Q4 2023 Update

Davy ESG Equity Fund

For Investment Professionals Only

Performance	1 Month (%)	Q4 2023 (%)	1 Year (%)	3 Years P.a. (%)	5 Years P.a. (%)
Davy ESG Equity Fund (net of fees)	3.20	7.28	12.40	10.61	13.78
MSCI World Index[1]	3.62	6.79	19.60	10.99	13.58

Source: IQ EQ Fund Management (Ireland) Limited (Class A Acc in EUR) as at 29 December 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

After marking time during the third quarter of 2023, global equity markets reached all-time highs during the fourth quarter, rising by 6.79%. The year-end rally erased all of 2022's losses and brought the return for 2023 to 19.60%. Equity markets were buoyed by rapidly falling bond yields, with the benchmark US 10-year yield falling from a 16-year high of 5.0% in October to finish the year at 3.9%. Investors are now expecting a 0.25% cut in US interest rates by the end of March 2024.

The US was the best-performing equity region during the year, driven by a strong performance by the so-called 'Magnificent Seven' stocks – Microsoft Corp., Apple Inc., Amazon.com Inc., Tesla Inc., Meta Platforms Inc., Alphabet Inc., and Nvidia Corp. While their contribution faded somewhat in the fourth quarter, the performance of these stocks accounted for 48.3% of the total return of the c. 1,500-stock MSCI World Index during 2023 – an unusual level of performance concentration in such a broad index.

Many of the seven stocks are seen as probable winners in the development and implementation of Artificial Intelligence ("AI"). Nvidia Corp., which designs and develops processors that are integral to the advancement of AI, was among the best performers in 2023, rising by 228%. These stocks are represented within the Technology, Communications Services and Consumer Discretionary sectors, which were the best performers during 2023.

The Energy sector was the worst performing sector in the fourth quarter as the Brent oil price fell from $97.4 at the beginning of the quarter to end the year at $77.0. The price fall was driven by overt disagreements among OPEC+ members about voluntary production cuts to support the oil price. The Consumer Staples sector also suffered as tepid demand and increasing costs resulted in profit downgrades throughout the sector.

Fund performance

The **Davy ESG Equity Fund** returned 7.28%, net of fees, in the fourth quarter. This compares favourably to the MSCI World Index return of 6.79%. Markets were driven by speculation that the interest rate cycle has peaked with a cut in interest rates possible by mid-2024. The relative outperformance was driven by positive Stock Selection with Asset Allocation and Currency also contributing positively. The Technology sector was the top performing sector, up 12.7%, followed by Real Estate and Industrials. The more defensive sectors such as Consumer Staples and Healthcare lagged the market. Energy was the worst performing sector, down 7.8% as the oil price declined. In terms of Asset Allocation, the Fund benefited most by being underweight the Energy, Consumer Staples and Healthcare sectors which underperformed. This was partially offset by not having a position in Real Estate, the second-best performing sector. Stock Selection was particularly strong within Healthcare (IDEXX, IQVIA), Industrials (Siemens, Xylem) and Financials (American Express, Blackrock). Selection was weakest within the Technology (Oracle, Shimadzu) and Communication Services (Alphabet) sectors. Currency made a positive input to returns being underweight a weak US dollar.

The top five equity contributors to relative performance during the quarter were: Microsoft Corp., Siemens AG, American Express Co., Assa Abloy AB, and Xylem Inc. The bottom five equity detractors from relative performance during the quarter were: Automatic Data Processing Inc., Oracle Corp., Equinor ASA, Unilever plc, and Orix Corp.

Microsoft Corp. (MS), the software giant, gained over 14.3% in the fourth quarter, reaching an all-time high in November, and was the top contributor to returns. Better-than -expected quarterly earnings results towards the end of October continued to drive the share price as the headlines showed a re-acceleration in Azure growth to 28% which was driven by better-than-expected contributions from AI-enabled services. Other areas like Commercial Office and Gaming also exceeded expectations. More cyclical areas such as LinkedIn were ahead, and Advertising came in line. The company seems able to invest at scale, driving growth while defending the bottom line. Microsoft is a beneficiary of AI, where they can enhance their product range and bring AI to the masses. It will also help accelerate top line growth. Our thesis remains intact as we expect Microsoft to exit any recession stronger than peers. The company aims to deliver platforms, tools, and solutions in a sustainable way to help organisations around the world to build their own technological intensity. They aim to be the leading platform provider of technology solutions focused on carbon, water, waste, and ecosystems. Microsoft is a high performing ESG name and is particularly strong in terms of Privacy and Data Security.

Siemens AG (Siemens), the German industrial, gained over 25%, and was also a top contributor to returns. The company focuses on industrial automation, electrification, digitalization and solutions for transportation, power, and medical diagnosis. The shares were weak in October as Siemens Energy, a renewables company in which Siemens has a 25% stake, was said to be seeking state guarantees to secure future growth. Uncertainty surrounded the issue as it was feared Siemens would have to bail out the entity. The crisis was settled with Siemens taking a 75% stake in Siemens India at a 15% discount. The shares recovered and then rallied further post their Q4 results reported in November, which beat expectations. Cash flow generation and management talk of a trough in automation markets was a message more positive than expected. Siemens is a high performing ESG name. They invest heavily in Research & Development ("R&D") which allows for industry leading innovation and product development in factory automation and smart grids, climate friendly electrical products and electrical vehicle charging. Siemens also led most global peers in corporate governance practices with 100% of the Board independent of management and female representation of 45%. Currently, overall ESG performance is weighed down by a recent allegation of corrupt practices of inflating the contracts of medical equipment in China. While Siemens is a core holding, we will nonetheless watch to see how this allegation develops.

Automatic Data Processing Inc. (ADP), the global leader in providing outsourced payroll processing, was the main detractor to returns in the period, declining -6.6%. The shares slumped over 7% on the day of their quarterly results in October, which were seen as mixed. Whilst revenues rose 7% in line with market expectations, margins were lower than estimates and earnings per share only beat on a lower tax charge. The share price weakness we believe is due to a lack of reacceleration in the business and slower growth in worksite employees. Investors still have concerns in relation to a slower economy and employment. However, we believe ADP can meet such challenges. We expect ADP will continue to benefit from the trend of outsourcing payroll services as compliance with more stringent regulation/taxation and more flexible working becomes more complex for the employer. ADP is a high-quality name with high retention rates which we like. The company continues to show strong preparedness to address ESG related issues such as Privacy & Data Security, Human Capital Development and Governance. As a processor of data for Human Capital Management solutions, ADP handles large volumes of sensitive information which must meet increasingly complex demands and security.

Oracle Corp. (Oracle), the US software giant, was also a detractor from returns as the shares declined 4.2% in the quarter. The shares hit a 5-year high mid-September as the AI frenzy continued to drive sentiment towards the name. However, at quarterly results both in September and again in December the market was disappointed by weaker than expected revenue growth due in part to a shortage of AI chips. Indeed, the shares fell almost 13% on the day in December. The boom in generative AI, which requires significant computing power, will boost demand for Oracle's cloud services. 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 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 they follow 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.

Sample portfolio transactions

We sold out of The Clorox Company following the damage suffered from a cyber attack. We also sold our position in Citizens Financial Group Inc. to fund higher conviction names such as Taiwan Semiconductor Manufacturing Co., Assa Abloy AB and PepsiCo Inc.

The QQE perspective

We have been observing a remarkably high degree of performance concentration within the equity market during 2023. By the fourth quarter it had a name – the 'Magnificent Seven'. These, mostly US-based AI-related shares were driving global equity market performance to a degree not seen in the past. At one point in October these seven shares were contributing 60% of the total year-to-date return of the MSCI World Index.

By and large, the Magnificent Seven companies had strong consistent cash flows or, in the case of Tesla Inc., growing cash flows. Microsoft Corp., Apple Inc. and Alphabet Inc. had also shown earnings resilience through downturns in the past and all scored highly on our Quality model, which 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. Investors had been paying up for growth and consistency during the year, which drove the performance of our Profitability and Persistence pillars. However, the Magnificent Seven do not score well on valuation, due in part to the dearth of dividends from the group and relatively high PEs.

We had observed a hiatus in the momentum of these stocks in Q3 of 2023 as our People pillar outperformed for the first time in 2023.

Things changed somewhat in the third quarter when the People pillar, which represents companies that manage their capital well and reward shareholders with distributions, recovered some performance. Sectors such as Financials, Healthcare and Energy are represented within the pillar and these performed strongly during the third quarter before much of that relative performance was given up again as the Magnificent Seven surged again in October and into November. However, in the weeks of the year-end rally the People pillar has held its own. This may be an early sign that the performance concentration which we have seen in 2023 may not be such a feature in the year ahead.

Calendar year performance	2023 (%)	2022 (%)	2021 (%)	2020 (%)	2019 (%)
Davy ESG Equity Fund (Net of fees) (EUR)	12.4	-9.2	32.7	7.5	31.1
MSCI World Index (EUR)	19.6	-12.8	6.3	30.0	-4.1
American Express Co.	28.7	-8.5	36.9	-1.2	32.5
Assay Abloy AB	32.3	-17.6	38.5	-5.7	40.9
Automatic Data Processing Inc.	-0.2	-1.3	42.6	6.0	32.7
Equinor ASA	2.8	56.4	67.0	-13.5	0.5
Microsoft Inc.	58.2	-28.0	52.5	42.5	57.6
Oracle Corp.	30.9	-4.6	36.9	24.2	19.3
Orix Corp.	29.8	-6.2	54.2	-7.6	18.5
Siemens AG	34.9	-12.6	33.3	15.4	24.4
Unilever plc	3.0	3.5	-1.6	0.0	11.5
Xylem Inc.	28.7	-8.5	36.9	-1.2	32.5

Source: IQ EQ Fund Management (Ireland) Limited (Class A Acc in EUR) and Bloomberg as at 29 December 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 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.

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We are IQ-EQ, a leading investor services group employing over 4,750 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 24 February 2023

Reference: NC_24022024_1

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