

# Global Equity Income Fund

For Investment Professionals Only

Performance	1 Month (%)	Q4 2023 (%)	1 Year (%)	3 Years P.a. (%)	5 Years P.a. (%)
Global Equity Income Fund (net of fees)	3.05	5.49	9.29	10.66	10.59
MSCI World Index <sup>1</sup>	3.62	6.79	19.60	10.99	13.59

Source: IQ EQ Fund Management (Ireland) limited (Class A Acc EUR) as at 29 December 2023

<sup>1</sup>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 **Global Equity Income Fund** (the “Fund”) is to achieve long-term capital growth through investment in companies which expect to generate a higher-than-average dividend yield. The Fund targets a dividend yield 1% greater than the market dividend yield. The concept is that dividends are the foundation of total returns over the long term.

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.

## 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

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,

This is a marketing communication and NOT a contractually binding document. Please refer to the Prospectus and the KIID of the Fund and do not base any final investment decision on this communication alone. IQ EQ Fund Management (Ireland) Limited is an active fund manager.

**Warning: Past performance is not a reliable guide to future performance. The value of your investment may go down as well as up. This product may be affected by changes in currency exchange rates. The Strategy is actively managed. SFDR disclosures are available upon request from 5th Floor, 76 Sir John Rogerson’s Quay, Dublin 2, D02 C9D0.**

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 **Global Equity Income Fund** returned 5.49% during the quarter versus an index return of 6.79%. Stock Selection and Asset Allocation negatively impacted relative performance, while Currency was a positive contributor. Stock Selection was weakest within the Healthcare sector due to the underperformance of pharmaceutical giants, Sanofi and Pfizer. The Asset Allocation outturn was driven by an underweight position in the Information Technology sector and an overweight position in the Consumer Staples sector. The underweight position in the Information Technology is due to the low level of dividends available from some of the largest companies in the sector. The Consumer Staples sector is well-represented within the Fund due to its relative stability of earnings and its generous dividend policies. Currency contributed positively to relative performance, due mainly to the Fund's underweight position in the dollar which fell versus the euro during the quarter as US interest rates declined.

The top five equity contributors to relative performance during the quarter were: Intel Corp., Siemens AG, Broadcom Inc., US Bancorp, ABB Ltd. The bottom five equity detractors to relative performance during the quarter were: Sanofi S.A., Pfizer Inc., Procter & Gamble Co., Johnson & Johnson, PepsiCo Inc.

**Siemens AG (Siemens)** was one of the top contributors to fund relative performance during the quarter. The share price rose by 25.3%

compared with the Industrials sector which rose by 9.2%. The share price had been weak during October on concerns about the economic cycle and rumours that Siemens Energy, in which Siemens retains a 25% stake, would require aid from the German state. The share price had started to recover by the time Siemens Energy announced that it had secured guarantees from the German Government during November. Within a week, Siemens reported its September year-end results which were much better than investors had expected, causing the shares to rise strongly. Cash flow generation and management talk of a trough in automation markets was a message more positive than expected. While the company's year-ahead outlook was lower than last year's, it was stronger than consensus expectations. Management was upbeat about a recovery in demand for its industrial automation revenues from China.

**Intel Corp. (Intel)**, the US chip maker, was also among the strongest contributors to relative performance in the fourth quarter as the stock rose by 35.3% compared with the Information Technology sector which rose by 12.7%. The move represented a significant recovery for the semiconductor maker whose shares have underperformed in recent years due to missteps in manufacturing the most recent generations of high-performance chips. While the share price was largely left behind in the euphoria that drove Nvidia and other AI-related shares higher earlier in the year, Intel's most recent offerings have been comparing well with competitor processors in tests. Management is increasingly confident of monetising opportunities in AI in the near future. 2024 is set to be a busy year for new product launches at Intel, which may help the company to regain market share in the PC and data centre markets. The share price has recovered strongly since the dividend cut in January when management sought to reset expectations and refocus the company. Recent news flow confirms that that strategy is on track to deliver renewed profit growth through 2024.

**Sanofi S.A. (Sanofi)**, the global healthcare company, disappointed investors during the quarter when management reset investors' expectation on earnings and Research &

Development (“R&D”) investment during the company’s Q3 earnings report. The company is increasing spend to revitalise its pipeline of new drugs. Investors are now taking stock of whether the company can execute on its R&D spend in an industry where execution risk is high. The company also announced that it would spin off the Sanofi Consumer Healthcare business to turn Sanofi into a pure-play Biopharma company. While this restructure should release value for shareholders, the market is currently focussed on the elevated risk around new drug development. Management set out new targets for drugs in development at an investor update in December, which prompted some recovery in the share price into the year-end. Nevertheless, the shares fell by 11.6% during the quarter valuing the company at a significant discount to the sector.

**Pfizer Inc. (Pfizer)**, the US healthcare company, detracted from performance during the quarter as the share price fell by -15.7% compared with the Health Care sector which rose by 1.6%. The company’s Covid vaccine Comirnaty and its retroviral Covid treatment Paxlovid faced uncertainty, which the company had been alerting investors to since late-2022. In October 2023 the company wrote down \$5.6bn of inventories in the two products causing weakness in the share price. In December, Pfizer Management updated investors on the outlook for 2024. The 2024 revenue growth range provided by the company was essentially flat on the 2023 outturn. The share price fell by c-8% on the day, before recovering gradually into the end of the year. Pfizer’s profit forecast also included a once-off negative effect from the acquisition of Seagen, which specialises in cancer treatments.

## Sample portfolio transactions

During the quarter we added US-based outsourced payroll services company Automatic Data Processing Inc. (ADP) to the portfolio and removed European staffing company Adecco Group. While both are exposed to general levels of economic activity, particularly employment trends, we believe that ADP has more stable long-term prospects.

## 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 (%)
Global Equity Income Fund (Net of fees) (EUR)	9.3	-2.8	27.5	-4.2	27.4
MSCI World Index (EUR)	19.6	-12.8	31.1	6.3	30.0
ABB Ltd.	36.7	-14.4	45.2	10.8	30.0
Broadcom Inc.	104.2	-13.3	56.4	44.9	29.1
Intel Corp.	94.6	-46.7	6.0	-14.7	30.7
Johnson & Johnson	-8.6	6.0	11.4	10.9	16.2
PepsiCo Inc.	-3.3	6.8	20.5	11.7	27.4
Pfizer Inc.	-41.2	-10.4	66.7	3.2	-6.9
Procter & Gamble Co.	-0.8	-5.0	20.5	14.1	39.7
Sanofi S.A.	3.7	5.5	16.8	-9.1	23.4
Siemens AG	34.9	-12.6	33.3	15.4	24.4
US Bancorp	4.7	-19.1	24.3	-17.9	33.6

Source: IQ EQ Fund Management -Ireland) Limited -Class A Acc in EUR) and Bloomberg as at 29 December 2023. Performance 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.**

This report does not constitute an offer for the purchase or sale of any financial instrument, trading strategy, product or service. No one receiving this report should treat any of its contents as constituting advice or a personal recommendation. It does not take into account the investment objectives or financial situation of any particular person. All investments involve a degree of risk. Equities may involve a high degree of risk and may not be suitable for all investors. Government bonds and cash deposits, although considered the safest assets, are not devoid of risk -e.g. inflation risk, credit risk, currency risk, etc.). There are different reasons why an investor would choose to invest in a particular asset class and each investor must consider the inherent risks therein based on his/her own personal circumstances.

No part of this document is to be reproduced without our written permission. This document has been prepared and issued by IQ EQ Fund Management -Ireland) Limited on the basis of publicly available information, internally developed data and other sources believed to be reliable. While all reasonable care has been given to the preparation of this information, no warranties or representations expressed or implied are given or liability accepted by IQ EQ Fund Management -Ireland) Limited or its affiliates or any directors or employees in relation to the accuracy fairness or completeness of the information contained herein. Any opinion expressed -including estimates and forecasts) may be subject to change without notice. We or any of our connected or affiliated companies or their employees may have a position in, or may have provided within the last twelve months, significant advice or investment services in relation to any of the securities or related investments referred to in this document.

IQ EQ Fund Management (Ireland) Limited, trading as IQ EQ Fund Management, is regulated by the Central Bank of Ireland. In Luxembourg, IQ EQ Fund Management is authorised by the Central Bank of Ireland and is subject to limited regulation by the Commission de Surveillance du Secteur Financier. Details about the extent of our authorisation and regulation by the Central Bank of Ireland and the Commission de Surveillance du Secteur Financier are available from us upon request.

The Global Equity Income 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.

MSCI Inc. (MSCI). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be reproduced, disseminated or used to create any financial products, including any indices. This information is provided on an 'as is' basis. The user assumes the entire risk of any use made of this information. MSCI, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. MSCI and the MSCI indexes are services marks of MSCI and its affiliates.

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.

IQ EQ Fund Management (Ireland) Limited is regulated by the Central Bank of Ireland. In Luxembourg, IQ EQ Fund Management (Ireland) Limited is authorised by the Central Bank of Ireland and is subject to limited regulation by the Commission de Surveillance du Secteur Financier. Details about the extent of our authorisation and regulation by the Central Bank of Ireland and the Commission de Surveillance du Secteur Financier are available from us upon request.

\*Information correct as of 24 February 2023

This document is provided for information purposes only and does not constitute legal, tax, investment, regulatory, accounting or other professional advice. For more information on the legal and regulatory status of IQ-EQ companies please visit [www.iqeq.com/legal-and-compliance](http://www.iqeq.com/legal-and-compliance)

Reference: NC\_24022024\_1  
© IQ-EQ 2024

Find out more  
[www.iqeq.com](http://www.iqeq.com)

Follow us

