Q2 2023 Update

IQEQ

Davy Defensive Equity Income Fund

For Investment Professionals Only

Performance	1 Month (%)	Q2 2023 (%)	1 Year (%)	3 Years P.a. (%)	5 Years P.a. (%)
Davy Defensive Equity Income Fund (Net Of Fees)	2.39	2.76	4.77	9.54	7.94
MSCI World Index[1]	3.63	6.38	13.56	13.27	10.56

Source: IQ EQ Fund Management (Ireland) Limited (Class B EUR) as at 30 June 2023.
[1]The 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 Defensive Equity Income Fund** (the "Fund") is to provide long-term capital growth, with reduced levels of volatility compared to global equity markets. The Fund aims to reduce risk by investing in large global companies that pay out above average dividend yields and employs an options strategy to provide some downside protection against significant market falls.

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 Defensive Equity Income Fund** returned 2.76% during the quarter versus an index return of 6.38%. Stock Selection and Asset Allocation negatively impacted relative performance while Currency contributed positively during the quarter. Q2 performance drivers were similar to those of the first quarter. Stock Selection was weakest within the Industrials sector, driven by poor performance from global package delivery company, UPS. The Asset Allocation outturn was driven by underweight position in the Technology and Consumer Discretionary sectors and overweight positions in the Consumer Staples sector.

Currency contributed positively to relative performance during the quarter, due mainly to the Fund's underweight in Japanese yen and overweight in Swiss francs. Japanese yen fell during the period, while the Swiss franc rallied.

The overall **Options Strategy** had a negative impact on performance as put protection expired out of the money as markets rose during the quarter.

The top five equity contributors to relative performance during the quarter were: Broadcom Inc., JPMorgan Chase & Co., ABB Group, Engie S.A., and Nintendo Co., Ltd. The bottom five equity detractors from relative performance during the quarter were: United Parcel Service, Rio Tinto Group, Pfizer Inc., Hong Kong Exchanges, and Nestlé S.A.

Broadcom Inc. ("Broadcom") is a global technology company designing and supplying hardware and software solutions for a broad range of customer segments including wired and wireless networks, data centres, process automation and the data sector. During the quarter the share price rose by over 35%. The company has a BBB ESG rating from MSCI and was upgraded in both 2021 and 2022. Broadcom has an excellent record in capital allocation and shareholder remuneration, increasing its dividend by double-digits over the past ten years. The company is seeking to acquire cloud computing software company VMware to add to its portfolio offering. The bid is subject to scrutiny by European and UK regulators. The shares rose during the period on enthusiasm about demand for Broadcom's processor chips, which are designed for machine learning. The company works closely with tech giants Google and Meta in the design of this hardware, seen as critical to the success of those companies' AI plans.

JPMorgan Chase & Co. ("JPM") is a leading global financial services firm with assets of $3.8tn and global operations. The company is a leader in investment banking, financial services for consumers and small businesses, commercial banking, financial transaction processing, and asset management. The stock performed strongly during the quarter following the release of the bank's first quarter earnings report. The bank's consumer business generated stronger-than-expected profits during the quarter. JPM also demonstrated the strength of its balance sheet at quarter-end, providing comfort to investors following the strains in the US regional banks sector.

United Parcel Service ("UPS"), the international courier company, fell over7% during Q2 and was among the main detractors of returns in the month. The stock has been trading in a range relative to the broader market for the past 12 months and was towards the top of that range before the company released Q1 earnings which disappointed investors. Management indicated that some domestic US volumes were being redirected to other carriers while the company negotiates a new labour contract with the Teamsters Union. UPS has set clear ESG targets which include its pledge to be carbon-neutral by 2050. Interim 2035 targets include a 50% reduction in CO_2 per package in its global small package operations. 100% of facilities are to be powered by renewable energy, and 30% of fuel used in its global air fleet is to be sustainable aviation fuel. The stock offers a dividend yield of 3.6% with consistent dividend growth.

Rio Tinto Group, the global mining giant, contributed negatively to relative performance during the quarter, falling by 6.8% after announcing earnings that disappointed investors. The management team expressed a confident outlook for 2023 after the easing of Covid restrictions in China. However, recent data from China suggest that the recovery is proceeding more slowly than investors had expected. It was hoped that economic recovery would lead to a rebound in steel consumption, which is important to the company's Iron Ore division. Investors had been disappointed earlier in the year with the company's decision to lower its final 2022 dividend from the bumper pay-out in 2021. The rationale for doing so revolved around lower commodity prices during 2022. Nevertheless, the company raised its pay-out ratio to 60%, consistent with its own bullish outlook.

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 Defensive Equity Income Fund (net of fees) (EUR)	-1.9	22.8	-1.2	20.8	-3.5
MSCI World Index (EUR)	-12.8	31.1	6.3	30.0	-4.1
ABB Group	-14.4	45.2	10.8	30.0	-25.8
Broadcom Inc.	-13.3	56.4	44.9	29.1	2.2
Engie S.A.	10.4	8.3	-13.1	21.7	-7.8
Hong Kong Exchanges	-24.2	9.3	71.6	14.6	-2.9
JPMorgan Chase & Co.	-12.6	27.7	-5.5	47.3	-6.6
Nestlé S.A.	-14.0	25.4	2.1	34.7	-1.8
Nintendo Co., Ltd.	6.5	-15.7	54.7	54.2	-27.9
Pfizer Inc.	-10.4	66.7	3.2	-6.9	24.8
Rio Tinto Group	31.9	0.6	30.6	35.4	0.3
United Parcel Service	-16.3	30.0	48.7	24.2	-15.5

Source: IQ EQ Fund Management (Ireland) Limited (Class B 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.

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.

 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 representations 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 Defensive Equity Income 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/davy-funds-plc/. 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.

MSCI Inc. (MSCI). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be reproduced, disseminated or used to create any financial products, including any indices. This information is provided on an 'as is' basis. The user assumes the entire risk of any use made of this information. MSCI, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. MSCI and the MSCI indexes are services marks of MSCI and its affiliates.

About us*

We are IQ-EQ, a leading investor services group employing over 5,000 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.

*Information correct as of July 2023

Reference: HMG_11082023_1

Find out more
www.iqeq.com

Follow us