Q1 2024 Update

Davy ESG Equity Fund

For Investment Professionals Only

Performance	1 month (%)	Q1 2024 (%)	1 year (%)	3 years p.a. (%)	5 years p.a. (%)
Davy ESG Equity Fund (net of fees)	2.88	8.93	17.71	10.73	12.79
MSCI World Index[1]	3.42	11.37	25.86	11.71	12.95

Source: IQ EQ Fund Management (Ireland) Limited (Davy ESG Equity Fund Class A Acc in EUR) as at 31 March 2024.

[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

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.

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.

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.

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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 grown in the region continue.

Fund performance

The **Davy ESG Equity Fund** had a strong start to 2024 with a first-quarter gain of 8.93% net of fees. This compares to the MSCI World Index return of 11.37%. Stock Selection was the main driver of relative underperformance particularly within the Financial (Singapore Exchange, S&P Global) and Industrial (Daikin, Vinci) sectors. Selection was most positive within Consumer Staples (Loblaw Cos) and Technology (TSMC, SAP, Oracle). Asset Allocation and Currency made small positive contributions to return. In terms of Asset Allocation, the Fund benefited most by being overweight the Industrials sector, which outperformed, and by being underweight Real Estate, the worst-performing sector. Being overweight the Materials sector took from performance. Communication Services and Technology were the two top-performing sectors. Real Estate and Utilities lagged the most. The 'Magnificent 7' of Alphabet, Apple, Amazon, Meta, Microsoft, Nvidia and Tesla outperformed yet again as a group, driving market and sector returns. Overall performance was impacted by the Fund not owning a number of these names due to exclusionary and ESG performance criteria.

The top five equity contributors to relative performance during the quarter were: Taiwan Semiconductor Manufacturing Co. Ltd., Oracle Corp., SAP SE, Microsoft Inc., and American Express Company. The bottom five equity detractors from relative performance during the quarter were: Lululemon Athletica Inc., Equinor ASA, Omron Corp., Daikin Industries Ltd., and Rio Tinto Group.

Taiwan Semiconductor Manufacturing Company 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 continued to drive the share price higher. Revenues are now expected to grow low-to-mid 20% with gross margins in Q1 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. The company continues to lead peers in managing key ESG risks such as water stress where they have significantly reduced the water intensity of their manufacturing process, primarily through reuse and recycling. TSMC has a target to reclaim 60% of used water in its fabs in Taiwan by 2030. This is especially relevant given that water stress is an area of concern in Taiwan where most of the company's plants are based.

Oracle Corp. ("Oracle"), the US software giant, was also a top contributor to return as the share price rose over 22% in the quarter. Indeed, the price surged to a new high following a strong set of quarterly results in March. Revenue met market expectations with a strong beat in cloud and software. Importantly, management gave healthy guidance for the next quarter, with growth expected to accelerate throughout the year. The boom in generative AI, which requires significant computing power, will boost demand for Oracle's cloud services. Oracle offers defensive growth as it is well positioned to weather any economic slowdown better than most of its peers given that 70% of sales are in cloud services and support. The company has already provided long-term guidance out to 2026 which was reiterated in the results 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 co-founder and Chief Technology Officer Larry Ellison owns 42% of the company. However, the ESG performance has improved, driven by workforce management advances as the company follows 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 continue to monitor these risks.

Lululemon Athletica Inc. ("Lululemon"), the Canadian athletic apparel company, was the main detractor to performance in the quarter as the shares declined almost 19%. Although Q4 2023 results beat investor expectations with revenues and margins surprising to the upside, guidance for Q1 2024 was lowered as the company has seen a slowdown in the US market. The shares fell 16% on the revised guidance. Management now expects an improvement as the year progresses as the company opens 35-40 new stores and completes c40 store optimisations. Its international business has remained strong across the regions. Lululemon has a history of beating estimates, so the guidance may, in the end, prove to be conservative. The company's ESG performance was upgraded to AA in October 2023. Raw materials sourcing is a key ESG issue as the company outsources production to China and India where there is always an ongoing risk of human rights concerns in the supply chain. However, Lululemon is considered best-in-class in terms of disclosure, due diligence, and oversight as it carries out Tier 1 and Tier 2 supplier audits.

Equinor ASA ("Equinor"), the Norwegian company which is the second-largest natural gas supplier to Europe, continued to detract from returns, underperforming in both January and February before a small uptick in March as gas prices continued to decline. The shares declined almost 12% in the first three months of 2024. The weakness in the gas price is explained by the mild winter, excess Liquefied Natural Gas ("LNG") arriving in Europe from North America, demand weakness, and the decline in power prices. Q4 earnings in February were in line with market expectations. However, on the positive side, management provided encouraging long-term guidance and indicated that 2024 will yet again be a year of very strong shareholder distributions, albeit slightly lower than the $17bn returned through dividends and buybacks in 2023. We believe Equinor is an attractive equity name that will benefit from rising gas prices in 2024 as prices normalise throughout the year. Equinor has ambitious transition plans with a net-zero long-term ambition by 2050. The company is also active in renewables and was an early mover into offshore wind. Indeed, the company is targeting a renewable installation capacity of 12-16GW by 2030 and plans to spend $23bn on renewables through 2021-26. We believe that Equinor has one of the most credible strategies to attain its net-zero targets.

Sample portfolio transactions

During the quarter we sold out of Nike in the Consumer Discretionary sector and replaced it with Lululemon Athletica. This followed an ESG rating downgrade for Nike and further allegations and reports of forced-labour use in China. Although Lululemon outsources production to China and India, the company is considered best-in-class in terms of disclosure, due diligence and oversight as it carries out Tier 1 and Tier 2 supplier audits. We also initialised a position in Zoetis, an animal health company, which rates highly in terms of quality and ESG.

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 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
Daikin Industries Ltd.	15.0	-21.9	14.7	49.9	33.8
Equinor ASA	2.8	56.4	67.0	-13.5	0.5
Lululemon Athletica Inc.	59.6	-18.2	12.5	50.2	90.5
Microsoft Corp.	58.2	-28.0	52.5	42.5	57.6
Omron Corp.	4.3	-43.4	25.7	45.1	62.9
Oracle Corp.	30.9	-4.6	36.9	24.2	19.3
Rio Tinto Group	7.0	31.9	0.6	30.6	35.4
SAP SE	47.2	-20.7	18.4	-9.6	40.2
Taiwan Semiconductor Manufacturing Co. Ltd.	42.3	-36.8	12.1	92.7	64.8

Source: IQ EQ Fund Management (Ireland) Limited (Davy ESG Equity Fund Class A Acc in EUR) and Bloomberg as at 31 March 2023. Performance is quoted in local currency unless otherwise stated.

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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.

About us*

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*Information correct as of April 2024

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