

IQ EQ Discovery Equity Fund

For Investment Professionals Only

Performance	1 month %	Q2 2024 %	1 year %	3 years p.a. %	5 years p.a. %
IQ EQ Discovery Equity Fund ¹ (net of fees)	-1.90	-1.30	5.95	-3.42	4.18
MSCI World Small & Mid Cap Index ² (total return)	-0.46	-2.26	12.03	3.02	8.37

Source: IQ EQ Fund Management (Ireland) Limited (IQ EQ Discovery Equity Fund Class A Acc EUR) as at 30 June 2024.

¹The IQ EQ Discovery Equity Fund (previously named the Davy Discovery Equity Fund) is a UCITS fund and was launched on 19 April 2013. On 1 May 2024 the Fund name was changed from Davy Discovery Equity Fund to IQ EQ Discovery Equity Fund.

²The MSCI World SMID Cap Index shown above does not include fees or operating expenses and you cannot invest in it. The MSCI World SMID Cap Index captures mid and small cap representation across 23 Developed Markets (DM) countries. With 5,250 constituents, the index covers approximately 28% of the free float-adjusted market capitalization in each country.

Fund overview

The investment aim of the **IQ EQ Discovery Equity Fund** (the "Fund") is to achieve long-term capital growth by investing in shares of small and medium-sized companies on a global basis. These companies tend to demonstrate growth potential and represent attractive investment opportunities. Investing during the early stage of a company's life cycle can lead to higher-than-average investment returns.

Market comment

Equity markets made further gains in the second quarter, rising by 3.42% in euro terms as measured by the MSCI World Index (net). This brought the total return for the year-to-date to 15.18%. The course of inflation and the timing of future interest rate cuts from the world's central banks were the dominant themes during the quarter. The European Central Bank cut interest rates by 0.25%

for the first time since 2016 during the quarter, while the Swiss National Bank and Bank of Canada were also among the central banks easing policy during the period. The US Federal Reserve was a notable holdout, perhaps waiting for more evidence of a cooling economy.

After a brief pause earlier in the year, technology and internet-related shares once again drove equity market performance during the quarter. Market performance was very concentrated, with Nvidia, Apple, Microsoft Alphabet and Amazon essentially accounting for all of the return during the three months. Investors are placing a premium on companies that can produce solid earnings growth and these US tech companies delivered during the quarter.

At the other end of the performance spectrum, cyclical sectors such as Industrials, Materials and Energy fell during the quarter as earnings disappointed.

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.

Fund performance

The **IQ EQ Discovery Equity Fund** returned -1.30% in the second quarter compared to its benchmark MSCI World SMID Index which returned -2.26%. Markets finally received the predicted rate cut from the ECB, but the US Federal Reserve continues to be cautious. While main market indices rose over the period, buoyed by another strong earnings season, smaller companies continued to lag and stocks delivering weak earnings fell sharply. The Fund's performance over the period was driven by positive stock selection (Keywords Studios plc, Teradyne Inc, Badger Meter Inc) and currency effects (Yen, underweight). These stocks are in the Information Technology sector, and they had the largest positive impact on performance, while the modest overweight in Industrials had the largest negative impact (Alfen NV). On a regional basis, the Fund saw gains broadly across North America, Europe ex the UK, and Japan. Conversely, the UK and Asia ex Japan were the only geographies with negative attribution. The Fund will continue to focus on key pillars of quality such as profitability and growth when looking for attractive companies. Does this make sense here?

The top five equity contributors to relative performance during the quarter were: Keywords Studios plc, Teradyne Inc., Badger Meter Inc., Teleperformance, and H&R Block Inc. The bottom five equity detractors from relative performance during the quarter were: Alfen NV, Masco Corp., Moncler SpA, Henry Schein Inc. and Allegion plc.

Keywords Studios plc ("KWS") provides art creation, localization, testing, and customer support services to the video games industry in 50+ languages. It acts as an external service provider to most of the world's major gaming studios, delivering double-digit organic growth, a stable mid-teen EBITDA margin, a high-teen ROCE (Return on Capital Employed), and over 90% cash conversion. So, it was unsurprising that Swedish private equity group EQT offered £25.50 per share to acquire it, a 70% premium to the market price at the beginning of May. We initiated profit-taking in the position shortly after the announcement and have now fully exited the position. We are seeking

to invest the proceeds in another name in the IT sector.

Teradyne Inc. ("Teradyne") is a supplier of automation test equipment for industrial applications and cobots (collaborative robots). Revenue growth in 2024-26 is expected to be driven by semiconductor tests, followed by Robotics, LitePoint, and other IT activities. Yet it is the combination of Artificial Intelligence ("AI") and hyperscalers that provide Teradyne with the best opportunity to grow volume and market share as it can differentiate with its ability to seamlessly take designs to tests. We are long-term believers in the stock and believe the market is only starting to anticipate a recovery in the industrial cycle and a new product cycle in robotics in 2H24. Execution by management remains robust, delivering double-digit operating margins and free cash flows.

Alfen NV ("Alfen") was the main detractor of returns as the shares declined by 64.5% after several negative events. Alfen operates at the heart of the energy transition and was a first mover in Electric Vehicle ("EV") charging. After a poor set of Q1 results released in May, the stock has continued to underperform. While these results focused on weakness in battery storage, a second profit warning in late June saw the share price collapse by ~43%, in line with new, lower EBITDA guidance. Again, the main driver of the miss was battery storage, where large systems that were to be signed off in Q2 had been postponed into 2025. This resulted in guidance for 2024 being cut and provisions for obsolete inventory being taken. Furthermore, banking covenants for credit facilities are under pressure. The company reports to CDP and has just filed emissions targets with the SBTi which is in keeping with its medium-term targets announced in May 2023. As a renewable energy solutions provider, Alfen fulfils several of our themes, but, given the recent turmoil, we will review the holding.

Masco Corporation ("Masco") manufactures plumbing and decorative architectural products. Its numerous well-known brands include Delta, Peerless, Brizo, Hansgrohe, Behr, and Kilz. Its activities are focused on the repair and remodel

market, which results in below-average exposure to US new residential construction. This reduces its level of cyclical and vulnerability to new housing volatility. Although its latest quarterly earnings per share (EPS) was 8% higher than last year, its revenues fell as the company seeks to recoup margins lost during supply chain challenges in 2022-2023. Despite this strong operational performance, soft demand for repair and remodelling activity within the US is resulting in a flat-to-slightly-down revenue growth for 2024. While over the medium term, the aging of the US housing stock will be a tailwind for renovation work, this is yet to show up in results or in macro data.

Sample portfolio transactions

There were no significant transactions during the quarter

The QQE perspective

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 reflect investor preferences which, for most of 2024, have been for steady, consistent profits. We noted at the end of the first quarter that investors were paying a premium for those profits as valuations soared to levels not seen since the “dotcom” frenzy. Persistence was, once again, the standout performing pillar during the second quarter. It is dominated by tech stocks, which have generally had a very strong earnings season and, in many cases, are trading higher still. There is another possible reason for the crowding into technology stocks and that is the loss of momentum in the US economy, particularly in the manufacturing sector, which has weakened in recent months according to leading indicator data. In such circumstances, it is natural for investors to seek refuge in companies that are delivering persistent profits when all other sectors are struggling. However, at current valuations, any slip in the AI-related bull market could be very painful indeed.

Calendar year performance	2023 (%)	2022 (%)	2021 (%)	2020 (%)	2019 (%)
IQ EQ Discovery Equity Fund (net of fees)	9.4	-26.0	27.5	9.9	32.9
MSCI World SMID Cap Index (NTR, EUR)	11.7	-13.6	25.6	6.2	29.2
MSCI World Index (EUR)	19.6	-12.8	31.1	6.3	30.0
Alfen NV	-28.4	-4.6	6.8	402.4	33.5
Allegion plc	22.3	-19.2	15.0	-5.4	57.9
Badger Meter Inc.	42.6	3.2	14.1	46.4	33.4
H&R Block Inc.	36.8	60.0	55.5	-27.8	-3.6
Henry Schein Inc.	-5.2	3.0	16.0	0.2	8.4
Keywords Studios plc	-38.9	-7.3	2.9	90.9	40.2
Masco Corporation	46.6	-32.1	29.6	-	-
Moncler S.p.A.	14.5	-21.6	28.7	25.1	40.1
Teleperformance SE	-39.6	-42.6	45.6	26.1	57.6
Teradyne Inc.	24.8	-46.3	36.8	76.7	118.9

Source: IQ EQ Fund Management (Ireland) limited (IQ EQ Discovery Equity Fund Class A Acc EUR) and Bloomberg as at 30 June 2024. Performance is quoted in local currency unless otherwise stated.

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The IQ EQ Discovery Equity Fund (formerly the Davy Discovery Equity Fund – name change effective 1 May 2024) 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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*Information correct as of April 2024

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