Davy Funds Plc
Davy ESG Multi-Asset Fund

CLASS "A Distributing" UNITS
INVESTMENT OBJECTIVE

The primary investment objective of the Davy ESG Multi-Asset Fund ('the Fund') is to seek, over time, to achieve capital appreciation in real terms. The Fund may, as a secondary objective, also seek to generate a moderate level of income, from year to year, consistent with the growth objective.

INVESTMENT STRATEGY

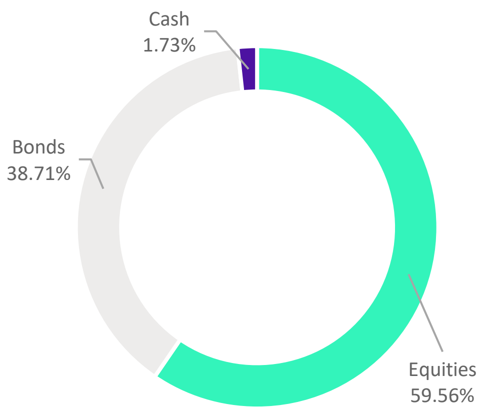
The objective of the Fund will be achieved by investing across a range of asset classes including equities, bonds and fixed deposits. The Investment Adviser's ongoing investment policy will be to take due account of the nature of the trading activities carried out by such corporations from an ethical standpoint.

NOTE: All information below is provided as at 30.09.2023

INVESTMENT PERFORMANCE

Source: Northern Trust
Single Pricing, Net of Fees, Bi-Annual Income Distribution, Total Return in Euro.

ASSET ALLOCATION (% Fund)



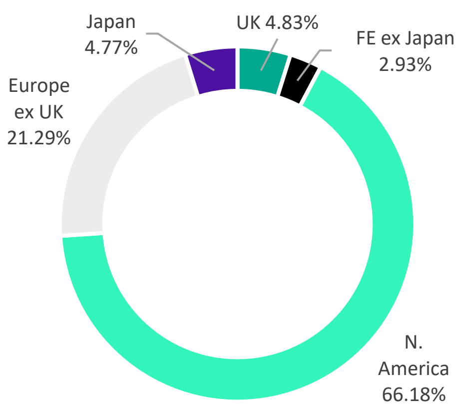
TOP 10 HOLDINGS (%)

10 Largest Equity Holdings (% of Total Fund)

Stock	Country	Weight
Microsoft Corp	USA	4.6%
Alphabet Inc	USA	3.8%
Oracle Corp	USA	2.0%
Visa Inc	USA	1.7%
TJX Companies Inc	USA	1.6%
Merck & Co Inc	USA	1.6%
Vinci	France	1.5%
Iberdrola SA	Spain	1.5%
Thermo Fisher Scientific	USA	1.5%
Loblaws Cos Ltd	Canada	1.4%
Total		**21.2%**

GEOGRAPHIC ALLOCATION (%)

Portfolio Geographic Allocation (% Equity)



IQ EQ Fund Management (Ireland) Limited

Quarter 3, 2023

ABOUT THE FUND

Base Currency:
Euro

Fund Size (EUR):
17.51m

No. of Equity Holdings:
53

Investment Manager:
IQ EQ Fund Management (Ireland) Limited

Type of Unit:
Distributing

Valuation Point:
Close of business

Order Cut-Off Point:
Daily – All orders must be received by 16:00 p.m. (Irish time) one Business Day immediately preceding the relevant Dealing Day.

Lipper ID:
65090638

Share Classes
A, B

Ongoing Charges
0.91%, 0.91%

Structure:
UCITS*

* The assets of the Prescient Select Ethical Balanced Growth Fund, a sub-fund of the Prescient Select Portfolio (non-UCITS) were transferred to a new sub-fund of Davy Funds plc (UCITS), which is named the Davy ESG Multi-Asset Fund, on 17th October 2017.The same Strategy applies to both sub-funds.

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Davy Funds Plc
Davy ESG Multi-Asset Fund

MARKET COMMENT

Global equity markets lost some ground in the third quarter as investors began to accept that interest rates may have to remain at elevated levels for longer than expected. The MSCI World Index returned -0.52% in euro terms during the quarter. Returns for euro-based investors would have been significantly worse were it not for the strength of the dollar during the quarter. The equity return for the year-to-date in euros was 12.00% at quarter-end.

Technology shares drove the index lower during the quarter, reversing some of the gains made in the first half of the year. Index heavyweights Apple and Microsoft were among the main drivers of negative returns during the period.

The Energy sector was the standout positive performer during the quarter, rising by 14.9% as the oil price rose from $75 to $95 during the period.

During the year-to-date, equity market performance has been driven by technology and internet-related stocks, particularly those such as Nvidia, Microsoft, Amazon, Meta, and Google which are associated with the development and implementation of artificial intelligence (AI) systems. Such has been the concentration of performance in 2023 that the top ten stocks in the MSCI world Index were responsible for over 65% of the return year-to-date.

Bond yields soared (prices fell) during the quarter to levels not seen since before the Global Financial Crisis. While the sell-off centred on longer-dated US Treasuries, it was widespread in nature. It resulted in the JP Morgan Global Bond Index finishing down -2.83% on the quarter and -1.59% year-to-date, as the sell-off erased gains from the first half of the year.

FUND PERFORMANCE

The **Davy ESG Multi-Asset Fund** returned -3.20% in Q3, net of management fees, in euro terms. During the quarter equities within the portfolio returned -3.45% (gross of management fees), while the bond component to the Fund contributed -2.13% (gross of management fees). At the end of the period the asset breakdown was 59.6% high quality equities, 38.7% Bonds, and 1.7% Cash.

Within the **equity bucket** the relative underperformance was driven by weak Stock Selection, with a neutral contribution to returns from Asset Allocation and Currency. The Energy sector dominated sector performance as the oil price rose 30% in the 3-month period. The Communication Services (Alphabet) and Financials sectors also outperformed. The worst performing sectors were Utilities, Real Estate and Consumer Staples. In terms of Asset Allocation, the strategy benefitted most by being underweight the Real Estate and Consumer Discretionary sectors which underperformed. Such positioning was offset by being underweight the Energy and Communication Services sectors which outperformed. Stock selection was best within Communication Services, Energy and Consumer Discretionary but was more than offset by weakness within the Healthcare, Financials, and Industrials sectors. The top contributors to return were Alphabet, Equinor, TotalEnergies, Automatic Data Processing and TJX Companies.

The top five equity contributors to relative performance during the quarter were: Alphabet Inc., Equinor ASA, TotalEnergies SE, Automatic Data Processing, TJX Companies Inc.. The bottom five equity detractors from relative performance during the quarter were: Smith & Nephew, Xylem Inc., Omron Corp., Oracle Corp., and Daikin Industries.

Alphabet Inc. (Alphabet), the global technology giant, returned over 12% in the third quarter and was a top contributor to returns. In fact, shares hit a new 12-month high mid-September. Q2 results towards the end of July drove the performance as Alphabet beat expectations across all divisions including Search, YouTube (ad revenues grew for the first time in a year), and Google Cloud where they are seeing early Artificial Intelligence (AI) adoption. Operating margins surprised to the upside and management reiterated their commitment to reducing the cost base. Alphabet has been carbon-neutral since 2007 with the goal of being carbon-free by 2030. The group continues to roll out features to reduce emissions such as eco-friendly routing in Google Maps, energy efficiency features in its Nest thermostats and carbon emissions data in flight itineraries from Google Flights. Alphabet is a leader in many Environmental, Social and Governance (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 could be achieved.

Smith & Nephew (S&N) was the main detractor to returns in the quarter as the shares declined over 20%. Half of the fall occurred in August post their Q2 results. The company is well known for its advanced medical devices used in orthopaedic reconstruction (hips, knees), wound care (advanced bandages and dressings) and sports medicine. The Q2 results early in August saw revenues beat but margins lower. Indeed, S&N upgraded revenue guidance to 6%-7% from 5%-6%. Profit guidance was maintained, leaving trading profits more second-half weighted than expected. The departure of their CFO next year also created some uncertainty. The investment case is one of a combination of self-help opportunities and an attractive valuation. Indeed, the company's 12 Point Plan is 45% complete, with improvements in orthopaedics already coming through. The CEO remains confident that the mid-term guidance target of over 20% margins by 2025 will be met as new products come to market and the 12 Point Plan delivers. S&N scores highly versus peers in terms of governance and human capital development. However, medical device companies are exposed to product safety and quality risks which must be closely monitored.

Within the bond portfolio:

The third quarter, and particularly September, will not be remembered fondly by bond investors, as bond yields soared (prices fell) to levels not seen since before the Global Financial Crisis. While the sell-off centred around longer-dated US Treasuries, it was widespread in nature. It resulted in the JP Morgan Global Bond Index (euro hedged) finishing down -2.83% on the quarter and -1.59% year-to-date, as the sell-off erased gains from the first half of the year.

The main detractor from relative performance was the overall long duration position, which underperforms (outperforms) when yields rise (fall). The long duration position in US Treasuries particularly suffered as yields surged. This was only partially offset by the Fund's underweight in Japanese Government Bonds which outperformed as yields rose. In addition, the Fund's overweight positions in corporate and government agency bonds also outperformed as risk appetite improved and their spreads tightened relative to benchmark government bonds.

POSITIONING

There were no significant transactions within the equity bucket during the quarter.

The past quarter has seen a significant rise in yields which have hurt our long duration position. Some of the upward pressure in yields can be explained by fundamentals such as US economic resilience and the rise in energy prices, which may slow down the disinflation process which is under way. Some of the rise can also be explained by more technical factors like September's large bond issuance.

However, in our opinion, these and other factors do not sufficiently explain the extent of the sell-off, which leads us to conclude that this is an overcorrection. However, predicting the peak in yields is difficult and largely dependent on investor behaviour. Investors are understandably worried about "catching a falling knife", but we think that once volatility subsides buyers will return.

We continue to think that tighter credit availability and higher borrowing costs will act to materially slow growth, and subsequently inflation. If we do not get a global slowdown from here it would be unusual given the extent of central bank tightening. The lags of monetary transmission are taking time, but they should increasingly be felt over the coming months. In addition, if the recent rise in yields and energy prices are maintained they will act as an extra drag on growth.

Yields usually peak close to the last Federal Reserve rate hike in the cycle and we think that there is a good chance that July was the last rate rise, or if not, November is likely to be. If this proves to be correct and history is a guide, then bonds should rally soon.

CALENDAR YEAR PERFORMANCE (%)

	2022	2021	2020	2019	2018
Davy ESG Multi-Asset Fund (Eur)	-10.2%	20.6%	5.2%	21.3%	-1.0%
MSCI World Index (Eur)	-12.8%	31.1%	6.3%	30.0%	-4.1%
JP Morgan Global Bond Index (Eur)	-14.0%	-3.1%	4.9%	4.6%	-0.3%
Alphabet	-39.1%	65.3%	30.9%	28.2%	-0.8%
Amazon	-49.6%	2.4%	76.3%	23.0%	28.4%
Apple	-26.4%	34.6%	82.3%	89.0%	-5.4%
Automatic Data Processing	-1.3%	42.6%	6.0%	32.7%	14.2%
Daikin Industries	-21.9%	14.7%	49.9%	33.8%	-11.3%
Equinor ASA	56.4%	67.0%	-13.5%	0.5%	8.8%
Meta	-64.2%	23.1%	33.1%	56.6%	-25.7%
Microsoft Inc.	-28.0%	52.5%	42.5%	57.6%	20.8%
Nvidia Corp	-50.3%	125.5%	122.3%	76.9%	-30.8%
Omron Corp	-43.4%	25.7%	45.1%	62.9%	-39.6%
Oracle Corp	-4.6%	36.9%	24.2%	19.3%	-3.0%
Smith & Nephew	-11.9%	-12.6%	-15.8%	27.4%	16.0%
TJX Companies Inc.	6.7%	12.8%	12.2%	38.8%	18.9%
TotalEnergies SE	41.4%	35.5%	-22.6%	10.8%	5.4%
Xylem Inc.	-6.6%	18.9%	30.9%	19.6%	-1.0%

Source: IQ EQ Fund Management (Ireland) Limited, Northern Trust, and Bloomberg as at 30 September 2023. Performance is quoted in local currency unless otherwise stated. Davy ESG Multi-Asset Fund Class A Distributing is the total return from single pricing and net of fees, with a bi-annual income distribution.

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The Davy ESG Multi-Asset 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 a UCITS pursuant to the Regulations. Davy Funds plc is 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, 76 Sir John Rogerson's Quay, Dublin 2, Ireland D02 C9D0, 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 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.

IQ EQ Fund Management (Ireland) Limited

Quarter 3, 2023

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