

Davy Global Bond 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 Global Bond Fund (Net Of Fees) | 2.23 | 2.29 | -7.52 | -4.55 | -1.28 |
| Jp Morgan Global Bond Index ¹ | 2.39 | 2.43 | -7.37 | -4.90 | -1.31 |

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

¹The JPM Global Bond (Euro Hedged) Index shown above does not include fees or operating expenses and you cannot invest in it.

Fund overview

The aim of the **Davy Global Bond Fund** (the 'Fund') is to protect capital against volatility, deflation, and bear markets by investing primarily in global sovereign bonds.

Market comment

The first quarter proved to be a positive one for bonds, despite stronger than expected growth and inflation. Growth was supported by Europe avoiding a much-anticipated recession (aided by falling energy costs) and China loosening its COVID-19 restrictions. In addition, core inflation remained stubbornly high across most Developed Market countries. These factors initially led markets to price in higher terminal central bank interest rates and pushed longer-dated yields

higher (prices lower).

However, the failure of Silicon Valley Bank (SVB) and Signature Bank in the US and, subsequently, Credit Suisse in Europe led to a rally in safe haven assets in March. This helped Developed Market government bonds to finish the quarter strongly, with the JP Morgan Global Bond Index (euro hedged) posting a +2.43% gain for the period.

Fund performance

The Fund returned 2.29% during the quarter, underperforming its benchmark, the JP Morgan Global Bond Index (euro hedged), by circa 0.14% (net).

The main positive contributor to performance was the Fund's active duration (interest rate)

This is a marketing communication and NOT a contractually binding document. Please refer to the Prospectus and the KIID of the Fund and do not base any final investment decision on this communication alone. IQ EQ Fund Management (Ireland) Limited is an active fund manager.

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.

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 Fund's short-dated corporate bond positions also outperformed.

However, these gains were offset by the Fund's overweight positions in Supranational and Mexican euro denominated government bonds. In addition, the Fund's underweight position in Japan also detracted from performance.

Positioning

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 skeletons 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 sell-off 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.

Therefore, given this asymmetric return profile and our view that growth is likely to slow, we have been increasing duration (i.e., positioning the Fund to outperform in a falling yield environment) in US, UK, and Australian government bonds in recent weeks.

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 Global Bond Fund (Net of fees) (EUR) | -14.5 | -3.4 | 6.0 | 5.2 | -0.8 |
| JPMorgan Global Bond Index (Euro Hedged) | -14.0 | -3.1 | 4.9 | 4.6 | -0.3 |

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.

This report does not constitute an offer for the purchase or sale of any financial instrument, trading strategy, product or service. No one receiving this report should treat any of its contents as constituting advice or a personal recommendation. It does not take into account the investment objectives or financial situation of any particular person. All investments involve a degree of risk. Equities may involve a high degree of risk and may not be suitable for all investors. Government bonds and cash deposits, although considered the safest assets, are not devoid of risk (e.g. inflation risk, credit risk, currency risk, etc.). There are different reasons why an investor would choose to invest in a particular asset class and each investor must consider the inherent risks therein based on his/her own personal circumstances.

No part of this document is to be reproduced without our written permission. This document has been prepared and issued by IQ EQ Fund Management (Ireland) Limited on the basis of publicly available information, internally developed data and other sources believed to be reliable. While all reasonable care has been given to the preparation of this information, no warranties or representation expressed or implied are given or liability accepted by IQ EQ Fund Management (Ireland) Limited or its affiliates or any directors or employees in relation to the accuracy fairness or completeness of the information contained herein. Any opinion expressed (including estimates and forecasts) may be subject to change without notice. We or any of our connected or affiliated companies or their employees may have a position in, or may have provided within the last twelve months, significant advice or investment services in relation to any of the securities or related investments referred to in this document.

IQ EQ Fund Management (Ireland) Limited, trading as IQ EQ Fund Management, is regulated by the Central Bank of Ireland. In the UK, IQ EQ Fund Management (Ireland) Limited, trading as IQ EQ Fund Management, is deemed authorised and regulated by the Financial Conduct Authority. Details of the Temporary Permissions Regime, which allows EEA-based firms to operate in the UK for a limited period while seeking full authorisation, are available on the Financial Conduct Authority's website. In Luxembourg, IQ EQ Fund Management is authorised by the Central Bank of Ireland and is subject to limited regulation by the Commission de Surveillance du Secteur Financier. Details about the extent of our authorisation and regulation by the Financial Conduct Authority and Commission de Surveillance du Secteur Financier are available from us upon request.

The Davy Global Bond 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.

The JP Morgan Global Bond Index is used with permission. The Index may not be copied, used, or distributed without J.P. Morgan's prior written approval. Copyright 2020, J.P. Morgan Chase & Co. All rights reserved. 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.

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.

IQ EQ Fund Management (Ireland) Limited is regulated by the Central Bank of Ireland. In the UK, IQ EQ Fund Management (Ireland) Limited is deemed authorised and regulated by the Financial Conduct Authority. Details of the Temporary Permissions Regime, which allows EEA-based firms to operate in the UK for a limited period while seeking full authorisation, are available on the Financial Conduct Authority's website. In Luxembourg, IQ EQ Fund Management (Ireland) Limited is authorised by the Central Bank of Ireland and is subject to limited regulation by the Commission de Surveillance du Secteur Financier. Details about the extent of our authorisation and regulation by the Central Bank of Ireland, the Financial Conduct Authority and Commission de Surveillance du Secteur Financier are available from us upon request.

*Information correct as of 26 May 2023

This document is provided for information purposes only and does not constitute legal, tax, investment, regulatory, accounting or other professional advice. For more information on the legal and regulatory status of IQ-EQ companies please visit www.iqeq.com/legal-and-compliance

Reference: IH_26052023_1
© IQ-EQ 2023

Find out more
www.iqeq.com

Follow us

