Q4 2022 Update

Global Equity Income Fund

For Investment Professionals Only

Performance	1 Month (%)	Q4 2022 (%)	1 Year (%)	3 Years P.a. (%)	5 Years P.a. (%)
Global equity income fund (net of fees)	-4.83	6.14	-2.77	5.91	7.67
MSCI world index[1]	-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]"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 **Global Equity Income Fund** (the 'Fund') is to achieve long-term capital growth through investment in companies which expect to generate a higher-than-average dividend yield. The Fund targets a dividend yield 1% greater than the market dividend yield. The concept is that dividends are the foundation of total returns over the long term.

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 – owners of Facebook and Google, respectively. Semiconductor manufacturing companies also disappointed during the quarter as the cycle turned down.

Fund performance

The **Global Equity Income Fund** returned 6.14% during the quarter versus an index return of 0.76%. Stock Selection, Asset Allocation and Currency all contributed positively to relative performance during the quarter. Stock Selection was strongest within the Financials, Technology and Consumer Discretionary sectors. Stocks such as JPMorgan, Merck, Home Depot and Procter & Gamble were among the biggest contributors within Stock Selection. The Asset Allocation outturn was driven by an overweight position in the Industrials sector, which outperformed, and an underweight position in the Consumer Discretionary sector. The latter has few quality stocks with attractive dividend yields. Currency contributed positively to relative performance during the quarter due mainly to the Fund's underweight to the dollar, which weakened during the quarter.

The top five equity contributors to relative performance during the quarter were: Merck, JPMorgan, Siemens, Airbus, Sumitomo Mitsui Financial Group (SMFG). The bottom five equity detractors to relative performance during the quarter were: Waste Management Inc, Roche Holding AG, Telus, Paychex, Nestlé.

Merck was a top contributor to returns during the quarter rising by 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 it has 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 has a progressive policy on cash-generation and dividend distribution, growing its dividend by mid-high single digits consistently over the past decade.

JPMorgan Chase (JPM) is a leading global financial services firm with assets of $3.8tn and global operations. The company is a leader in investment banking, financial services for consumers and small businesses, commercial banking, financial transaction processing, and asset management. The company's CEO, Jamie Dimon, said recently that he expects a mild recession in the US in 2023. JP Morgan is likely to perform relatively well in such a scenario due to its diversified assets and its focus on risk management. The stock performed strongly during the fourth quarter after the company reported record net interest income at its Q3 results presentation in October. The stock was also boosted by strong relative performance in the financial sector, which is benefitting from widening lending spreads. JPM has been upgraded twice in past two years by MSCI ESG Research. The most recent upgrade was driven by governance improvements centred on the board structure.

Waste Management Inc (WM), the largest non-hazardous solid waste company in North America and the largest recycler, was among the biggest detractors from relative performance during Q4. The stock had performed strongly during Q3 after management reported better-than-expected Q2 results. WM's business is relatively stable and did not perform well relative to cyclical stocks during the fourth quarter. We like the business for its resilience through economic cycles, its ability to raise prices, the high recurring revenues, and the strong cash flows generated. They are best-in-class in terms of managing the GHG emissions from their landfill sites. Over 60% of the company's collection fleet runs on 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.

Roche Holding AG (Roche), the Swiss global pharmaceutical company, was also a detractor to returns. Roche is best known for its strong oncology franchise with brands such as Herceptin and Avastin. The company is split between Pharmaceuticals (c. 75% of revenues) and Diagnostics. The main challenge for the company is to grow the top line in a meaningful way given its size, with revenues over CHF 60bn. Roche, however, has several new drugs coming through the pipeline including Tiragolumab in lung cancer. The company's Alzheimer's drug, Gantenerumab, which had looked promising during early trials, showed no clear benefit in late trials data released during November, causing the stock to weaken. Roche is recognised as being one of the most sustainable companies in the Pharmaceuticals sector. As well as having strong sustainability credentials, Roche is a strong, consistent generator of cash, which has allowed the company to grow its dividend consistently through time.

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 (%)
Global Equity Income Fund (Net of fees) (EUR)	-2.8	27.5	-4.2	27.4	-4.4
MSCI World Index (EUR)	-12.8	31.1	6.3	30.0	-4.1
Airbus	0.2	25.2	-31.2	57.6	2.8
JP Morgan	-12.6	27.7	-5.5	47.3	-6.6
Merck	49.4	1.8	-7.2	22.3	40.0
Nestlé	-14.0	25.4	2.1	34.7	-1.8
Paychex	-13.2	50.2	13.2	34.5	-1.1
Roche Holding	-21.4	26.3	1.3	33.1	2.5
Siemens	-12.6	33.3	15.4	24.4	-13.5
Sumitomo Mitsui Financial Group	41.7	29.8	-15.6	16.2	-22.2
Telus	-8.3	23.6	5.2	16.3	-0.6
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 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.

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