Q4 2023 Update

Davy Global Focus Fund

IQEQ

For Investment Professionals Only

Performance	1 Month (%)	Q4 2023 (%)	1 Year (%)	3 Years P.a. (%)	5 Years P.a. (%)
Davy Global Focus Fund (net of fees)	4.02	5.53	14.63	5.13	10.19
MSCI World Index[1]	3.62	6.79	19.60	10.99	13.58

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

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 Global Focus Fund** gained +5.53% net of fees, in the final quarter of 2023, underperforming 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 underperformance was driven, in most part, by our allocation to Bonds. 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 strategy 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 2nd best performing sector. Stock Selection was particularly strong within Healthcare (Intuitive Surgical & Sonova) and Financials (Nasdaq). Selection was weakest within the Technology (Adobe & Taiwan Semiconductor) and Consumer Discretionary (Gentex) sectors. Currency made a negative input to returns being overweight a weak US dollar.

The top five equity contributors to relative performance during the quarter were: Sonova Holding AG, Masco Corp., Garmin, Allegion, and Rational. The bottom five equity detractors from relative performance during the quarter were: Automatic Data Processing Inc., Cognex, Travelsky Technology Ltd., Gentex Corp., and Nestlé SA.

Sonova Holding AG (Sonova) is a high-quality stock that is a global leader in hearing aids. The stock was upgraded during the quarter to AAA from AA by MSCI for improvements in its staff management practices, which complements its position as having significantly lower carbon intensity than its peers. Management expects revenues to grow by 3%-7%, reflecting the secular tailwinds that drive the Hearing Instruments and Audiological Care sector. Sonova differentiates itself through product innovation and having a software platform with universal connectivity. Investors have been wary of the stock as inflation, input costs and higher Research &Development ("R&D") spending have slowed bottom line growth, causing the stock to de-rate. However, despite these headwinds the business has been able to take market share, resulting in the stock re-rating over the quarter but we are still cautious and will await news on the launch of its new software platform in mid-2024.

Masco Corp. (Masco) manufactures brand-name consumer products for construction and home improvement. It focuses its activities on the repair and remodel market, to which it is 90% exposed. The stock was one of the top performers over the quarter as its 3Q23 results were in line with market expectations, but management raised its 2023 operating margin guidance by 50 bps to ~16.5%. This increase was due to cost savings initiatives across its segments and a lower decline in sales at its plumbing division. Masco is continuing to execute well despite the challenging macro environment as it is more exposed to contractors who tend to service more affluent customers and because its products tend to be lower ticket items, minimising the cyclical nature of its industry by lowering demand risk. That said lower interest rates would be a positive for the stock, and it is supported by its investment-grade balance sheet, dividend payments, and ability to deploy excess free cash flow to repurchase shares or make bolt-on acquisitions.

Automatic Data Processing Inc. (ADP) is a quality company with an AAA ESG rating from MSCI. It is a global leader in outsourced payroll processing and other outsourced HR services to a wide range of business, giving it a high degree of revenue visibility. ADP is extending its reach in human capital management on the back of payroll and HR outsourcing services leadership. Its cloud platform is allowing it to manage competition from cloud-platform companies and enterprise resource planning firms. Although, this may limit its revenue growth in the short-term as evidenced by its latest results with management downgrading its growth outlook for Professional Employer Organization (PEO) to 3-4% from 3-5%. It does generate steady cash flow, pay consistent dividends with a high degree of earnings visibility. 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.

Cognex Corp. (Cognex) specialises in machine vision technology, an integral part of factory automation. Machine vision plays a significant role in progressing climate change adaptation, speeding-up production times, reducing inefficiency and waste, thus lowering carbon intensity at factories. It holds an A ESG rating from MSCI, lagging its peers in business ethics and with no evidence of clean technology applications. In 2022, Cognex was negatively affected by declines in logistics and warehouse automation spending which coincided with lower growth in its two other major markets, automotive and consumer electronics. 3Q23 results topped expectations with logistics, automotive and consumer sales in America outperforming. Despite the improving outlook for Emerging Markets and logistics sales in 2024, management affirmed a weak full-year guide, citing general business conditions and slowing trade in China. Still, price resilience in the face of this points to investor interest at these levels. Growth headwinds should abate in late 2024, and looking further forward, the long-term secular trends for automation persist.

Sample portfolio transactions

There were no significant transactions during the period.

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 Global Focus Fund (net of fees) (EUR)	14.6	-18.0	22.8	-1.2	20.8
MSCI World Index (EUR)	19.6	-12.8	31.1	6.3	30.0
Allegion plc	22.3	-19.2	15.0	-5.4	57.9
Automatic Data Processing Inc.	-0.2	-1.3	42.6	6.0	32.7
Cognex Corp.	-10.8	-39.1	-2.8	47.6	45.5
Garmin Ltd.	43.1	-30.2	15.9	25.8	58.1
Gentex Corp.	21.8	-20.4	4.1	19.2	46.3
Masco Corp.	46.6	-32.1	29.6	15.8	66.3
Nestle SA	-6.6	-14.0	25.4	2.1	34.7
Rational AG	28.7	-37.2	19.0	7.4	46.9
Sonova Holding AG	27.5	-37.8	57.1	4.5	39.7
Travelsky Technology Ltd.	-17.9	26.4	-29.8	0.5	-3.4

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

The Davy Global Focus 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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