Q2 2024 Update

IQ EQ Strategic: Global Quality Equity Fund

For Investment Professionals Only

Performance	1 month (%)	Q2 2024 (%)	1 year (%)	3 years p.a. (%)	5 years p.a. (%)
IQ EQ Strategic: Global Quality Equity Fund[1] (net of fees)	5.11	4.68	24.88	10.34	15.88
MSCI World Index[2]	3.35	3.42	22.35	10.52	13.14

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

[1]Investment Management of the IQ EQ 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 IQ EQ 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 name of the Davy Strategic Global Equity Fund was changed to the Davy Strategic: Global Quality Equity Fund. On 1 May 2024 the name was changed to the IQ EQ Strategic: Global Quality Equity Fund.
[2]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 **IQ EQ 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.

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 ("ECB") 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, preferring to wait 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.

Fund performance

The IQ EQ Strategic: Global Quality Equity Fund returned 4.68%, net of fees, in Q2, compared to the MSCI World Index which returned 3.42%, an outperformance of 1.26%. Markets finally received the predicted rate cut from the ECB (25bps on June 6th) and another strong earnings season buoyed stocks. While the main market indices were strong overall, any sign of weakness in earnings led to precipitous falls in price for individual companies. Assets exposed to quality and growth factors outperformed more value-orientated styles over the quarter. Positive attribution was gained from all factors: Sector Allocation, Stock Selection and Currency Effects. On a sector basis, the overweight in Information Technology had the largest positive impact on performance, while the underweight in Financials had the largest negative impact. The performance of the 'Magnificent 7' mega-cap Technology companies diverged somewhat over the period, with Fund holdings Nvidia Corp, Apple Inc and Alphabet Inc taking the lion's share of the gains. On the corresponding regional basis, the Fund saw gains broadly across North America and Europe Ex the UK. Conversely, the UK and Japan were the only geographies with negative attribution. 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 The bottom five equity during the quarter were: NVIDIA Corporation, Apple Inc., Alphabet Inc., Microsoft Corporation, and Broadcom Inc.

The ***bottom five detractors*** from relative performance during the quarter were: Fastenal Company, Mastercard Inc., Accenture Plc, Home Depot Inc., and WW Grainger Inc.

Nvidia Corp. (“Nvidia”) is a high-quality manufacturer of semiconductors used for computer gaming and 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 in increasing 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 a strong quarter as broadening AI adoption is creating a demand imbalance across multiple product areas. In May, management's continued confidence in demand was reflected in reported excess inventory purchase obligations, up $3.3bn quarter-on-quarter, reflecting the popularity of its new Blackwell platform. Further, these commitments are benefitting from “shortening lead times for certain components.

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 the company unique. Apple 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. Apple’s stock has outperformed S&P by 13% since Q2 earnings, including a nearly 10% gain after WWDC on June 10th. This is due to in no small part to Apple increasingly being seen as an AI leader rather than an AI laggard. Notably, it has teamed up with OpenAI, though the implementation details are yet to be revealed. The company is also currently benefiting from a mix shift to services, as well as from margin improvement within services. Added to this, Apple is entering its seasonally strong trading period. The latest data for May continues to show an improving trajectory for iPhone shipments in China helped to some extent by the recovery in the broader China Smartphone market. It is little wonder that the stock now trades back at all-time highs.

Fastenal Company ("Fastenal") sells industrial and construction supplies products, such as fasteners, cutting tools, metalworking, lifting, hardware, plumbing, lubricant, and other related products. Fastenal holds an A ESG rating from MSCI, reflecting its strong corporate governance with room to improve on green technology adoption. The company's latest results lagged normal seasonality, with a miss across the board on lighter-than-expected sales and sticky operating expenses. Management attributed this to macro softness, particularly in heavy manufacturing and metalworking end markets, with core customer improvement below expectations, though only slightly below the typical seasonal rate. The bigger miss versus consensus was due to management having set unrealistic expectations. The weak recovery in the ISM Manufacturing Index suggests that aggressive full-year estimates could be challenging. However, Fastenal continues to execute its plan to close physical branches which should deliver cost savings as it better develops its digital strategy.

MasterCard Inc. ("MasterCard") is a quality global payments provider, offering electronic payments networks and infrastructure. Its solutions are processed in 150+ currencies, in 210+ countries. Its AA ESG rating is supported by its financial inclusion initiatives, which target small and micro-merchants, and women entrepreneurs in developing markets. The volume of digital payments is the main driver of the company's growth, reflecting the shift from cash and cheques. The recent quarterly results were a modest beat on market expectations and management reiterated its FY 2024 guidance. Concerns surround a weaker US consumer, the Credit Card Competition Act, and recent legal developments on a merchant settlement and Supreme Court ruling. These issues have combined to create an appealing entry point for a company with qualities that enable it to consistently surprise the market.

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. In this period this only included the Energy company ***Equinor ASA***. The proceeds were subsequently invested in names such as ***3i Group plc*** in the Financials sector, and ***Power Asset Holdings Ltd.*** in the Utilities sector.

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 technology 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 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
3i Group plc	85.5	-3.4	29.0	9.4	47.2
Accenture plc	33.6	-34.8	60.7	26.1	51.2
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
Equinor ASA	2.8	56.4	67.0	-13.5	0.5
Fastenal Company	41.3	-24.3	34.0	36.6	45.0
Home Depot Inc.	12.8	-22.0	59.5	24.5	30.5
Mastercard Inc.	23.4	-2.7	1.2	20.2	59.2
Microsoft Corp.	58.2	-28.0	52.5	42.5	57.6
Nvidia Corp.	239.0	-50.3	125.5	122.3	76.9
Power Asset Holdings Ltd.	13.1	-7.0	22.7	-21.8	10.1
WW Grainger Inc.	50.5	8.7	28.8	22.8	22.3

Source: IQ EQ Fund Management (Ireland) Limited (IQ EQ Strategic: Global Quality Equity 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 Strategic: Global Quality Equity Fund (formerly the Davy Strategic: Global Quality Equity Fund – name change effective from 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.

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.

IQEQ

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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