

# Davy Defensive Equity Income Fund

## For Investment Professionals Only

Performance	1 month (%)	Q1 2024 (%)	1 year (%)	3 years p.a. (%)	5 years p.a. (%)
Davy Defensive Equity Income Fund (net of fees)	3.39	8.65	14.50	8.58	8.64
MSCI World Index <sup>1</sup>	3.42	11.37	25.86	11.71	12.95

Source: IQ EQ Fund Management (Ireland) Limited (Davy Defensive Equity Income Fund Class B Acc EUR) as at 31 March 2024.

<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 **Davy Defensive Equity Income Fund** (the "Fund") is to provide long-term capital growth, with reduced levels of volatility compared to global equity markets.

The Fund aims to reduce risk by investing in large global companies that pay out above-average dividend yields, and employs an options strategy to provide some downside protection against significant market falls.

Of the so-called "Magnificent Seven" shares, Amazon Inc., Meta Inc., Alphabet Inc., Microsoft Inc. and Nvidia Inc. were once again among the strongest contributors to equity market performance in the first quarter, while shares of Apple Inc. and Tesla Inc. underperformed, with the latter falling by almost 28% over the three-month period.

From an equity sector perspective, the outturn for the quarter was somewhat diversified, with Technology and internet-related Communications Services shares performing best, followed closely by the Financials and Energy sectors. The latter two had been poor performers over the previous twelve months.

### Market comment

The recent global equity market rally, which began at the end of October last year, continued uninterrupted through the whole of the first quarter. The MSCI World Index (net) rose by 11.37% in euro terms during the period. Global bond markets were generally weaker during the quarter as investors postponed the timeframe for interest rate reductions.

Utilities and Real Estate, the sectors most impacted by interest rate movements, were the weakest performers during the quarter as hopes for near-term interest rate cuts faded. These two sectors have underperformed since 2022 when global interest rate increases accelerated.

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.**

In euro terms, US equities were the best performers among the global developed market regions, driven by the focus on technology and internet shares. Asia-ex-Japan was once again the weakest region – as it has been since 2021 – as investor concerns about a sustainable post-Covid return to growth in the region continue.

## Fund performance

The **Davy Defensive Equity Income Fund** returned 8.65% in Q1 versus an index return of 11.37%. Stock Selection, Asset Allocation and Currency all contributed negatively to relative performance. Stock Selection was impacted by the underperformance of stocks such as Nestlé S.A. and Rio Tinto Group. 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 was 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 negatively to relative performance, due mainly to the Fund's underweight position in the dollar which rose versus the euro during the quarter on expectations of higher-for-longer US interest rates.

The **Options Strategy** contributed negatively to performance as the put options fell in value as markets rose during the quarter.

The top five equity contributors to relative performance during the quarter were: Taiwan Semiconductor Manufacturing Co. Ltd, Merck & Co. Inc., Cummins Inc., JPMorgan Chase & Co, and Waste Management Inc. The bottom five equity detractors from relative performance during the quarter were: Rio Tinto Group, Nestlé S.A., Telus, Corp., United Parcel Service Inc., and Intel Inc.

**Taiwan Semiconductor Manufacturing Co. Ltd. ("TSMC")**, the semiconductor foundry operator, was the top contributor to returns in the quarter, gaining over 34% as the semiconductor sector was the best-performing sub-sector in the period. Better-than-expected Q4 2023 results mid-January, a strong outlook, and continued support for Artificial Intelligence ("AI")-related companies were all factors which continued to drive the share price higher. Revenues are now expected to grow low-mid 20% with gross margins in Q1 2024 at c53%, both ahead of estimates. Revenues are being driven by the strong ramp in its N3 semiconductor node and AI-driven High Performance Computing ("HPC"). Management also indicated that N2 is progressing in line with or ahead of expectations. Note, TSMC manufactures the chips that Nvidia designs. TSMC is a high-quality company with excellent sustainability credentials operating with an exceptionally strong competitive moat. That strength allows the company to pay out 70% of free cash flow to investors in dividends every year.

**Merck & Co. Inc. ("Merck")**, the US healthcare name, was a top contributor to returns, rising by 24.59% during the month. The company is best known for its cancer drug Keytruda, diabetes drugs Januvia and Janumet, and its HPV vaccine Gardasil. During the quarter Keytruda gained FDA approval for an additional third indication combination with chemoradiotherapy for cervical cancer from its Phase 3 Keynote Trial. The market had also been focussed on the company's Q4 2023 results at the start of February. Those results beat expectations with Keytruda dominating the growth of the business. Guidance for 2024 was also raised. Merck has an increasingly healthy pipeline with prospects in oncology, cardiology, and vaccines. Despite the significant R&D expense needed to develop the pipeline, Merck reiterated its goal of 45% operating margins by 2025. The company leads its peers in initiatives to improve access to healthcare, particularly in developing countries where it has pricing policies based on affordability for 40 products in over 120 countries. The company also leads peers in talent management through engagement surveys and is recognised as an employer of choice.

**Nestlé S.A. (“Nestlé”)**, the global packaged food company’s share price has been under pressure since food commodity price inflation started to rise in 2022/23. During the quarter, the company disappointed investors when it reported earnings for the fourth quarter of 2023. While headline growth was strong and pricing was firm, volumes were weak due to higher prices. Management referred to current inflation trends as ‘unprecedented’, driven by rising freight and food commodity costs. Nestlé has been guiding the market to expect 4%-6% organic growth in the long term. At the results meeting, management told investors to expect ‘around 4%’ for 2024 as inflation is likely to hurt volumes. Much of this growth is due in the second half of the year. Nestlé remains a global leader in packaged foods with exceptional balance sheet strength and a consistent record in growing its dividend.

**Rio Tinto Group (“Rio Tinto”)**, the global mining giant, contributed negatively to relative performance during the quarter, falling by 9.4% versus the Materials sector, which rose by 5.8%. Rio Tinto announced earnings that were in line with market expectations and maintained a dividend payout of 60%, reflecting its strong balance sheet. However, the shares were pressured by a fall in the price of iron ore – the firm’s main mining commodity. Iron ore prices are sensitive to economic news from China, which is the world’s largest consumer of the material. After a strong performance in recent months, iron ore prices fell by over 11% in February after restocking data following the Chinese New Year fell short of expectations.

## Sample portfolio transactions

There were no significant transactions during the quarter.

## The QQE perspective

At the start of 2024, we observed that investor focus on the so-called “Magnificent Seven” effect on total market performance appeared to be waning and that a broadening in market performance was becoming evident. This phenomenon lasted for a few weeks in 2024 as the degree to which total equity market returns were being driven by these stocks fell. This would certainly be a good thing for the sustainability of the equity market rally. However, the effect was short-lived and, while sectors such as Financials, Energy and Industrials all out-performed, they are just too small within an index such as the MSCI World Index to drive performance.

Our Quality model 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. The performances of the four pillars continue to reflect investor preferences for steady, consistent profits. But investors are paying a higher price for those profits. Apart from the distortionary effect of the Covid pandemic, equity valuations have not been as high as they are now since the “dotcom” frenzy. A lot is riding on the persistence of the earnings trends of a few large companies as we face into another earnings season.

Calendar year performance	2023 (%)	2022 (%)	2021 (%)	2020 (%)	2019 (%)
Davy Defensive Equity Income Fund (net of fees) (EUR)	5.9	-1.9	22.8	-1.2	20.8
MSCI World Index (EUR)	19.6	-12.8	31.1	6.3	30.0
Cummins Inc.	1.7	14.1	-1.7	30.5	38.1
Intel Corp.	94.6	-46.7	6.0	-14.7	30.7
JPMorgan Chase & Co.	30.6	-12.6	27.7	-5.5	47.3
Merck & Co. Inc.	1.0	49.4	1.8	-7.2	22.3
Nestlé S.A.	-6.6	-14.0	25.4	2.1	34.7
Rio Tinto Group	7.0	31.9	0.6	30.6	35.4
Taiwan Semiconductor Manufacturing Co. Ltd.	42.3	-36.8	12.1	92.7	64.8
Telus Corp.	-4.4	-8.3	23.6	5.2	16.3
United Parcel Service Inc.	-5.9	-16.3	30.0	48.7	24.2
Waste Management Inc.	16.2	-4.5	43.8	5.5	30.5

Source: IQ EQ Fund Management (Ireland) Limited (Davy Defensive Equity Income Fund Class B Acc EUR) and Bloomberg as at 31 March 2024. Performance is quoted in local currency unless otherwise stated.

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\*Information correct as of April 2024

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