

# IQ EQ Defensive Equity Income Fund

## For Investment Professionals Only

Performance	1 month (%)	Q3 2024 (%)	1 year (%)	3 years p.a. (%)	5 years p.a. (%)
IQ EQ Defensive Equity Income Fund <sup>1</sup> (net of fees)	0.74	2.85	17.08	8.40	8.02
MSCI World Index <sup>2</sup>	1.00	2.14	25.63	10.46	12.52

Source: IQ EQ Fund Management (Ireland) Limited (IQ EQ Defensive Equity Income Fund Class B Acc EUR) as at 30 September 2024.

<sup>1</sup>The IQ EQ Defensive Equity Income Fund is a UCITS fund and was launched on 16 December 2011. On 1 May 2024 the name was changed from Davy Defensive Equity Income Fund to IQ EQ Defensive Equity Income 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 aim of the **IQ EQ Defensive Equity Income Fund** (the "Fund") is to provide long-term capital growth, with reduced levels of volatility compared to global equity markets.

The Fund aims to reduce risk by investing in large global companies that pay out above-average dividend yields, and employs an options strategy to provide some downside protection against significant market falls.

### Market comment

Global equity markets rose by 2.14% in the third quarter, taking the year-to-date return to 17.64% in euro terms as measured by the MSCI World Index (net). It was a relatively volatile quarter, with two periods of declines, one in early August, and another in early September. The August rout was sparked by poor earnings outlooks from semiconductor makers and extreme volatility in financial markets during July and August.

September's downward lurch was due, once again, to disappointing forecasts from large technology companies. However, equity markets recovered into the quarter-end on a 0.5% cut in interest rates from the US Federal Reserve ("the Fed") and hopes that the Fed would engineer a soft landing for the US economy, which had shown weakening labour market conditions during the quarter.

Interest rate-sensitive sectors such as Utilities and Financials were among the best performing sectors during the quarter as US interest rates declined in September. There was some evidence from data released during the month of cooling in the US labour market, which drove the move lower in interest rates. The benchmark US 10-year Treasury yield fell from 4.4% to 3.8% during the quarter.

Large technology shares underperformed during the quarter on those disappointing outlooks. Meanwhile, energy shares also weakened as the price of a barrel of Brent crude oil fell from \$85 to \$72 on the slowdown in US labour data and a cut in its forecast for global demand from OPEC.

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 Defensive Equity Income Fund** returned 2.85% in Q3 versus an index return of 2.14%. Stock Selection detracted from performance, while Asset Allocation and Currency both contributed positively during the third quarter. The negative contribution from Stock Selection was due to the performance of companies such as TSMC and Merck, which were laggards during the third quarter. Hong Kong Exchanges and US utility company Public Service Enterprise Group were among the strongest contributors to performance. The positive Asset Allocation outturn was driven primarily by an overweight position in Industrial and Utility companies, which outperformed during the quarter, and an underweight position in Energy shares, which fell sharply. Currency was a positive contributor to relative performance due to the Fund's underweight position in the US dollar. The dollar weakened against the euro from \$1.07 to \$1.11 as the US labour market weakened and interest rates were cut.

The **Options Strategy** contributed negatively to relative performance as the put options fell in value as equity markets gained during the period. Call options written on Broadcom also contributed negatively as the stock rose by more than 5% in the quarter.

The **top five equity contributors** to relative performance during the quarter were: Public Service Enterprise Group Inc., Hong Kong Exchanges and Clearing Ltd., National Grid plc, Cummins Inc., and Sanofi S.A.

The **bottom five equity detractors** from relative performance during the quarter were: Merck & Co. Inc., Taiwan Semiconductor Manufacturing Company Ltd., Samsung Electronics Ltd., Waste Management Inc., and Intel Corp.

**Public Service Enterprise Group Inc. ("PSEG")** contributed strongly to returns in the quarter, rising by 17.11%. PSEG is a public utility holding company servicing New Jersey and Pennsylvania in the USA. Almost 70% of revenues come from the utility company Public Service Electric & Gas Company (PSE&G), with the remaining 30% coming from PSEG Power and Other. PSE&G is the utility and gas provider to over two million electricity customers, whereas PSEG Power is divided into PSEG Nuclear, PSEG Fossil, PSEG Energy Resources & Trade, and PSEG Power Ventures. While falling interest rates are regarded as a positive for the sector as a whole, PSEG has some specific attributes that have driven share price performance. It is a strong proponent of more environmentally-friendly sources of energy, having set up solar farms around New Jersey, using nuclear energy for 85% of New Jersey's carbon-free power, and advocating for the construction of wind farms. In July, the Wall Street Journal reported that tech companies have been turning to American nuclear power plants as they look to meet the electricity needs of data centres as Artificial Intelligence ("AI") takes off. Management confirmed the interest it was receiving, and the shares sustained the rally into September.

**Hong Kong Exchanges and Clearing Limited ("HKEX")** was among the strongest contributors to returns during the quarter, returning 28.20%. It is one of the world's largest exchange groups, providing trading, clearing, settlement and depository, and market data services. HKEX also, crucially, provides opportunities for foreign investors to invest into companies from mainland China. 40% of revenues are from the Post Trade segment, which pertains to their clearing houses. The stock underperformed during July as concerns about the strength of the Chinese economy weighed on the region. However, China's large stimulus announcements towards the end of the quarter sparked a rally resulting in the best weekly performance since 2008. China's Central Bank announced cuts in interest rates and the easing of the restrictions on borrowing to invest. The stimulus measures are particularly beneficial to companies such as HKEX.

**Merck & Co. Inc. (“Merck”)**, the US healthcare company, is best known for its cancer drug Keytruda, diabetes drugs Januvia and Janumet, and HPV vaccine Gardasil. Recent earnings results have been beating expectations, with Keytruda dominating the growth of the business. However, the company’s Q2 results published at the end of July disappointed and saw the share decline almost 10% on the day as sales of Gardasil faltered. Management is investigating the lower shipments in Q2 to China, which has been a growth market for Gardasil, and suggested that sales had been affected by anti-bribery and corruption moves in the country. Merck continues to lead its peers in initiatives to improve access to healthcare particularly in developing countries where it has pricing policies based on affordability for 40 products in over 120 countries. The company also leads peers in talent management through engagement surveys and is recognised as an employer of choice.

**Taiwan Semiconductor Manufacturing Company Ltd. (“TSMC”)** was a detractor from performance during the third quarter as the share fell by 3.7% compared with the Information Technology return which fell by 2.5%. The company’s reports have generally surprised investors positively during 2024, showing continued momentum, particularly in the Artificial Intelligence (“AI”) and High-Powered Computing divisions. AI deployment requires the type of chips which TSMC leads the world in producing. TSMC has also entered a strategic alliance with South Korea’s SK Hynix Inc. for AI chip development. The company will increase capital spending to meet the new demand forecasts. We believe that the company will maintain its dominance in leading-edge technologies and that AI will be a longer-term driver of future profits. TSMC is a high-quality company with excellent sustainability credentials operating with an exceptionally strong competitive moat. That strength allows the company to pay out 70% of free cash flow to investors in dividends every year. During the third quarter the company’s share price fell on reports of additional measures to limit China’s access to advanced technology by the US Government. Comments from US presidential candidate Donald Trump that Taiwan should pay for the protection it receives from the US also weighed on sentiment surrounding the company.

## 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. However, in the third quarter our quality model underperformed, driven by the Information Technology sector, which underperformed. We noted at the end of the second quarter that investors were paying a premium for steady profit growth as reflected in the strong performance from our Persistence pillar, which has a high allocation to technology shares. We wrote at the time that there was little valuation support for the pillar if preferences changed. This trend went into reverse in the third quarter, with the People pillar performing strongest of the four. This pillar reflects companies that reward shareholders with capital repayments, including dividends. These shares fared well during the third quarter as interest rates fell. The performance of the People pillar is also symptomatic of an increase in market breadth, which is necessary if equity market performance is to be maintained into the end of the year.

Calendar year performance	2023 (%)	2022 (%)	2021 (%)	2020 (%)	2019 (%)
<b>IQ EQ Defensive Equity Income Fund (net of fees) (EUR)</b>	<b>5.9</b>	<b>-1.9</b>	<b>22.8</b>	<b>-1.2</b>	<b>20.8</b>
<b>MSCI World Index (EUR)</b>	<b>19.6</b>	<b>-12.8</b>	<b>31.1</b>	<b>6.3</b>	<b>30.0</b>
Cummins Inc.	1.7	14.1	-1.7	30.5	38.1
Hong Kong Exchanges & Clearing Ltd.	-18.5	-24.2	9.3	71.6	14.6
Intel Corp.	94.6	-46.7	6.0	-14.7	30.7
Merck & Co. Inc.	1.0	49.4	1.8	-7.2	22.3
National Grid plc	12.0	-1.4	29.0	-3.4	30.9
Public Service Enterprise Group Inc.	3.6	-5.1	18.3	2.4	17.1
Samsung Electronics Ltd.	44.2	-27.6	-1.6	51.8	48.4
Sanofi S.A.	3.7	5.5	16.8	-9.1	23.4
Taiwan Semiconductor Manufacturing Co. Ltd.	42.3	-36.8	12.1	92.7	64.8
Waste Management Inc.	16.2	-4.5	43.8	5.5	30.5

Source: IQ EQ Fund Management (Ireland) Limited (IQ EQ Defensive Equity Income Fund Class B Acc EUR) and Bloomberg as at 30 September 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.**

This report does not constitute an offer for the purchase or sale of any financial instrument, trading strategy, product or service. No one receiving this report should treat any of its contents as constituting advice or a personal recommendation. It does not take into account the investment objectives or financial situation of any particular person. All investments involve a degree of risk. Equities may involve a high degree of risk and may not be suitable for all investors. Government bonds and cash deposits, although considered the safest assets, are not devoid of risk (e.g. inflation risk, credit risk, currency risk, etc.). There are different reasons why an investor would choose to invest in a particular asset class and each investor must consider the inherent risks therein based on his/her own personal circumstances.

No part of this document is to be reproduced without our written permission. This document has been prepared and issued by IQ EQ Fund Management (Ireland) Limited on the basis of publicly available information, internally developed data and other sources believed to be reliable. While all reasonable care has been given to the preparation of this information, no warranties or representations expressed or implied are given or liability accepted by IQ EQ Fund Management (Ireland) Limited or its affiliates or any directors or employees in relation to the accuracy fairness or completeness of the information contained herein. Any opinion expressed (including estimates and forecasts) may be subject to change without notice. We or any of our connected or affiliated companies or their employees may have a position in, or may have provided within the last twelve months, significant advice or investment services in relation to any of the securities or related investments referred to in this document.

IQ EQ Fund Management (Ireland) Limited, trading as IQ EQ Fund Management, is regulated by the Central Bank of Ireland. In Luxembourg, IQ EQ Fund Management is authorised by the Central Bank of Ireland and is subject to limited regulation by the Commission de Surveillance du Secteur Financier. Details about the extent of our authorisation and regulation by the Central Bank of Ireland and the Commission de Surveillance du Secteur Financier are available from us upon request.

The IQ EQ Defensive Equity Income Fund (formerly the Davy Defensive Equity Income 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.igeq.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.

MSCI Inc. (MSCI). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be reproduced, disseminated or used to create any financial products, including any indices. This information is provided on an ‘as is’ basis. The user assumes the entire risk of any use made of this information. MSCI, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. MSCI and the MSCI indexes are services marks of MSCI and its affiliates.

## 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.

IQ EQ Fund Management (Ireland) Limited is regulated by the Central Bank of Ireland. In Luxembourg, IQ EQ Fund Management (Ireland) Limited is authorised by the Central Bank of Ireland and is subject to limited regulation by the Commission de Surveillance du Secteur Financier. Details about the extent of our authorisation and regulation by the Central Bank of Ireland and the Commission de Surveillance du Secteur Financier are available from us upon request.

\*Information correct as of April 2024

This document is provided for information purposes only and does not constitute legal, tax, investment, regulatory, accounting or other professional advice. For more information on the legal and regulatory status of IQ-EQ companies please visit [www.iqeq.com/legal-and-compliance](http://www.iqeq.com/legal-and-compliance)

Reference: NC\_24022024\_1  
© IQ-EQ 2024

Find out more  
[www.iqeq.com](http://www.iqeq.com)

Follow us

