Q1 2023 Update

Davy Discovery Equity Fund

For Investment Professionals Only

This strategy is provided by Irish Life Assurance plc and is managed by IQ EQ Fund Management (Ireland) Limited (formerly Davy Global Fund Management Limited).

Performance	1 Month (%)	Q1 2023 (%)	1 Year (%)	3 Years P.a. (%)	5 Years P.a. (%)
Davy Discovery Equity Fund (Net Of Fees)	-1.91	3.78	-11.39	13.13	5.39
MSCI World Small & Mid-Cap Index[1] (Total Return)	-4.08	2.55	-7.13	17.06	7.40

Source: IQ EQ Fund Management (Ireland) Limited (Class A Acc Eur) as at 31 March 2023.

[1]The MSCI World SMID Cap Index shown above does not include fees or operating expenses and you cannot invest in it. The MSCI World SMID Cap Index captures mid and small cap representation across 23 Developed Markets (DM) countries. With 5,250 constituents, the index covers approximately 28% of the free float-adjusted market capitalization in each country.

Fund overview

The investment aim of the **Davy Discovery Equity Fund** (the 'Fund') is to achieve long-term capital growth by investing in shares of small and medium sized companies on a global basis. These companies tend to demonstrate growth potential and represent attractive investment opportunities. Investing during the early stage of a company's life cycle can lead to higher than average investment returns.

Market comment

Equity and bond markets produced positive returns for investors during the first quarter despite elevated levels of financial market volatility. Equity markets made the most of those gains in January before strong inflation and labour market data caused investors to raise their expectations as to where interest rates will peak 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 Discovery Equity Fund** returned 3.78% during the quarter outperforming its benchmark, MSCI World SMID by 1.23%. Markets have got off to a positive start in 2023, with assets exposed to quality and growth outperforming more value-orientated styles. This was reflected by positive asset allocation contributions from growth orientated sectors such as Information Technology and Consumer Discretionary where the Fund is overweight, while, from a stock selection perspective, stocks in these sectors also made positive contributions to return (Moncler SpA, Fox Factory, Nemetschek SE and Teradyne). Importantly, we would like to stress the Fund had very limited direct exposure to the recent banking shock as we prefer to hold stocks with high levels of recurring revenues. We expect the coming earnings season to be quite volatile as investors' focus intensifies on how the shock will affect the broader economy.

The top five equity contributors to relative performance during the quarter were: Moncler SpA Nemetschek SE, Teradyne, Fox Factory, Sonic Healthcare. The bottom five equity detractors from relative performance during the quarter were: Pinnacle Financial, Endava, Aker BP, TravelSky Technology Ltd, Tandem Diabetes Care Inc.

Moncler SPA is a high-quality stock, manufacturing and selling fashion-forward coats and jackets. The company has AA ESG rating. The stock is benefiting from a revival in luxury goods spending as well as its investment in online infrastructure which has kept it on track to achieve its target of 20% of online revenues by YE2023. Online sales are expected to propel the firm's top-line growth, as management expects these to grow 2.5X faster than traditional in-store sales. Additionally, its acquisition of Stone Island, a complementary leisure brand, enables it to leverage its platform for other brands. The fact that the net cash position has returned to the pre-Stone Island acquisition level is a testament to management's financial discipline and the profitability of the business. Performance in 2023 has been driven by both earnings' growth and a recovery in the valuation of the stock following the re-opening of the Chinese economy.

Nemetschek SE ("NEM") specialises in BIM software, used in the AEC (Architecture, Engineering, Construction) market. It is an oligopolistic market evenly split between NEM and Autodesk. NEM is regarded as one of the pioneers in the digital transformation of this sector. Since 2017, NEM has delivered double-digit, top-line average growth rates (15.1% CAGR), by increasing subscription/SaaS revenues. These are expected to reach 45% of total revenues by the end of 2023. It has strong cash conversion (~85% to 90%), which will continue to strengthen its already unlevered balance sheet. Despite growth expected to slow this year, margins are likely to be maintained at market high levels (c.19% Net Income Margin). The share is up over 35% YTD on a significant earnings beat (7%) and a recovery in the valuation multiple as investors regain optimism in the move to SaaS and the associated stability of its revenue streams.

Pinnacle Financial Partners Inc. ("Pinnacle") is a high-quality regional bank based in one of the fastest growing regions of the US, with a BBB MSCI ESG rating. As 2022 ended bank stocks slumped as investors debated if the Federal Reserve's aggressive interest rate hikes will lead to a recession in the US. Despite its high-quality characteristics the stock is down 26.2% YTD, as it became entangled in the US banking crisis that started with a bank run on Silicon Valley Bank's deposits. We remain cautious on US banks and have no imminent plans to increase our exposure to the stock, although we remain reassured that over 60% of Pinnacle's current outstanding deposits are insured.

Endava Plc ("Endava") assists firms' digital transformation, and the pace of digital transformation continues to accelerate creating tailwinds for digital pure-play IT Services companies. In particular, growth at Endava is driven by expansion of proof-of-concept engagements which increases spending at existing clients. The stock is down 14% YTD although remains a high-quality holding, exhibiting a strong margin profile, operating leverage and double-digit revenue growth momentum. Despite management pointing to demand weakness in late 2022 we believe these concerns are currently priced in with a record low valuation multiple of 20x earnings. As such, we continue to be positive on this stock given its expertise in next-gen technologies and agile methodologies combined with low exposure to traditional / legacy IT.

Sample Portfolio Transactions

The Fund initiated a position in Crocs Inc, which we believe can weather a challenging macro environment through its strong and growing brand. This position was funded by selling holdings in companies that had seen their quality characteristics deteriorate (Proto Labs Inc and F5 Inc).

The QQE Perspective

The performance of global equities in the first quarter of 2023 was a mirror-image of the outturn for 2022. Outperformance was concentrated in those sectors that had underperformed last year – Technology, Consumer Discretionary and Communication Services. Quality as a factor recovered some ground during the quarter.

Our Quality model is comprised of four sub-pillars reflecting the attributes that we believe will drive long-term performance for our clients: Profitability, Persistence, Protection and People. The quality model has outperformed in 2023. In Q4 2022 we noted that recession later this year was becoming a consensus and that "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". That has indeed been the case in Q1 2023. When investors are concerned about profitability they pay a premium for Persistence of profits. Our Persistence pillar was the standout winner in this quarter.

Digging a little deeper, we find that the Protection pillar - which reflects low beta, low volatility, and stable return companies - was a laggard. This underperformance was driven by an overweight allocation to Financial stocks within that pillar. As we enter the Q1 earnings reporting season, this sector is now clearly front-of-mind for investors. Over the coming weeks, we will be watching the Protection pillar for early signs of a recovery in sentiment within Financials or whether a new bout of volatility is in the offing.

Calendar year performance	2022 (%)	2021 (%)	2020 (%)	2019 (%)	2018 (%)
Davy Discovery Equity Fund (net of fees) (EUR)	-26.0	27.5	9.9	32.9	-10.7
MSCI World SMID Cap Index (NTR, EUR)	-13.6	25.6	6.2	29.2	-9.2
MSCI World Index (EUR)	-12.8	31.1	6.3	30.0	-4.1
Aker BP ASA	19.0	31.5	-20.7	41.9	12.3
Endava	-54.4	118.8	64.7	93.0	-
Fox Factory	-46.4	60.9	51.9	18.2	51.5
Moncler SpA	-21.6	28.7	25.1	40.1	11.7
Nemetschek SE	-57.5	87.7	3.2	85.3	28.9
Pinnacle Financial Partners	-22.3	49.5	2.0	40.4	-29.8
Sonic Healthcare	-33.7	48.6	14.9	34.2	-0.1
Tandem Diabetes Care	-70.1	57.3	60.5	57.0	1,508.9
Teradyne Inc.	-46.3	36.8	76.7	118.9	-24.4
TravelSky Technology Ltd	26.4	-29.8	0.5	-3.4	-13.4

Source: IQ EQ Fund Management (Ireland) limited (Class A Acc Eur) and Bloomberg as at 31 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 Discovery Equity 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 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.

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*Information correct as of 26 May 2023

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