Q2 2024 Update

IQ EQ Global Bond Fund

For Investment Professionals Only

Performance	1 month (%)	Q2 2024 (%)	1 year (%)	3 years p.a. (%)	5 years p.a. (%)
IQ EQ Global Bond Fund[1] A Acc EUR (net of fees)	0.64	-1.18	0.08	-4.73	-2.28
IQ EQ Global Bond Fund[1] D Acc EUR (net of fees)	0.65	-1.15	0.23	-	-
JP Morgan Global Bond Index[2]	0.67	-0.82	0.57	-4.40	-2.24

Source: IQ EQ Fund Management (Ireland) Limited (IQ EQ Global Bond Fund Class A and Class D Acc EUR) as at 30 June 2024.

[1]The IQ EQ Global Bond Fund is a UCITS fund and was launched on 8 October 2004. On 1 May 2024 the Fund name was changed from Davy Global Bond Fund to IQ EQ Global Bond Fund. The D Acc EUR share class was launched on 28 June 2022.

[2]The JPM Global Bond (Euro Hedged) Index shown above does not include fees or operating expenses and you cannot invest in it.

Fund overview

The aim of the **IQ EQ Global Bond Fund** (the 'Fund') is to protect capital against volatility, deflation, and bear markets by investing primarily in global sovereign bonds.

Market comment

The second quarter of 2024 saw Developed Market bond yields climb, as stickier-than-expected inflation data across many of the larger economies led markets to price-in fewer interest rate cuts from central banks. In addition, to combat weakness in the Yen, the Bank of Japan signalled tighter monetary policy in the months ahead which pushed Japanese bond yields significantly higher. These events resulted in a small loss for government bonds during the period, with the JPMorgan Global Bond Index (euro hedged) falling 0.83%.

Towards the end of the quarter, French President Emmanuel Macron shocked markets by calling a snap election. This decision risked ushering in a potentially less fiscally prudent government, either through the right-wing National Rally party, or a left-wing alliance called the New Popular Front. The results of the election could put France on a collision course with the European Commission and credit rating agencies, given it comes at a time when France is already running a very large fiscal deficit (5.5% as a percentage of GDP) and should be tightening its belt. *Note: this commentary was written before the outcome of the election was known.*

With memories of the UK mini-budget fiasco and the Eurozone Debt Crisis still fresh in the minds of many market participants, French bonds sold off. It also negatively affected overall market sentiment and the selloff also extended, somewhat indiscriminately, to other Fixed Income sectors.

Fund performance

The **IQ EQ Global Bond Fund D Acc share class** was down 1.15% (net) during the second quarter, underperforming its benchmark, the JP Morgan Global Index (euro hedged), which returned -0.82%.

The Fund's long duration position in April was the primary driver of underperformance. Surprisingly strong US inflation data was the catalyst. While we cut our long US duration position following the release of the inflation data, it sparked a rise in global yields which hurt the remaining long duration positions in Australia and the Euro Area.

This was partially offset by the outperformance of the Fund's allocations to government agency, corporate and supranational bonds over the quarter. In addition, the Fund's underweight in France contributed positively to performance as French bond yields rose (prices fell) when the election was announced in June.

Positioning

The Fund entered the quarter long duration relative to its benchmark so that it would outperform in a falling yield environment. However, we reduced it in early April following surprisingly strong US inflation data. As we enter July, the Fund retains a small overall long position through Australia.

While the US economy is showing signs of slowing, there is little to suggest that a recession is approaching. This also comes at a time when growth in Europe is picking up after a lacklustre 2023. Therefore, we still prefer to be overweight Fixed Income sectors which outperform benchmark bonds when the global economy is expanding, such as government agencies, municipals, supranational and corporate bonds.

In that respect, during the quarter we added Poland and Lithuania via US Dollar and Euro-denominated sovereign bonds, respectively. In our opinion, they are attractively priced with strong fundamentals. In addition, both Lithuania and Poland are set to benefit from significant EU funding in the coming years. Poland stands to benefit the most. Notably, the election of pro-EU Donald Tusk as Polish Prime Minister last December has helped to unlock EU Funds which were frozen following a dispute between the previous administration and the EU over judicial reforms.

We also initiated a position in Chilean sovereign bonds. With a credit rating of 'A', it is the highest-rated South American country. It is lowly leveraged, has a stable democracy, strong rule of law and solid institutions. We think Chile is attractively valued and it is also a good addition to the Fund from a diversification perspective.

Despite the Fund's underweight position in France, the wider sell-off following the election announcement hurt the performance of some of the Fund's other positions, for example an overweight in Spanish bonds. However, we are confident we can look through this volatility. In our opinion, this is not a repeat of the European Debt Crisis. We think that even if a shadow remains over France's finances and credit ratings over the coming quarters, the market will increasingly differentiate between it and other issuers. As such, we think the positions which underperformed in June should recover.

Calendar year performance	2023 (%)	2022 (%)	2021 (%)	2020 (%)	2019 (%)
IQ EQ Global Bond Fund (Net of fees) (EUR)	3.0	-14.5	-3.4	6.0	5.2
JPMorgan Global Bond Index (Euro Hedged)	3.5	-14.0	-3.1	4.9	4.6

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

Warning: Past performance is not a reliable guide to future performance. The value of the investment can reduce as well as increase and, therefore, the return on the investment will also be variable. Changes in exchange rates may have an adverse effect on the value price or income of the product.

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The IQ EQ Global Bond Fund (formerly the Davy Global Bond 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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