Davy Funds Plc
Davy ESG Multi-Asset Fund

CLASS "A Distributing" UNITS
INVESTMENT OBJECTIVE

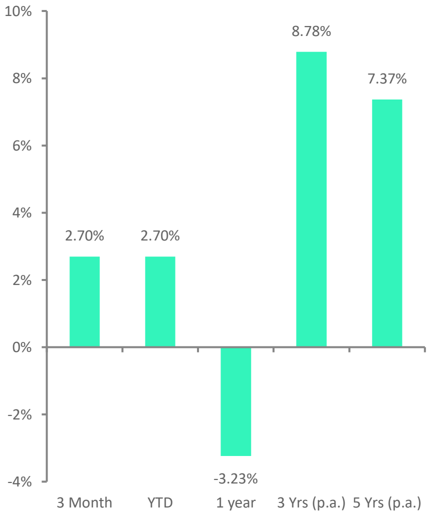
The primary investment objective of the Davy ESG Multi-Asset Fund ('the Fund') is to seek, over time, to achieve capital appreciation in real terms. The Fund may, as a secondary objective, also seek to generate a moderate level of income, from year to year, consistent with the growth objective.

INVESTMENT STRATEGY

The objective of the Fund will be achieved by investing across a range of asset classes including equities, bonds and fixed deposits. The Investment Adviser's ongoing investment policy will be to take due account of the nature of the trading activities carried out by such corporations from an ethical standpoint.

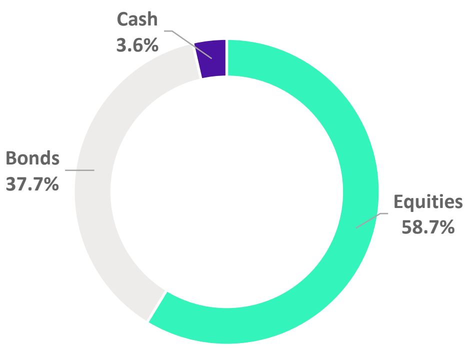
NOTE: All information below is provided as at 31.03.2023

INVESTMENT PERFORMANCE



Source: Northern Trust
Single Pricing, Net of Fees, Bi-Annual Income Distribution, Total Return in Euro.

ASSET ALLOCATION (% Fund)



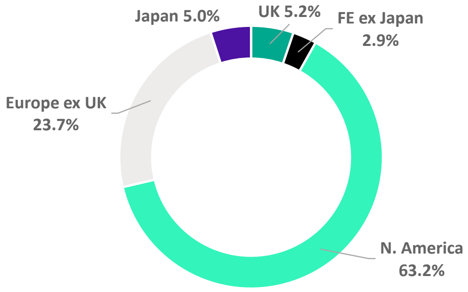
TOP 10 HOLDINGS (%)

10 Largest Equity Holdings (% of Total Fund)

Stock	Country	Weight
Microsoft Corp	USA	4.0%
Alphabet Inc	USA	2.9%
Oracle Corp	USA	1.7%
Visa Inc	USA	1.6%
Thermo Fisher Scientific	USA	1.6%
Iberdrola S.A.	Spain	1.6%
Merck & Co Inc	USA	1.6%
Vinci	France	1.5%
Loblaws Companies Ltd	Canada	1.5%
TJX Companies Inc	USA	1.3%
Total		**19.3%**

GEOGRAPHIC ALLOCATION (%)

Portfolio Geographic Allocation (% Equity)



IQ EQ Fund Management (Ireland) Limited

Quarter 1, 2023

ABOUT THE FUND

Base Currency:
Euro

Fund Size (EUR):
20.85m

No. of Equity Holdings:
54

Investment Manager:
IQ EQ Fund Management (Ireland) Limited

Type of Unit:
Distributing

Valuation Point:
Close of business

Order Cut-Off Point:
Daily – All orders must be received by 16:00 p.m. (Irish time) one Business Day immediately preceding the relevant Dealing Day.

Lipper ID:
65090638

Share Classes
A, B

Ongoing Charges
0.87%, 0.80%

Structure:
UCITS*

* The assets of the Prescient Select Ethical Balanced Growth Fund, a sub-fund of the Prescient Select Portfolio (non-UCITS) were transferred to a new sub-fund of Davy Funds plc (UCITS), which is named the Davy ESG Multi-Asset Fund, on 17th October 2017.The same Strategy applies to both sub-funds.

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Davy Funds Plc
Davy ESG Multi-Asset Fund

MARKET COMMENT

Equity and bond markets produced positive returns for investors during the first quarter despite elevated levels financial market volatility. Equity markets made most of those gains in January before strong inflation and labour market data caused investors to revise upwards the level at which interest rates will peak in this cycle. Bond prices tracked equities during January and February, before the collapse of Silicon Valley Bank and Signature Bank caused a flight to safety and a rally in bonds into quarter-end.

While the two banks' balance sheets and lending structures were unusual in the context of the broader US banking sector, the Federal Reserve and the Treasury Department took the decision to guarantee their entire deposit bases and institute a new liquidity scheme to support the wider financial sector and prevent contagion. While the intervention had the effect of reducing strains in the system, it came too late for troubled Swiss lender, Credit Suisse, which came under renewed pressure forcing it into a merger with rival UBS in March.

Technology and internet-related shares – last year's laggards – were the standout performers during the quarter, rising by over 20% in the three months. The shares were boosted in January by falling interest rates and by the flight from cyclical sectors later in the quarter as recession fears grew. Financial shares fell amid the chaos in the US regional banks sector, as did those of oil and gas companies. The latter were treading water for most of the quarter before succumbing to recession fears in March.

At a headline level, there was little to separate European and US equity performance during the quarter. Any discernible differential in performances between the two regions was attributable to the US market's higher weighting in technology shares.

FUND PERFORMANCE

The **Davy ESG Multi-Asset Fund** returned 2.70% in the quarter, net of management fees, in euro terms. During the quarter equities within the portfolio returned 4.34% (gross of management fees), while the bond component to the Fund contributed 1.40% (gross of management fees). At the end of the period the asset breakdown was **58.7%** high quality equities, **37.7%** Bonds, and **3.6%** Cash.

Within the **equity bucket**, the relative underperformance was driven by weakness in Stock Selection with only marginal positive contributions from Asset Allocation and Currency. Growth as a style outperformed Value and Quality. Stock Selection was strongest in both the Healthcare (IDEXX Labs) and Financial sectors (Deutsche Boerse, American Express). However, weakness within Technology (Gen Digital) and Consumer Discretionary (Home Depot, TJX Companies) more than offset those gains. Performance is perhaps best explained by the strong reversal in performance of the stocks we did not own, such as Apple, Nvidea, Tesla and Meta, which had underperformed in Q4 2022. Performance figures continue to look healthy.

The top five equity contributors to relative performance during the quarter were: Alphabet; Microsoft; TSMC; Vinci, and SAP. The bottom five equity detractors to relative performance during the quarter were: Equinor; Citizens Financial; International Flavors & Fragrances; General Digital, and Automatic Data Processing.

Alphabet, the global technology giant, returned over 15% in the quarter and was the main contributor to returns. The shares more than recovered the weakness seen in the final quarter of 2022, though remained volatile over the period. The much-anticipated staff cuts were rewarded by the market only to be underwhelmed in February by a demonstration of their AI Chatbot, Bard, which gave some inaccurate answers. The shares recovered in March as the market refocused on issues such as a TikTok ban and a possible recovery in its Cloud business. Overall, the weak environment has impacted Search, YouTube, and Cloud demand. However, valuation is attractive. Alphabet has been carbon-neutral since 2007 with the goal of being carbon-free by 2030. It continues to roll out features to reduce emissions; carbon emissions data when people book flights or show the most fuel-efficient route when using Google Maps. 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.

Equinor, the Norwegian oil and gas company and the second largest natural gas supplier to Europe, was the main detractor to returns, declining almost 20% in the quarter. The underperformance is directly related to the continued fall in European natural gas prices due to an EU policy to reduce Europe dependence on Russian gas, as well as the effects of a mild winter. Indeed, the company is playing its part as it boosted gas production to help the supply situation in Europe. Equinor can be thought of as a natural hedge against inflationary pressures and rising geopolitical risks. Q4 results and a capital markets update saw the company commit to total shareholder returns of $17bn in 2023 only through a mix of higher dividends, special dividends and a $6bn buyback. It will be the highest distribution yield in the sector at 18%. The company has ambitious transition plans with a net-zero long-term ambition by 2050. It is also active in renewables and was an early mover into offshore wind. Indeed, the company is targeting renewable installation capacity of 12-16GW by 2030 and plans to spend $23bn on renewables through 2021-26. It is also involved in carbon capture and hydrogen projects. We believe Equinor is the most credible in attaining its 2050 net zero target versus peers.

Within the bond portfolio:

The main positive contributor to performance was our active duration (interest rate) positioning which profited from being tactically short Euro Government Bonds in January and long US Treasuries in March as yields fell following the banking turmoil. The short-dated corporate bond positions also outperformed. However, these gains were offset by overweight positions in Supranational and Mexican euro-denominated government bonds. In addition, the Fund's underweight position in Japan also detracted from performance.

Over the past year central banks have aggressively raised interest rates to try and curb inflation. These hikes act with a time lag, so their true impact has yet to be felt, but we are already seeing some evidence of pressure on households and the most interest rate-sensitive parts of the global economy.

POSITIONING

There were no trades of significance within the equity basket during the quarter.

Over the past year central banks have aggressively raised interest rates to try and curb inflation. These hikes act with a time lag, so their true impact has yet to be felt, but we are already seeing some evidence of pressure on households and the most interest rate sensitive parts of the global economy.

We are also now beginning to see the usual financial accidents which are tell-tale signs that we are in the latter stages of a tightening cycle. SVB and Signature Bank are the latest to have been found swimming naked, as the tide of easy money goes out. This comes on top of earlier casualties in the Crypto and Commercial Real Estate markets. (Note: although we keep an open mind, we think the failure of Credit Suisse may be an idiosyncratic event and not reflective of stresses in the European banking system).

Whether there are more skeleton's in the US regional bank closet remains to be seen. However, even if these turn out to be isolated cases, we think it is going to result in less credit to the US economy over the coming months, as smaller banks prepare for stricter regulations. This is likely to slow growth and may even risk recession. Given the US economy's importance to the global economy it is also likely to slow growth elsewhere, and consequently help to lower inflation.

This should be positive for high quality bonds. We think central banks should now be closer to pausing their respective hiking cycles which has historically been a good time to buy bonds.

Of course, it is clearly possible that they may not be near a pause. Growth may accelerate and/or inflation may remain sticky which could put further upward pressure on yields. Even if this proves to be the case, the good news is that bond yields are now at higher levels after the dramatic selloff in 2022. These higher yields can now significantly help offset the capital loss if yields rise.

Take the 10-year US Treasury yielding 3.50% (at the time of writing) as an example. All other things equal, it would have to rise to circa 4.00% to lose money on a 12-month view given the extra yield/income earned during the period. However, if a recession were to materialise, its yield would fall (price would rise) and double-digit returns would be likely in our view.

We continue to remain cautious on sovereign and corporate credit and would like to wait for more clarity on the macro outlook 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 ESG Multi-Asset Fund (Eur)	-10.2%	20.6%	5.2%	21.3%	-1.0%
MSCI World Index (Eur)	-12.8%	31.1%	6.3%	30.0%	-4.1%
JP Morgan Global Bond Index (Eur)	-14.0%	-3.1%	4.9%	4.6%	-0.3%
Alphabet Inc	-39.1%	65.3%	30.9%	28.2%	-0.8%
Automatic Data Processing	-1.3%	42.6%	6.0%	32.7%	14.2%
Citizens Financial Group Inc.	-13.4%	36.9%	-6.7%	41.8%	-27.4%
Equinor ASA	56.4%	67.0%	-13.5%	0.5%	8.8%
General Digital Inc.	-15.8%	27.6%	41.8%	37.2%	-31.8%
International Flavors & Fragrances Inc.	-28.4%	41.5%	-13.3%	-1.7%	-10.1%
Microsoft Corp.	-28.0%	52.5%	42.5%	57.6%	20.8%
SAP SE	-20.7%	18.4%	-9.6%	40.2%	-5.6%
TSMC	-36.8%	12.1%	92.7%	64.8%	-3.6%
Vinci S.A.	3.9%	17.7%	-16.6%	41.5%	-12.8%

Source: IQ EQ Fund Management (Ireland) Limited, Northern Trust, and Bloomberg as at 31 December 2022. Performance is quoted in local currency unless otherwise stated. Davy ESG Multi-Asset Fund Class A Distributing is the total return from single pricing and net of fees, with a bi-annual income distribution.

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The Davy ESG Multi-Asset 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 a UCITS pursuant to the Regulations. Davy Funds plc is 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, 76 Sir John Rogerson's Quay, Dublin 2, Ireland D02 C9D0, or https://www.iqeq.com/ucits. 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.

 The J.P. Morgan GBI series provides a comprehensive measure of local currency denominated fixed rate government debt issued in developed markets. The global series tracks 13 countries and the broad series tracks 27 countries. The series is available in a number of different segments and breakouts including - maturity sectors and individual countries as well as hedged and unhedged in over twenty currencies.

IQ EQ Fund Management (Ireland) Limited

Quarter 1, 2023

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