and margins are set to improve too. Their upbeat guidance was in stark contrast to other software companies. In terms of ESG, controversies remain in relation to the Board and ownership issues as Larry Ellison owns 42% of the company. Their ESG performance has improved, however, driven by workforce management advances as they follow several best practices such as extensive compensation, non-monetary benefits, and stock purchase plans. The acquisition of Cerner, where medical records are handled, may put greater emphasis on Privacy & Data Security for which Oracle is already well regarded. We will continue to monitor these risks. Merck was also a top contributor to returns in the quarter, rising over 19% and outperforming both the market and the Healthcare sector. The US healthcare company is best known for its cancer drug Keytruda, diabetes drugs Januvia and Janumet, and HPV vaccine Gardasil. Q3 results reported in October were better than expected driven by the strong performance of key brands. Full-year guidance for 2022 was also raised again.

Merck leads its peers in initiatives to improve access to healthcare particularly in developing countries where they have pricing policies based on affordability for 40 products in over 120 countries. Merck's overall ESG performance was recently upgraded based on lower accounting risk compared to peers and evidence of executive pay linked to sustainability performance. Product liability remains a major risk for the sector. Merck remains a core holding as we see a solid outlook for the company with solid top-line and bottom-line growth driven by their high margin products Keytruda, Gardasil, and animal health.

Alphabet Inc, the global technology giant, declined over 15% and was one of the main detractors to returns in the final quarter. Technology as a sector was one of the worst performing sectors as lay-offs and hiring freezes were implemented in a slowing global economy. The poor performance was borne out in their Q3 results announced in October which saw advertising revenues decline in both YouTube and Networks, with Search unable to act as an offset. Non-ad related businesses held up well, with Cloud growth accelerating. Digital ads are cyclical and have been affected by the broader macro environment and by the pullback in ad spend by tech companies. Although we reduced our position size during the year, in face of a challenging environment, we continue to like the valuation and the long-term growth in Alphabet's Search and Cloud businesses. Alphabet is a leader in many areas such as Privacy & Data security and Opportunities in Clean Technology, however the company remains under the microscope regarding anti-trust, content integrity and workforce diversity where improvements can be achieved.

Waste Management Inc (WM), the largest non-hazardous solid waste company in North America and the largest recycler, declined almost 10% and was also a main detractor to returns. Q3 results in October were as expected, with pricing up a record 8.2%. We like the business for its resilience through economic cycles, its ability to raise prices, the high recurring revenues, and the strong cashflows generated.

Current green investment into 17 new recycling centres, modernization of the existing recycling fleet and the automation of processes all make WM an interesting investment out to 2026. WM is best in class in terms of managing the GHG emissions from its landfill sites. Over 60% of the company's collection fleet runs off methane gas harvested from those sites. Switching collection trucks from diesel to compressed natural gas also reduces GHG emissions by 80%. The company's goals put it on track to meet the Paris Climate Accord's 1.5 degrees warming limit. WM's ESG performance has improved following the adoption of better corporate governance, removal of an over-boarded non-executive director, and improvements to proxy voting access.

Sample portfolio transactions

There were no trades of significance in 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 ESG Equity Fund (Net of fees) (EUR)	-9.2	32.7	7.5	31.1	-1.6
MSCI World Index (EUR)	-12.8	6.3	30.0	-4.1	7.5
Alphabet	-39.1	65.3	30.9	28.2	-0.8
CapGemini	-26.6	72.1	18.1	27.6	-10.9
Daikin	-21.9	14.7	49.9	33.8	-11.3
Merck	49.4	1.8	-7.2	22.3	40.0
Microsoft	-28.0	52.5	42.5	57.6	20.8
Nike	-29.0	18.7	41.0	38.1	19.9
Oracle	-4.6	36.9	24.2	19.3	-3.0
TJX	6.7	12.8	12.2	38.8	18.9
Total Energies	41.4	35.5	-22.6	10.8	5.4
Waste Management Inc.	-4.5	43.8	5.5	30.5	5.3

Source: IQ EQ Fund Management (Ireland) Limited (Class A Acc in 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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