# Davy Funds Plc
# Davy ESG Multi-Asset Fund

## CLASS “A Distributing” UNITS
## INVESTMENT OBJECTIVE

The primary investment objective of the Davy ESG Multi-Asset Fund (‘the Fund’) is to seek, over time, to achieve capital appreciation in real terms. The Fund may, as a secondary objective, also seek to generate a moderate level of income, from year to year, consistent with the growth objective.

## INVESTMENT STRATEGY

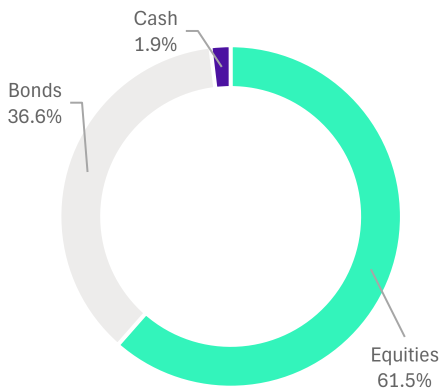
The objective of the Fund will be achieved by investing across a range of asset classes including equities, bonds and fixed deposits. The Investment Adviser’s ongoing investment policy will be to take due account of the nature of the trading activities carried out by such corporations from an ethical standpoint.

**NOTE: All information below is provided as at 31.03.2024**

### INVESTMENT PERFORMANCE


Source: Northern Trust
Single Pricing, Net of Fees, Bi-Annual Income Distribution, Total Return in Euro.

### ASSET ALLOCATION (% Fund)



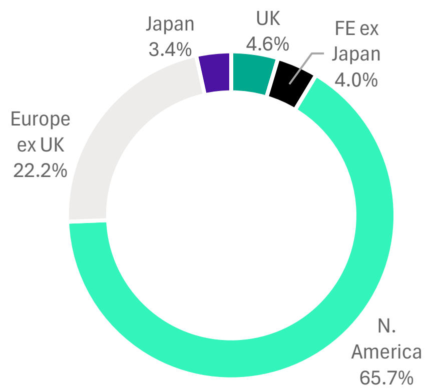

### TOP 10 HOLDINGS (%)

**10 Largest Equity Holdings (% of Total Fund)**

| Stock | Country | Weight |
|---|---|---|
| Microsoft Corp | USA | 5.2% |
| Alphabet Inc | USA | 3.9% |
| Oracle Corp | USA | 2.0% |
| Visa Inc | USA | 1.8% |
| TSMC | Taiwan | 1.7% |
| Merck & Co Inc | USA | 1.7% |
| SAP SE | Germany | 1.6% |
| American Express Co | USA | 1.6% |
| TJX Cos Inc | USA | 1.5% |
| Vinci | France | 1.5% |
| **Total** | | **22.4%** |

### GEOGRAPHIC ALLOCATION (%)

**Portfolio Geographic Allocation (% Equity)**




## IQ EQ Fund Management (Ireland) Limited

Quarter 1, 2024

### ABOUT THE FUND

**Base Currency:**
Euro

**Fund Size (EUR):**
**18.90m**

**No. of Equity Holdings:**
**51**

**Investment Manager:**
IQ EQ Fund Management (Ireland) Limited

**Type of Unit:**
Distributing

**Valuation Point:**
Close of business

**Order Cut-Off Point:**
Daily – All orders must be received by 16:00 p.m. (Irish time) one Business Day immediately preceding the relevant Dealing Day.

**Lipper ID:**
65090638

**Share Classes**
A, B

**Ongoing Charges**
0.91%, 0.91%

**Structure:**
UCITS*

* The assets of the Prescient Select Ethical Balanced Growth Fund, a sub-fund of the Prescient Select Portfolio (non-UCITS), were transferred to a new sub-fund of Davy Funds plc (UCITS), which is named the Davy ESG Multi-Asset Fund, on 17th October 2017.The same Strategy applies to both sub-funds.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## 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 11.4% 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, Meta, Alphabet, Microsoft and Nvidia were once again among the strongest contributors to equity market performance in the first quarter, while shares of Apple and Tesla 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.

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 ESG Multi-Asset Fund** returned 5.02% in Q1 2024, net of management fees, in euro terms. During the month equities within the portfolio returned 9.24% (gross of management fees), while the bond component to the Fund contributed -0.46% (gross of management fees). At the end of the month the asset breakdown was 61.5% high-quality Equities, 36.6% Bonds, and 1.9% Cash.

Within the **equity bucket**, Stock Selection was the main driver of relative underperformance particularly within the Financial (Singapore Exchange Ltd., S&P Global Inc.) and Industrial (Daikin Industries Ltd., Vinci S.A.) sectors. Selection was most positive within Consumer Staples (Loblaw Companies Ltd.) and Technology (Taiwan Semiconductor Manufacturing Co., SAP SE, Oracle Corp). 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 Inc., Apple Inc., Amazon.com Inc., Meta Platforms Inc., Microsoft Inc., Nvidia Corp., and Tesla Inc. again as a group outperformed and drove market and sector returns. Overall performance was impacted by 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., 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 (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 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 HPC (high-performance computing). 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.

**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 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 and 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 Tier1 and Tier 2 supplier audits.

**Within the bond portfolio:**

Allocations to government agency, corporate, municipal, and supranational bonds were the main source of outperformance. In addition, the overweight position in Australia also contributed positively. These gains were partially offset by the underperformance of the Fund's long duration position in the US, as inflation proved stickier than expected and yields rose. In addition, an underweight in Japan detracted from performance.

The first quarter saw global recession risks continue to recede. While US growth may be slowing down from the strong pace set in the second half of 2023, there is little to suggest a recession over the coming months. China saw strong activity in the first few months of the year, while both the euro area and UK economies are showing a modest improvement compared to 2023 when growth was lacklustre.

The combination of a better global growth outlook and firmer inflation readings in the US led the market to upwardly revise the future path of interest rates, resulting in higher bond yields (lower bond prices) during the quarter. This resulted in a modest loss for Developed Market government bonds during the period, with the JP Morgan Global Bond Index falling -0.79%.

At the same time, a more resilient global economy helped to increase risk appetite and demand for corporate bonds and other riskier Fixed Income sectors. Similarly, eurozone peripheral government bonds such as Spain, Italy and Greece, which was recently upgraded to investment grade by Standard & Poor's, also outperformed higher rated eurozone countries such as Germany.

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## POSITIONING

In the **equity portfolio** 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.

In the **bond portfolio** we became more optimistic on the global economy last November. This led us to become more constructive on issuers and sectors which give a pickup in yield ("spread") over benchmark government bonds which traditionally do well when economies are growing. Accordingly, we have been adding significant exposure to attractively-priced municipal and government agency issuers. These have been performing well and we expect to continue to add to these sectors where we see value. We also moved to an overweight position in Spain, given we think it will be supported by an improving eurozone economy and a series of rate cuts by the European Central Bank, which we currently expect to begin in June. Regarding interest rate strategy, the Fund remains long-duration relative to its benchmark so that it would outperform in a falling yield environment. Across markets, the Fund is: long-duration in Australia, the euro area and the US; neutral the UK; and short-duration in both Canada and Japan.

## CALENDAR YEAR PERFORMANCE (%)

| | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|
| **Davy ESG Multi-Asset Fund (Eur)** | **4.9%** | **-10.2%** | **20.6%** | **5.2%** | **21.3%** |
| **MSCI World Index (Eur)** | **19.6%** | **-12.8%** | **31.1%** | **6.3%** | **30.0%** |
| **JP Morgan Global Bond Index (Eur)** | **3.5%** | **-14.0%** | **-3.1%** | **4.9%** | **4.6%** |
| 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% |
| Loblaw Companies Ltd. | 8.8% | 17.1% | 67.9% | -4.4% | 11.6% |
| Lululemon Athletica Inc. | 59.6% | -18.2% | 12.5% | 50.2% | 90.5% |
| Microsoft Inc. | 58.2% | -28.0% | 52.5% | 42.5% | 57.6% |
| Nike | -6.0% | -29.0% | 18.7% | 41.0% | 38.1% |
| 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% |
| S&P Global Inc. | 32.8% | -28.4% | 44.7% | 21.4% | 62.3% |
| Singapore Exchange Ltd. | 13.7% | -0.3% | 3.5% | 8.4% | 28.6% |
| Taiwan Semiconductor Manufacturing Co. | 42.3% | -36.8% | 12.1% | 92.7% | 64.8% |
| Vinci S.A. | 26.5% | 3.9% | 17.7% | -16.6% | 41.5% |

Source: IQ EQ Fund Management (Ireland) Limited, Northern Trust, and Bloomberg as at 31 December 2023. Performance is quoted in local currency unless otherwise stated. Davy ESG Multi-Asset Fund Class A Distributing is the total return from single pricing and net of fees, with a bi-annual income distribution.

**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. This is a marketing communication. This is not a contractually binding document. Please refer to the prospectus and to the KIID of the Fund and do not base any final investment decision on this communication alone. The Fund is actively managed. SFDR disclosures can be found on our website https://iqeq.com/davy-funds-plc/**

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The Davy ESG Multi-Asset 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 a UCITS pursuant to the Regulations. Davy Funds plc is 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 2, Ireland D02 C9D0, or https://www.iqeq.com/ucits. 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 J.P. Morgan GBI series provides a comprehensive measure of local currency denominated fixed rate government debt issued in developed markets. The global series tracks 13 countries and the broad series tracks 27 countries. The series is available in a number of different segments and breakouts including - maturity sectors and individual countries as well as hedged and unhedged in over twenty currencies.

## IQ EQ Fund Management (Ireland) Limited

Quarter 1, 2024

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