Q2 2023 Update

IQEQ

Davy ESG Equity Fund

For Investment Professionals Only

Performance	1 Month (%)	Q2 2023 (%)	1 Year (%)	3 Years P.a. (%)	5 Years P.a. (%)
Davy ESG Equity Fund (Net Of Fees)	3.47	4.52	13.19	13.57	11.81
MSCI World Index[1]	3.63	6.38	13.56	13.27	10.56

Source: IQ EQ Fund Management (Ireland) Limited (Class A Acc in 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 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

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 ESG Equity Fund** gained 4.52%, net of fees, in Q2. This compares to the MSCI World Index return of gained 6.38%. The relative underperformance was driven by weak Stock Selection, with Asset Allocation a small detractor. The Currency impact was neutral. Stock Selection was strongest within Communication Services (Alphabet) and Energy (Equinor), but this was not enough to offset weakness within the Consumer Discretionary (Tractor Supply, Nike) and Technology sectors, where Nvidia dominated the sector (not held by the Fund) and where our holdings such as TE Connectivity, SAP and CapGemini underperformed. In fact, the MSCI World Index performance was driven by a handful of names (not held by the Fund) such as Apple, Amazon, Meta Platforms and Tesla. In terms of Asset Allocation, the strategy benefited most by being overweight the top performing Technology sector and underweight the lagging Energy and Real Estate sectors. However, this was not enough to fully offset being overweight the worst performing sector, namely Materials, and by being underweight the second-best performing sector Consumer Discretionary.

The top five equity contributors to relative performance during the quarter were: Oracle Corp, Alphabet Inc, Microsoft Corp, Smith & Nephew plc, and S&P Global Inc. The bottom five equity detractors from relative performance during the quarter were: Boliden AB, Thermo Fisher Scientific Inc, International Flavors & Fragrances Inc, Nike Inc, and Tractor Supply Company.

Oracle Corp ("Oracle"), the US software giant, gained over 28% in the quarter and was the top contributor to returns. The shares hit a 5-year high mid-June as the AI frenzy continued to drive markets. The boom in generative AI, which requires significant computing power, will boost demand for Oracle's cloud services. Q422 results also reported in June, beat expectations where it matters most, namely in the transition to the Cloud. Oracle also guided to a strong Q123. We see Oracle as well positioned to weather any economic slowdown better than most peers given that 70% of sales are in cloud services and support. The company has already provided long-term guidance out to 2026 where organic revenue growth is expected to grow by 11.2% CAGR from 2022 to 2026, and margins are set to improve too. In terms of Environmental, Social and Governance (ESG), controversies remain in relation to the Board and ownership issues as Larry Ellison owns 42% of the company. However, their ESG performance has improved driven by workforce management advances as the company follows several best practices such as extensive compensation, non-monetary benefits, and stock purchase plans. The acquisition of Cerner, where medical records are handled, may put greater emphasis on Privacy & Data Security, for which Oracle is already well regarded. We will continue to monitor these risks.

Alphabet Inc ("Alphabet"), the global technology giant, returned almost 15% over the three months and was a top contributor to returns. Most of the gain was made in May before and after Google unveiled its latest art AI tools and hardware at its annual developer conference. The event showed that AI is reshaping all of Google's products faster than expected and gave investors the reassurance that it remains competitive in AI. 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 consumers book flights or show the most fuel-efficient route when using Google Maps. Alphabet is a leader in many ESG 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. We believe the company's valuation remains attractive.

Boliden AB ("Boliden"), the Swedish miner, is a high-quality company which specialise in copper, zinc, and nickel, but was the main detractor to returns in the quarter as the shares declined over 21%. Weakness in the shares followed a poor set of Q1 2023 results in April driven by weaker Mine & Smelter output with cost inflation higher than expected. Operational issues have also led to weakness in the shares with the Irish Tara mine going offline and a fire in June at their copper smelter at Ronnskar which could potentially reduce group earnings by 5%, though this should be covered by insurance. We believe copper and nickel will be the key metals in the drive towards de-carbonisation over the next decade and thus Boliden is well positioned. The group remains one of the highest-rated ESG performers in the sector given that it operates only in Europe and is thus less exposed to corruption, political instability, and water-stressed locations. It has a strong safety culture with no fatalities in the past three years, and indeed there were no injuries associated with the recent fire. We believe that much of the recent bad news flow is reflected in the valuation of the company.

Thermo Fisher Scientific Inc ("Thermo Fisher") was also a detractor to returns as the shares declined almost 10%. The company manufactures scientific instruments, consumables, and chemicals supplying pharmaceutical and biotech companies, hospitals, clinical labs, and universities. It also offers testing and the contract manufacturing of drugs. Although Thermo Fisher reported solid Q1 results and reiterated guidance for 2023, the guidance cuts by bioprocessing peers Danaher and Sartorius dragged the shares lower. Whilst the company acknowledged softness in bioprocessing, it is confident that other areas of its business will deliver on the 2023 guidance. Encouragingly, management were able to reaffirm their full-year guidance at an analysts' day in May. As an ESG name, Thermo Fisher can help customers advance sustainability in the lab by minimizing the use of hazardous chemicals, decreasing waste and material consumption, and increasing energy efficiency. As a manufacturer of scientific instruments, the company is highly exposed to product quality risks which must be monitored.

Sample portfolio transactions

We sold out of Gen Digital Inc. due to a lack of market visibility and added to some laggards such as Fortune Brands Innovations Inc and Citizens Financial Group Inc.

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 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 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
Boliden AB	19.3	25.2	21.2	36.5	-28.5
Citizens Financial Group Inc	-13.4	36.9	-6.7	41.8	-27.4
Fortune Brands Innovations Inc	-36.5	26.0	33.0	74.9	-43.7
Gen 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
Nike Inc	-29.0	18.7	41.0	38.1	19.9
Oracle Corp	-4.6	36.9	24.2	19.3	-3.0
S&P Global Inc	-28.4	44.7	21.4	62.3	1.4
SAP SE	-20.7	18.4	-9.6	40.2	-5.6
Smith & Nephew plc	-11.9	-12.6	-15.8	27.4	16.0
Tractor Supply Company	-4.0	71.6	52.3	13.5	13.3

Source: IQ EQ Fund Management (Ireland) Limited (Class A Acc in 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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The Davy ESG Equity Fund (previously the Davy Ethical Equity 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.

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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 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

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