

# IQ EQ Global Focus Fund

## For Investment Professionals Only

Performance	1 month (%)	Q3 2024 (%)	1 year (%)	3 years p.a. (%)	5 years p.a. (%)
IQ EQ Global Focus Fund <sup>1</sup> (net of fees)	-0.41	1.24	17.41	3.66	8.52
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 Global Focus Fund Class A Acc EUR) as at 30 September 2024

<sup>1</sup> The IQ EQ Global Focus Fund is a UCITS fund and was launched on 28 February 2001. On 1 May 2024 the Fund name was changed from Davy Global Focus Fund to IQ EQ Global Focus 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 Global Focus Fund** (the 'Fund') is to generate absolute returns over the medium term. Absolute returns are specific, consistent positive returns which are not necessarily dependent upon specific asset class exposure or upon continuous rising markets.

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.

### 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.

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 Global Focus Fund** gained 1.24% in Q3, net of fees, underperforming the MSCI World Index return of 2.14%. Markets ended Q3 higher, but exhibited significant volatility, as investors reacted strongly to weak US jobs data for July and feared that the Federal Reserve had left it too late to cut interest rates, raising the risk of a “hard landing”. However, resilient corporate earnings and US retail sales, alongside a 50 basis point interest-rate cut, appeared to reassure investors as markets trended higher through September. With bonds underperforming equities during the quarter, our fixed income allocation detracted from performance but still offered valuable diversification benefits. Within equities, the sectors making the largest contributions to return were Healthcare (Intuitive Surgical), and Industrials (Allegion, ADP, Cummins, Masco and Rational). On the corresponding regional basis, most of the Fund's gains came from Europe, ex UK, and Japan, with more mixed results within the other main regions of North America and Asia Pacific. The Fund will continue to focus on quality companies with high levels of profitability and positive ESG momentum when looking for attractive companies.

The **top five equity contributors** to relative performance during the quarter were: Rational AG, Masco Corporation, Allegion Plc, Cummins Inc., and Automatic Data Processing Inc.

**The bottom five equity detractors** from relative performance during the quarter were: Teradyne Inc. Gentex Corporation, Alphabet Inc., Adobe Inc., and Pax Global Technologies Ltd

**Rational AG (“Rational”)** is a high-quality manufacturer of specialised industrial kitchen equipment for restaurants in which it is considered to be a world leader. It has an A rating from MSCI ESG and this is supported by a strong balance sheet and international growth platform. The stock has undergone a significantly positive re-rating in 2024 as the risk of a possible recession in Europe has waned. Its performance this quarter was strong as management reaffirmed FY24 sales guidance after seeing its order book grow faster than expected over the summer months. Despite the premium valuation attached to the stock we believe Rational will continue to deliver over the long term given its

competitive advantages within the catering industry, its financial flexibility afforded by its strong balance sheet and its exposure to secular trends such as growing restaurant traffic and the greater convenience afforded to customers by “grab-and-go” caterers.

**Masco Corporation (“Masco”)** manufactures plumbing and decorative architectural products. Its range of numerous well-known brands includes Delta, Peerless, Brizo, Hansgrohe, Behr, and Kilz. As over 90% of its revenues are from repair and remodel activities it has lower cyclicality than many of its peers. This has resulted in steady operating margins, an investment-grade balance sheet, and the ability to deploy excess free cash flow to repurchase shares, pay dividends or make bolt-on acquisitions. That said, the company decided to sell Kichler Lighting, which reinforces its focused approach. Masco has not experienced a significant disparity between new construction versus repair and refurbishment trends year-to-date, as it is levered to the largest homebuilders. While management expect operating margins to rise in 2024, they also expect sales to be flat and have not raised their guidance for the year. Operational efficiencies continue to support the share price this year.

**Teradyne Inc. (“Teradyne”)** is a supplier of automation test equipment for industrial applications and cobots (collaborative robots). Revenue growth in 2024-2026 is expected to be driven by semiconductor testing followed by robotics and LitePoint. The combination of Artificial Intelligence (“AI”) and hyperscalers is providing Teradyne with the best opportunity to grow volume and market share as it can differentiate itself through its ability to seamlessly take designs to testing stage. The company also announced a partnership with NVIDIA to introduce GenAI into its robots which could drive further drive revenue growth for the business. The share price has gained year to date but underperformed last quarter as management delivered lower-than-expected guidance for 3Q24. We remain long-term believers in the stock, and our view is that 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 flow margins.

**Gentex Corporation (“Gentex”)** specialises in the manufacture of digital vision, connected car, and dimmable smart glass products. The company’s constant development of new products and technologies has enabled it to consistently grow revenues and margins over the past 25 years, making it a high-quality stock. Management’s target is to outgrow the market by 6% - 9%. This needs to be driven by a mix of new features with higher average sales price (“ASP”) versus volume/market penetration. While supply-chain disruptions are no longer restraining vehicle production, vehicle affordability issues have affected consumers over the last 12 months but falling interest rates should help the situation. As Gentex’s 2Q24 results did not meet expectations, the shares underperformed during the quarter and management has revised down its guidance. Despite recent headwinds, the stock still represents a compelling investment case with a strong market position and free cash flow generation.

## 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 (%)
IQ EQ Global Focus Fund (net of fees) (EUR)	14.6	-18.0	22.8	-1.2	20.8
MSCI World Index (EUR)	19.6	-12.8	31.1	6.3	30.0
Adobe Inc.	77.3	-40.7	13.4	51.6	45.8
Allegion plc	22.3	-19.2	15.0	-5.4	57.9
Alphabet Inc.	58.3	-39.1	65.3	30.9	28.2
Automatic Data Processing Inc.	-0.2	-1.3	42.6	6.0	32.7
Cummins Inc.	1.7	14.1	-1.7	30.5	38.1
Gentex Corp	21.8	-20.4	4.1	19.2	46.3
Masco Corp.	46.6	-32.1	29.6	15.8	66.3
Pax Global Technologies Ltd.	-4.2	28.1	-16.7	94.9	32.0
Rational AG	28.7	-37.2	19.0	7.4	46.9
Teradyne Inc.	24.8	-46.3	36.8	76.7	118.9

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

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## 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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