Q4 2023 Update

IQEQ

Davy Strategic: Global Quality Equity Fund

For Investment Professionals Only

Performance	1 Month (%)	Q4 2023 (%)	1 Year (%)	3 Years P.a. (%)	5 Years P.a. (%)
Davy Strategic: Global Quality Equity Fund[1] (net of fees)	3.55	6.48	21.31	10.67	15.64
MSCI World Index[2]	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]Investment Management of the Davy Strategic Global Equity Fund was assumed by Davy Asset Management during the month of September 2018 and subsequently by Davy Global Fund Management in November 2019. On 31 May 2019 the Davy Strategic Global Equity Fund implemented its current investment strategy. For more information, please contact IQ EQ Fund Management (Ireland) Limited. On 10 July 2020 the Davy Strategic Global Equity fund changed its name to the Davy Strategic: Global Quality Equity Fund.
[2]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 investment objective of the **Davy Strategic: Global Quality Equity Fund** (the "Fund") is to provide long-term capital growth by investing in global quality equities with consideration given to ESG criteria. The Fund adopts a Quantamental (quantitative and fundamental) approach to select and manage the investments.

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 Strategic: Global Quality Equity Fund returned 6.48%, net of fees, in the fourth quarter, compared to the MSCI World Index which returned 6.79%. Markets were driven by speculation that global interest rate cycles have peaked, with multiple cuts priced in as early as mid-2024. Assets exposed to quality and growth factors outperformed more value-orientated styles. Positive attribution from Sector Allocation was outweighed by Currency Effects, with Stock Selection ending neutral over the period. On a sector basis, the overweight in Information Technology and Health Care had the largest effects on performance. Within the Fund's holdings, the 'Magnificent 7' mega cap Tech companies continued to outperform, while a reduction in Covid profits contributed to a decline in pharmaceutical valuations. On the corresponding regional basis, much of the Fund's gains came from North America and Japan. The model will continue to focus on key pillars of quality such as profitability and volatility when looking for attractive companies.

The top five equity contributors to relative performance during the quarter were: Microsoft Corp., Apple Inc., Nvidia Corp., Arista Networks Inc., and ASML Holding NV. The bottom five equity detractors from relative performance during the quarter were: Exxon Mobil Corp., Chevron Corp., Cisco Systems Inc., Pfizer Inc., and Tesla Inc.

Microsoft Corp. (Microsoft) is one of the largest makers of enterprise and consumer software products with >$100bn in revenues. Its Windows operating systems and MS Office applications are used on >1bn computers while its cloud computing arm (Azure) allows it to grow revenues and margins even during times of reduced IT budgets. Its AAA MSCI ESG rating is supported by its privacy and data security protocols and ability to provide technology focused solutions for carbon, water and waste. It is using AI to enhance products, leading to better end-to-end integration and opportunities across its technology stack. Microsoft shares reflect this by trading at a premium to the market, highlighting its transformational technologies, 'high quality' business characteristics and the market's growing optimism that its exposure to generative AI will accelerate earnings growth. Microsoft reported strong beats in revenue and earnings in the latest quarter, with Azure and AI Services (e.g. mainstreaming of genAI) contributing more than expected. The company continues to deliver on its ability to invest at scale, with a state-of-the-art cloud platform, setting it apart from its peers.

Apple Inc. (Apple) is a high-quality stock with an interconnected ecosystem of software and hardware devices. It is the integration of product + software + service that makes Apple unique. The company holds a BBB ESG rating, reflecting the strength of its data security in contrast to concerns over exploitation of vulnerable demographics in its outsourced Chinese supply chains. Apple's share price has been turbulent over the quarter as the market process's the bull and bear cases for the stock. Last quarter proved the resilience of the company's portfolio with a beat in earnings. Software revenues surprised to the upside, while hardware revenues came in below expectations due to macro headwinds (notably Chinese numbers were soft). Guidance for Q1Y24 was in line, balancing cycle headwinds for the iPhone 15 against margin expansion from a higher mix of products in both hardware and services. The recent Apple Watch patent issue should only have a marginal impact on returns, and premium valuation multiples should continue.

Exxon Mobil Corp. (Exxon) is one of the world's largest oil and gas companies. The company provides exploration and production of oil and gas, electric power generation, coal, and minerals operations. Exxon also manufactures and markets fuels, lubricants, and chemicals. It holds a BBB ESG rating from MSCI. In the face of expected softening in oil and gas prices, the company reported a 3Q23 revenue miss. Earnings also missed estimates; however, investors were impressed that organic free cash flow covered capital investment, dividends and share repurchases over the quarter. The company continues to deliver operationally with the Beaumont refinery expansion recently completed on budget and ahead of schedule. Exxon is progressing toward its cost reduction targets and trending in line with 2023 guidance. Downstream exposure could present a near-term risk, but the company continues to show strong execution and defensive characteristics in an uncertain market. The stock underperformed in line with a declining oil price.

Chevron Corp. (Chevron) is an integrated US oil major. As an integrated energy company, it conducts operations across the supply chain including, oil and gas exploration and production, refining and marketing, power, and chemicals manufacturing. Among its integrated peers Chevron has above-average leverage to crude oil prices and the lowest exposure to the downstream, as such supply reductions by OPEC should have a positive impact on its share price. Its A rating from MSCI reflects its role as the second largest biodiesel producer in the US. While recent oil price volatility has affected the share price, Chevron's latest strategy update notes that the company remains in a profitable growth stage with projects in shale, renewables, petrochemicals and Liquid Natural Gas ("LNG") all in the pipeline. On top of this, the recent HES acquisition is seen as adding to the company's long-term growth outlook.

Sample portfolio transactions

In line with the Fund's strategy of holding high-quality stocks with robust ESG characteristics, we exited positions in companies whose ESG and quality metrics had declined, such as Pfizer Inc. in Healthcare, and CBRE Group in Real Estate. This raised cash that was reinvested in existing holdings, thus no new holdings were added.

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 Strategic: Global Quality Equity Fund (net of fees)	21.3	-18.0	36.3	16.0	31.5
MSCI World Index (EUR)	19.6	-12.8	31.1	6.3	30.0
Apple Inc.	49.0	-26.4	34.6	82.3	89.0
Arista Networks Inc.	94.1	-15.6	97.9	42.9	-3.5
ASML Holding N.V.	36.7	-27.8	78.7	52.1	95.3
Chevron Corp.	-13.6	58.5	46.3	-26.0	15.3
Cisco Systems Inc.	9.3	-22.5	45.8	-3.5	13.8
ExxonMobil Corp	-6.2	87.4	57.6	-36.2	7.3
Microsoft Corp.	58.2	-28.0	52.5	42.5	57.6
Nvidia Corp.	239.0	-50.3	125.5	122.3	76.9
Pfizer Inc.	-41.2	-10.4	66.7	3.2	-6.9
Tesla Inc.	101.7	-65.0	49.8	743.4	25.7

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 Strategic: Global Quality 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.

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 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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