Q2 2023 Update

Davy Global Focus Fund

IQEQ

For Investment Professionals Only

Performance	1 Month (%)	Q2 2023 (%)	1 Year (%)	3 Years P.a. (%)	5 Years P.a. (%)
Davy Global Focus Fund (Net Of Fees)	1.05	4.65	7.24	7.19	7.06

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

Fund overview

The aim of the **Davy Global Focus Fund** (the 'Fund') is to generate absolute returns over the medium term. Absolute returns are specific, consistent positive returns which are not necessarily dependent upon specific asset class exposure or upon continuous rising markets.

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%.

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.

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.

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 Global Focus Fund** rose by 4.65% in 2Q23, despite market volatility. Markets rose by 6.38% in 2Q23, with assets exposed to quality and growth outperforming smaller companies and other value orientated styles. Yet market performance has been quite narrow as returns over the course of Q2 were driven by a handful of large-cap stocks exposed to the development of AI technology. We increased the duration of the Fund's bonds to take advantage of higher interest rates, while performance from equities was driven by our exposure to stocks in the Information Technology (NVIDIA, Adobe, Alphabet) and Healthcare (Intuitive Surgical) sectors. Importantly, the Fund was not exposed to the recent banking shock as we prefer to hold stocks with high levels of recurring revenues.

The top five equity contributors to relative performance during the quarter were: NVIDIA Corporation, Intuitive Surgical Inc, Adobe Inc, Microsoft Corporation, and Alphabet Inc. The bottom five equity detractors from relative performance during the quarter were: MSCI Inc, NASDAQ Inc, Pax Global Technology Ltd, Travelsky Technology Ltd, and Sonova Holding AG.

NVIDIA Corp ("NVDA") is a high-quality manufacturer of semiconductors used for computer gaming and by servers in data centres. Its AAA ESG rating reflects its exposure to opportunities in Clean Tech. NVDA is capitalising on the shift towards technologies like AI and machine learning. These models are increasing demand for accelerated computer/networking platforms and software solutions, with NVDA positioned as the one-stop shop. The result is strong profitability and cash generation, making it a 'high-quality' stock and a core holding in the Fund. While its latest results beat estimates and management has increased guidance for 2023, we are concerned about hubris. So, we have locked-in profits in the stock given its valuation and strong price appreciation.

Intuitive Surgical Inc ("ISRG") designs and manufactures advanced robotic surgical systems, its Da Vinci platform is the global market leader. Patients experience smaller incisions, shorter hospital stays and recovery times, creating a compelling argument for hospitals, insurers, and surgeons. While these outcomes have resulted in an A ESG rating, issues regarding Product Safety & Quality persist due to product recalls and liability lawsuits. Importantly from an investment perspective, ISRG addresses a large underpenetrated market as most surgeries are still manual, making ISRG a core holding. It trades at a premium to the market due to its market opportunity, strong margins, and cash generation. Although this high-quality stock is trading above its long-term average, recent results suggest that 2023 will be a healthy year for procedures, and management have upped their guidance.

MSCI Inc. ("MSCI") provides index and ESG data to corporates and market participants, offering investors exposure to structural growth in ESG and factor investing, while its consistent results demonstrate the 'high-quality' its business model. Although its latest results disappointed the market as favourable tax rates contributed to EBITDA margin expansion, the market is concerned by potentially slowing growth rates in its core franchises. Stepping back, we acknowledge the uncertainty around the selling environment, but MSCI remains a proven fast-growing compounder with attractive market positioning. To us, the recent sell-off provides an attractive entry opportunity for investors seeking compelling growth at a reasonable price, given the must-have nature of MSCI's products and its ability to capitalise on current trends.

NASDAQ Inc.'s business model has evolved to include stock exchange technology, regulatory, information products and services, now accounting for over 65% of revenues. The visibility of these revenue streams has made it a 'high-quality' stock. While management has used acquisition to diversify its business model, we expect more deals over time as the company is seeking to boost its ESG-related revenue run rate by about 2.5x by 2027, for example by adding workflow and carbon-removal tools. These strategic decisions have resulted in its MSCI ESG rating rising to AA from BBB over the last 12 months, while its unique position as a listing venue, index provider and corporate services gives the company a leadership role.

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 Global Focus Fund (net of fees) (EUR)	-18.0	22.8	-1.2	20.8	-3.5
MSCI World Index (EUR)	-12.8	31.1	6.3	30.0	-4.1
Adobe Inc	24.0	32.4	27.6	1.5	-1.0
Alphabet Inc	-39.1	65.3	30.9	28.2	-0.8
Intuitive Surgical Inc.	-26.1	31.8	38.4	23.4	31.2
Microsoft Corp.	-28.0	52.5	42.5	57.6	20.8
MSCI Inc	-23.3	38.1	74.4	77.2	17.9
NASDAQ Inc.	-11.2	60.1	26.1	33.9	8.2
NVIDIA Corp	-50.3	125.5	122.3	76.9	-30.8
Pax Global Technology Ltd	28.1	-16.7	94.9	32.0	-17.4
Sonova Holding AG	-37.8	57.1	4.5	39.7	7.1
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 30 June 2023. 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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*Information correct as of July 2023

Reference: HMG_11082023_1

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