

Davy ESG 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 ESG Equity Fund (Net Of Fees)	0.34	4.01	-0.56	17.21	12.38
MSCI World Index ¹	0.63	5.83	-4.78	16.78	10.72

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

¹The 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 should result in a portfolio of high-quality companies that exhibit strong environmental, social and governance characteristics.

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

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Warning: Past performance is not a reliable guide to future performance. The value of your investment may go down as well as up. This product may be affected by changes in currency exchange rates. The Strategy is actively managed. SFDR disclosures are available upon request from Davy House, 49 Dawson Street, Dublin D02 PY05.

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 trading 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 Equity Fund** rose 4.01% during the quarter. This compares to the MSCI World Index which gained 5.83%. 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. Citizens Financial is the only bank holding in the strategy affected by the demise of Silicon Valley Bank. Performance is perhaps best explained by the strong reversal in performance of the stocks we did not own, such as Apple, Nvidia, Tesla and Meta, which had underperformed in Q4 2022. Thus Technology, Communication Services and Consumer Discretionary sectors were the best-performing sectors in the quarter, having been the worst performers in Q4. The top held contributors to return were Alphabet Inc, Microsoft, TSMC, Vinci and SAP. Performance figures continue to look healthy.

The top five equity contributors to relative performance during the quarter were: Alphabet Inc; 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 Inc, 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. The much-anticipated staff cuts were rewarded by the market only to be underwhelmed in February by a demonstration of their Artificial Intelligence ("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.

Microsoft, the software giant, gained over 18% in the quarter and was also a top contributor to returns. Quarterly results, reported in January, were better than feared and guidance was de-risked by management giving a conservative guide for the next quarter and the full year. Growth decelerated through the last quarter. The more cyclical segments such as gaming, ads and LinkedIn were also sluggish, whilst Office was more optimistic. The shares also benefited from the market's interest in Microsoft's AI ChatGBT and new Bing launch. Although growth is slowing, the thesis remains intact and the company should exit any recession stronger than peers. Microsoft aims to deliver platforms, tools, and solutions in a sustainable way to help organisations around the world to build their own technology intensity. They want to be the leading platform provider of technology solutions focused on carbon, water, waste, and ecosystems. Microsoft is a high-performing ESG name and is particularly strong in terms of privacy and data security.

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.

Citizen's Financial Group ("CFG") was also a detractor to returns as shares fell over 23% in the quarter. CFG is the only bank held in the strategy. It is the 12th largest bank in the US with about 1,000 branches in 11 states, mainly on the east coast, in the New England, Mid-Atlantic and Midwest regions. Banking revenues are split 65% Consumer and 40% Commercial. The bulk of the decline occurred in March in the heat of the regional banking collapse, although CFG performed marginally better than the S&P Regional Banks Index. Results in January were accompanied by a somewhat disappointing 2023 outlook, approximately 5% below expectations but largely dependent on the performance of capital market revenues. CFG falls into the highest scoring range relative to global peers for corporate governance reflecting practices that are well aligned with investor interests. Consumer Protection and Privacy & Data Security are areas for continued improvement when compared to peers.

Sample portfolio transactions

There were no trades of significance in the quarter.

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 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 Inc	-39.1	65.3	30.9	28.2	-0.8
Automatic Data Processing LLC	-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
Taiwan Semiconductor Manufacturing Co.	-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 (Class A Acc in EUR) and Bloomberg as at 31 December 2022. Performance is quoted in local currency unless otherwise stated.

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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 4,750 people across 25 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.

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*Information correct as of 26 May 2023

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