

Davy Discovery Equity Fund

For Investment Professionals Only

Performance	1 Month (%)	Q2 2023 (%)	1 Year (%)	3 Years P.a. (%)	5 Years P.a. (%)
Davy Discovery Equity Fund (Net Of Fees)	3.38	-1.00	-0.11	5.07	3.57
MSCI World Small & Mid-Cap Index¹ (Total Return)	3.79	2.75	8.10	10.97	6.41

Source: IQ EQ Fund Management (Ireland) Limited (Class A Acc EUR) as at 30 June 2023.
¹The 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.

The quarter was characterised by persistently high inflation and a generally hawkish tone from central bankers about the need for higher interest rates. Despite this, equity market volatility trended lower during the period as fears about the health of the US banks sector, which dominated sentiment in the first quarter, faded somewhat.

The higher-than-expected inflation data released during the quarter served to raise investor expectations of the ultimate peak in central bank interest rates to levels last seen before the collapse of Silicon Valley Bank.

Market comment

Global equity markets made further gains in Q2 while bond markets remained under pressure. The MSCI World Index advanced by 6.38% in euro terms taking the year-to-date return to 12.58% while the JP Morgan Global Bond Index (euro-hedged) fell by 1.13%.

In an extension of the trend seen in the first quarter equity market performance was driven by technology stocks, particularly those such as Nvidia, Microsoft, Amazon, Meta, and Google which are associated with the development and implementation of Artificial Intelligence (“AI”). Such was the concentration of performance that the top ten stocks in the MSCI World Index were responsible for over 60% of the return during the quarter.

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 Fund is actively managed. SFDR disclosures are available upon request from 5th Floor, 76 Sir John Rogerson’s Quay, Dublin 2, D02 C9D0

The Energy and Utilities sectors underperformed during the quarter as oil and gas prices fell in response to the threat of higher interest rates.

Fund performance

The **Davy Discovery Equity Fund** fell by 1.00% in 2Q23 underperforming its benchmark, MSCI World SMID Cap Index (“World SMID”), by 3.75%. This quarter saw markets continue upward from their positive start to 2023, with assets exposed to both quality and value styles experiencing positive performance. This was reflected by positive Asset Allocation contributions from growth-orientated sectors such as IT and Consumer Discretionary, as well as from value-oriented sectors such as Industrials and Materials. While Technology gains were dominated by mega-cap names, gains in other sectors were more broadly based. This is evidenced by the fact that the Fund’s top performers list is dominated by material and industrial names. Small and medium-cap stocks have continued to underperform their large-cap counterparts, leading to the Nasdaq 100 - Russell 2000 ratio returning to highs not seen since the dot-com bubble. This current imbalance has been driven in no small part by the frenzy for AI technology stocks. We believe that this relative weakness in smaller companies is leading to attractive investment opportunities with strong long-term prospects, and we are taking advantage to invest in attractively valued, quality ESG businesses.

The top five equity contributors to relative performance during the quarter were: Boise Cascade Company, Badger Meter Inc, Owens Corning, Masco Corporation, and Steris Plc. The bottom five equity detractors from relative performance during the quarter were: Keywords Studios Plc, Teleperformance SE, Tandem Diabetes Care Inc., Endava Plc, and Boliden AB.

Boise Cascade Company (“BCC”) is one of the largest producers of Engineered Wood Products (“EWP”) and plywood in North America and a leading US wholesale distributor of building products. Its products are used in the construction of residential housing, the construction of light industrial and commercial buildings, and industrial applications. Primarily operating in the US and Canada, its revenues are

split broadly 80:20 between building materials distribution and wood products. It holds an A ESG rating from MSCI, reflecting the fact that its operations are certified through the Forest Stewardship Council, but that safety standards could be improved. Its results for FY22 were positive, despite EWP volumes being down 5% due to a fall in housing starts. Although BCC is exposed to inflation on raw materials and rising interest rates, it continues to successfully manage its production levels and inventory to meet current and expected sales demand until these factors improve.

Badger Meter Inc. (“BMI”) is a leading supplier of metering technology in the US water market, measuring flow, temperature, pressure, leak detection and water quality. BMI has positioned itself to capitalise on changing industry trends and has pivoted to increase the focus on newer generation smart metering, as well as acquiring capabilities in software, Advanced Metering Infrastructure (“AMI”) and other higher-end solutions. The acquisition of Syrinix, at the beginning of the year, enables BMI to extend its smart water offerings. Strong revenue growth and operating margins highlight the company’s quality characteristics, reflected by its MSCI ESG rating of AAA. BMI delivered record financial results in the first quarter reflecting ongoing success in capitalizing on the strength of its end markets and the sequentially improving operating environment.

Keywords Studios plc (“KWS”) provides art creation, localization, testing, and customer support services to the video games industry in 50+ languages. Importantly, these services are platform agnostic. It grew by 21.8% in FY22 and has kept its FY23 forecasts unchanged. The recent explosion of AI-generated content is an opportunity and a risk for the creative arts businesses. In KWS’s case, there are two main positives: firstly, its customer base is largely institutional and will therefore be sensitive to how AI-based tools are used in the creative process (above all regarding creating intellectual Property (“IP”) and copyright law), and secondly, KWS has been proactive in buying/building AI-based capabilities (e.g. Helpshift in Customer Support and KantanML in localisation). We are encouraged by its proactive response on AI and

will continue to review developments in the rapidly changing environment.

Teleperformance (“TEP”) is the largest global provider of outsourced business services such as call centres, telemarketing, technical support, online interpreting, visa application management etc. It is a high-quality stock, with a AA ESG rating as it is a leader in data security and privacy management. TEP’s investments in digital technologies such as chatbots and webchats has added to its omnichannel capabilities. 1Q23 results were a slight miss to expectations, with organic growth coming in at 8.6% versus the consensus of upwards of 9.4%, and management reduced its FY23 growth expectations but increased its EBITDA margin forecast. As with many companies in the sector commentary on the effect of AI is now obligatory. TEP sees AI as a net positive in terms of internal productivity and consumer consolidation to larger players such as themselves. We remain positive on TEP as it is a best-in-class operator in its industry, outperforming peers in terms of both growth and margins.

Sample portfolio transactions

There were no significant transactions during the period.

The QQE perspective

How does an equity market go up if investors are concerned about recession? Equity markets made further gains during the second quarter, taking the year-to-date return of the MSCI World Index to 12.6% in euro terms. And yet, when surveyed, many investors expect at least a slowdown, if not outright recession, by the end of the year. Bond investors expect interest rates to start to come down early in 2024 in response to the expected slowdown.

There has been much comment recently about a divergence between bond and equity investors’ respective expectations about the likelihood of a recession. However, the nature of the equity rally this year suggests that equity investors are equally unsure about the course of the global economy and are focussing on persistent earnings rather

than cyclical earnings.

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 Persistence pillar has been the standout performer so far in 2023, indicating that investors prefer large-cap technology and internet related stocks over smaller cap or economically exposed stocks. It is also worth noting that performance within this equity rally has been concentrated in a relatively narrow group of stocks that investors believe can survive a slowdown.

So perhaps there is no major dichotomy between bond and equity investors. Both expect a slowdown, but equity investors are paying up for Persistence and hoping these stocks can ride out a recession. This is hardly the sign of a gung-ho attitude to economic growth. We will continue to monitor the performance of the four pillars of our Quality model for early signs that equity investors genuinely believe that recession can be avoided.

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
Badger Meter Inc	3.2	14.1	46.4	33.4	4.1
Boise Cascade Company	1.6	62.8	37.2	59.2	-38.4
Boliden AB	19.3	25.2	21.2	36.5	-28.5
Endava PLC	-54.4	118.8	64.7	93.0	-
Keywords Studios plc	-7.3	2.9	90.9	40.2	-33.1
Masco Corp	-32.1	29.6	15.8	66.3	-32.7
Owens Corning	-4.2	20.9	18.2	50.6	-51.7
Steris plc	-23.4	29.5	25.5	44.1	23.7
Tandem Diabetes Care Inc.	-70.1	57.3	60.5	57.0	1,508.9
Teleperformance SE	-42.6	45.6	26.1	57.6	18.6

Source: IQ EQ Fund Management (Ireland) limited (Class A Acc EUR) and Bloomberg as at 30 June 2023. Performance is quoted in local currency unless otherwise stated.

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*Information correct as of July 2023

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