

# Davy Strategic: Global Quality Equity Fund

## For Investment Professionals Only

Performance	1 month (%)	Q1 2024 (%)	1 year (%)	3 years p.a. (%)	5 years p.a. (%)
Davy Strategic: Global Quality Equity Fund <sup>1</sup> (net of fees)	2.08	11.56	25.58	12.09	15.20
MSCI World Index <sup>2</sup>	3.42	11.37	25.86	11.71	12.95

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

<sup>1</sup>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.

<sup>2</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 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.

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.

### 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

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.

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.**

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 Strategic: Global Quality Equity Fund** returned 11.56%, net of fees, in Q1, compared to the MSCI World Index which returned 11.37%. Markets continued to be driven by the tailwinds of predicted central bank rate cuts in 2024. While the Federal Reserve (Fed) and European Central Bank (ECB) have both expressed the opinion that rate cuts are merited soon, persistent inflation has dampened their enthusiasm to take any action yet. Commentators have noted that the Fed has never cut rates with the US economy in such strong shape, with output and employment remaining strong. Assets exposed to quality and growth factors outperformed more value-orientated styles over the quarter, though March saw this trend reverse. Positive attribution from Sector Allocation and, to a lesser extent, Currency effects outweighed negative Stock Selection attribution. On a sector basis, the overweight in Information Technology and Health Care had the largest positive impact on performance, while the underweight in Financials had the largest negative impact. Within the Fund's holdings, the performance of the 'Magnificent 7' mega-cap Tech companies continued to have a large importance. Counter to 4Q23, however, a divergence in fortunes was evident, with Nvidia strongly outperforming and Tesla underperforming. On the corresponding regional basis, most of the Fund's gains came from North America, with more mixed results within the other main regions of Western Europe and Asia Pacific. 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: Nvidia Corp., Microsoft Corp., Eli Lilly & Co., Broadcom Inc., and Alphabet Inc. The bottom five equity detractors from relative performance during the quarter were: Apple Inc., Tesla Inc., Adobe Inc., Kuehne + Nagel International AG, and Zoetis Inc.

**Nvidia Corp. ("Nvidia")** is a high-quality manufacturer of semiconductors used for computer gaming and by servers in data centres. Its AAA ESG rating reflects its exposure to opportunities in Clean Tech. Nvidia is capitalising on the shift towards technologies such as Artificial Intelligence ("AI") and machine learning. Its chips are increasingly in demand for accelerated computer/networking platforms and software solutions, with the company positioned as the one-stop shop. The result is strong profitability and cash generation, making it a 'high-quality' stock and a core holding in the Fund. Nvidia reported another strong quarter as broadening AI adoption is creating a demand imbalance across multiple product areas. This was increasingly evident from management discussions at the recent global electronics trade show Consumer Electronics Show ("CES"), and GPU Technology Conference ("GTC") developer conference.

**Microsoft Corporation ("MS")** is one of the largest manufacturers of enterprise and consumer software products with >\$100bn in revenues. Its Windows operating system, office applications and cloud computing (Azure) are allowing it to grow revenues and margins irrespective of the economic climate. Also, it uses AI to enhance products, leading to better end-to-end integration and opportunities across its tech stack. It also provides technology-focused solutions for sustainability issues such as carbon, water, and waste. Its latest results were marked by a large Azure boost from AI-related workloads and an unexpected FY24 margin raise, which propelled the stock. MS's current valuation reflects this as it is trading at a premium to the market due to its transformational technologies and 'high-quality' business characteristics.

**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 the exploitation of vulnerable demographics in its outsourced Chinese supply chains. The share price has been turbulent over the quarter as the market processes 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 the fact that Chinese numbers were soft). Guidance for 1Q24 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.

**Tesla Inc. (“Tesla”)** manufactures electric vehicles (“EVs”) and a range of clean-energy products. Its solar energy and power storage capabilities highlight its clean tech and low carbon credentials, resulting in an A ESG rating. It is a high-quality stock, whose products are bold, distinctive, elegant, and fun. Its share price more than doubled in 2023 as a result of the strategy, first undertaken in the latter part of 2022, to sacrifice pricing and margin to drive sales. However, in 1Q24 Tesla experienced soft demand in China and Europe, resulting in a large miss in estimated sales. Competition has become fierce, especially from Chinese companies including BYD, SAIC (owners of the MG brand) and, most recently, Xiaomi. Tesla would point to unfair subsidies available to these competitors, and Europe and the USA are both investigating this. The company remains an innovator with strong brand loyalty. It continues to work on the delivery of the next-generation self-drive platform which would open new markets such as robo-taxi services.

## 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 Tesla Inc. in Consumer Discretionary and Cognizant Tech Solutions in Technology. The resulting cash raised was invested in names such as Aker BP in Energy and Kimberly-Clark Corp. in Consumer Staples.

## 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 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
Adobe Inc.	49.0	-26.4	34.6	82.3	89.0
Alphabet Inc.	58.3	-39.1	65.3	30.9	28.2
Apple Inc.	49.0	-26.4	34.6	82.3	89.0
Broadcom Inc.	104.2	-13.3	56.4	44.9	29.1
Eli Lilly & Co.	60.9	34.2	66.1	31.1	16.2
Kuehne + Nagel International AG	41.9	-24.2	49.0	25.9	34.9
Microsoft Corp.	58.2	-28.0	52.5	42.5	57.6
Nvidia Corp.	239.0	-50.3	125.5	122.3	76.9
Tesla Inc.	101.7	-65.0	49.8	743.4	25.7
Zoetis Inc.	35.9	-39.5	48.3	25.8	55.7

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

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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.

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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\*

We are IQ-EQ, a leading investor services group employing over 5,000 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.

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\*Information correct as of April 2024

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