# Davy Funds Plc
# Davy ESG Multi-Asset Fund

## CLASS "A Distributing" UNITS
## INVESTMENT OBJECTIVE

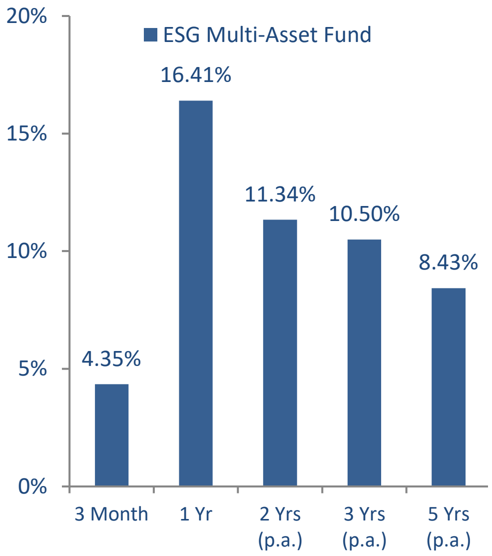
The primary investment objective of the Davy ESG Multi-Asset Fund ('the Fund') is to seek, over time, to achieve capital appreciation in real terms. The Fund may, as a secondary objective, also seek to generate a moderate level of income, from year to year, consistent with the growth objective.

## INVESTMENT STRATEGY

The objective of the Fund will be achieved by investing across a range of asset classes including equities, bonds and fixed deposits. The Investment Adviser's ongoing investment policy will be to take due account of the nature of the trading activities carried out by such corporations from an ethical standpoint.

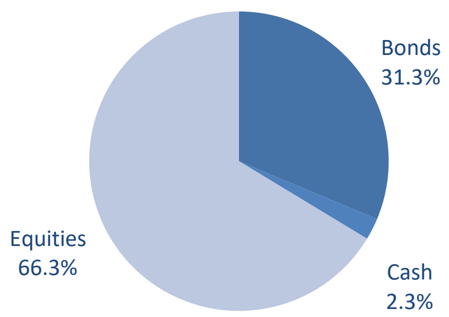
**NOTE: All information below is provided as at 30.06.2021**

## INVESTMENT PERFORMANCE




Source: Stadia Fund Management & Northern Trust, Single Pricing, Net of Fees, Bi-Annual Income Distribution, Performance in Euro.

## ASSET ALLOCATION (% Fund)



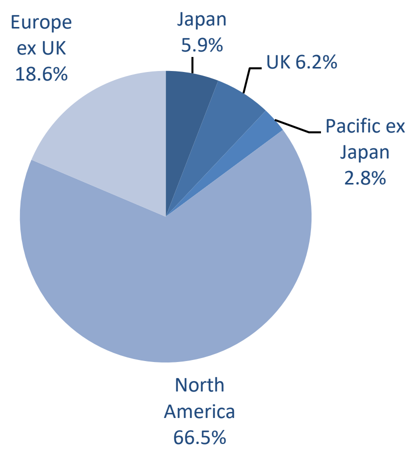

## TOP 10 HOLDINGS (%)

**10 Largest Equity Holdings (% of Total Fund)**

| Stock | Country | Weight |
|---|---|---|
| Alphabet Inc. | USA | 4.9% |
| Microsoft Corp. | USA | 4.7% |
| Apple Inc. | USA | 2.7% |
| Visa Inc. | USA | 2.3% |
| American Express Co. | USA | 1.6% |
| Iberdrola SA | Spain | 1.6% |
| Home Depot Inc. | USA | 1.6% |
| Nike Inc. | USA | 1.6% |
| Oracle Corp. | USA | 1.5% |
| Thermo Fisher Scientific | USA | 1.5% |
| **Total** | | **24.1%** |

## GEOGRAPHIC ALLOCATION (%)

**Portfolio Geographic Allocation (% Equity)**




## Davy Global Fund Management

June 2021

## ABOUT THE FUND

**Base Currency:**
Euro

**Fund Size (EUR):**
63.83 m

**No. of Equity Holdings:**
53

**Investment Manager:**
Davy Global Fund Management

**Type of Unit:**
Distributing

**Valuation Point:**
Close of business

**Order Cut-Off Point:**
Daily – All orders must be received by 16:00 p.m. (Irish time) one Business Day immediately preceding the relevant Dealing Day.

**Lipper ID:**
65090638

**Structure:**
UCITS*

* The assets of the Prescient Select Ethical Balanced Growth Fund, a sub-fund of the Prescient Select Portfolio (non-UCITS) were transferred to a new sub-fund of Davy Funds plc (UCITS), which is named the Davy ESG Multi-Asset Fund, on 17th October 2017.The same Strategy applies to both sub-funds.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# Davy Funds Plc
# Davy ESG Multi-Asset Fund

## MARKET COMMENT

After treading water during April and May, global equity markets made further progress during June, taking the return for the second quarter as a whole to 6.78% in euro terms as measured by the MSCI World Index. In a mirror image of the first quarter, the market was led higher during the quarter by growth stocks, while value stocks lagged the market.

Economic growth continued to improve during the quarter as economies emerged from lockdowns. There were signs of resource constraints and tight supply chains in certain sectors, including technology and construction. This has put upward pressure on prices and has led to fears among some investors that rising inflation will prompt central banks to raise interest rates to tame inflation.

However, the ECB and Federal Reserve have been at pains to point out that they view the current rise in inflation as a temporary phenomenon, and that policy will remain very accommodative until the effects of the pandemic are behind us.

Meanwhile, companies are feeling the tailwind of the improved demand environment through higher earnings. The outturn of the first quarter earnings season was better than investors had expected and estimates for full-year profit growth have been rising steadily.

Most government bond yields moved lower (prices higher) during Q2. This led to a return of circa 0.8% for the JP Morgan Global Bond Index (euro hedged). We believe several factors contributed to the move lower in yields and positive return. Concerns over the new delta variant delayed the easing of restrictions in many economies. While US labour market growth has been strong, it disappointed relative to very high expectations. From a positioning perspective, many institutional investors were short/underweight bonds, which contributed to a short squeeze as yields fell (prices rose).

Eurozone government bonds were an exception. Their yields rose (prices fell) due to the accelerated pace in vaccination programmes after a very slow start in Q1. As a result, Eurozone government bond markets underperformed US Treasuries and UK Gilts.

## FUND PERFORMANCE

The **Davy ESG Multi-Asset Fund A Distributing** share class total return for Q2 2021 was 4.35% net of fees in euro. At the end of the period the asset breakdown was 66.3% high quality equities, 31% Bonds and 2% Cash. There were no material changes to the positioning of the Fund during the quarter.

**Within the equity allocation**, stock selection was the main driver of performance as quality as a style, which had been out of favour in the first quarter, outperformed. Stock selection was particularly strong within Financials, Consumer Discretionary and Materials. The Fund benefited by being overweight the best performing sector, namely Technology, but this was more than offset by being overweight the Materials and Industrials sectors, both of which underperformed.

During Q2 2021 the top five contributors to equity performance were Alphabet, United Parcel Service (UPS), Microsoft, American Express and Blackrock. The bottom five contributors to performance were Hologic, Iberdrola, Prudential, Clorox and Daikin Industries.

**Alphabet**, the global technology giant focused on search, advertising, Android and YouTube, was the top contributor to performance over the quarter rising over +17%. The shares continued to outperform as the company delivered blow-out Q1 results at the end of April, with large beats across the board. Revenues were up 34%, while earnings per share came in significantly ahead of analyst expectations. CFO Ruth Porat cited elevated online consumer activity, increased revenue from advertising, as well as strong performance from Google Cloud. There is more upside to come as travel and local advertising spend have only just begun to come back and should be a tailwind for 2021. Management intend to buy back shares valued at $50 billion over the year. Of note is their recent goal to operate all their data centres carbon free by 2030, and for all devices such as Nest to maximise recycled content.

**United Parcel Service (UPS),** the international courier, rose almost 22% in the quarter and was a top contributor to performance. During the period the company released Q1 results which were significantly above expectations driven by strong domestic packages. Domestic revenues grew 22% with margins better than expected. We are now seeing the benefit of prior year investments made in technology and facility automation. The mix remains skewed to lower-margin ecommerce volumes, but there have been encouraging signs of a pick-up in business-to-business. International package volumes were also strong, up 23%, with margins also better than expected. UPS's climate risk mitigation activities have been positive and strong relative to peers. However, we would like to see UPS set science-based carbon emissions targets, as their peers Deutsche Post have done. With five new independent directors and a new independent chair in 2020, we are hopeful that we will see UPS link some of their sustainability targets to executive remuneration based on our engagement activity.

**Hologic**, the female-focused health group, was the main detractor from performance over the quarter as the shares declined over -11% despite a +9% rebound in June. Weakness in the shares is due to COVID-19 beneficiaries such as Hologic selling off on the success of the vaccine rollout and the lack of clarity on the actual slowdown in testing. Whilst Q2 results at the end of April met expectations, guidance for Q3 disappointed and the shares declined -8.7%. However, we view the guidance as conservative as it embeds a cautious COVID-19 test revenue stream and flat growth in the base businesses. The material extra cashflow from COVID-19 testing has enabled the group to be more aggressive on the M&A front, adding higher margin and faster growing revenues. As clarity unfolds on COVID-19 testing, Hologic should emerge with a stronger growth and margin profile than before the pandemic. The company is a high-quality business with recurring revenues of 80%. They sold 700 new Panther diagnostic machines in 2020 compared to a more normal level of 200, and the base business continues to recover, so underlying core trends are healthy.

**Iberdrola**, the Spanish utility and the largest producer of wind power in the world, declined over 6% in the quarter in a Utilities sector that underperformed and where renewables-focused utility names struggled with the rebound in energy stocks. At their Q1 results in May, management reiterated their FY21 and 2021-25 plan targets and signalled that execution is faster than expected. Ca. 75% of their 2021-25 renewables capacity is under construction or secured; or, in numbers, they have 8.7GW of renewables under construction and another 10GW secured. They are also confident they will reach >12GW in offshore capacity by 2030. Management have a strong track record in executing on their plans and tend to exceed expectations. Iberdrola remains a high conviction name as we believe the company has the potential to exceed its plans and deliver higher earnings and dividend growth than consensus estimates.

**Within the bond allocation**, the Fund's overweight in Corporate bonds contributed positively to performance as lockdown restrictions across the world eased helping credit fundamentals and sentiment. This was offset somewhat by a short duration position we implemented in April in anticipation of higher US Treasury yields. Yields subsequently fell detracting from relative performance.

Despite this we believe yields are likely to be higher by year end helped by (amongst other factors): robust economic growth; fiscal stimulus; huge Treasury bond issuance; and perhaps most importantly the US Federal Reserve (and equity markets) seem likely to tolerate higher yield levels as judged by their lack of reaction to higher bond yields in Q1. Therefore, we further added to the short duration position in June.

## POSITIONING

The Fund bought new positions in SAP and S&P Global which were funded through the sales of 3M, Medtronic and Hang Seng Bank. SAP is a global software company of high quality and strong ESG credentials which has taken the decision to shift their on-premise customers to the cloud. S&P Global is best known as a credit ratings agency and owner of S&P indices. They also own Robecosam, an ESG ratings business. S&P Global is one of the highest ranked financial companies in terms of governance with an independent majority board enabling effective oversight of management. The trades have further enhanced the quality and overall ESG performance of the Fund.

Despite the recent fall in US Treasury yields, we believe they are likely to be higher by year-end helped by (amongst other factors): robust economic growth; fiscal stimulus; huge Treasury bond issuance; and perhaps most importantly the US Federal Reserve (and equity markets) seem likely to tolerate higher yield levels as judged by their lack of reaction to higher bond yields in Q1. Therefore, we used the recent fall in US Treasury yields to go short duration, positioning the Fund to outperform its benchmark in a rising yield environment.

We continue to believe that unless we get an adverse scenario where new COVID-19 variants can evade existing vaccines the world is likely to see particularly strong growth in the coming quarters. This is something we are monitoring very carefully, and we have been encouraged by several recent studies which show that the existing vaccines provide good protection against the new variants. Therefore, we continue to spend most of our risk budget on higher beta Government Related Entities, Supranational, Municipal and Corporate bonds whose credit fundamentals are likely to benefit from strong global growth.

## CALENDAR YEAR PERFORMANCE (%)

| | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| Davy ESG Multi-Asset Fund (Eur) | 5.2% | 21.3% | -1.0% | 3.8% | 3.2% |
| MSCI World Index (Eur) | 6.3% | 30.0% | -4.1% | 7.5% | 10.7% |
| JP Morgan Global Bond Index (Eur) | 4.9% | 4.6% | -0.3% | 0.4% | 2.2% |
| Alphabet Inc. | 31.0% | 29.1% | -1.0% | 35.6% | 1.7% |
| American Express Co. | -1.2% | 32.5% | -2.6% | 36.2% | 8.6% |
| BlackRock Inc. | 47.2% | 31.8% | -21.6% | 38.2% | 14.6% |
| Daikin Industries Ltd. | 49.9% | 33.8% | -11.3% | 25.7% | 22.3% |
| Hologic Inc. | 39.5% | 27.0% | -3.9% | 6.6% | 3.7% |
| Iberdrola S.A. | 32.7% | 36.7% | 14.0% | 8.7% | -0.3% |
| Microsoft Corp. | 42.5% | 57.6% | 20.8% | 40.7% | 15.1% |
| Prudential plc | -4.9% | 24.7% | -24.4% | 20.2% | 10.4% |
| Clorox Co. | 34.5% | 2.2% | 6.5% | 27.1% | -3.0% |
| United Parcel Service Inc. | 48.7% | 24.2% | -15.5% | 7.1% | 22.7% |

Source: Davy Global fund Management, Northern Trust, and Bloomberg as at 31st December 2020. Performance is quoted in local currency unless otherwise stated. Davy ESG Multi-Asset Fund Class A Distributing is the total return from single pricing and net of fees, with bi-annual income distribution,

**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 Davy ESG Multi-Asset Fund 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 a UCITS pursuant to the Regulations. Davy Funds plc is 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 Davy Global Fund Management, Davy House, 49 Dawson Street, Dublin 2, Ireland or https://www.davygfm.com/funds-factsheets/asset-management. 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 J.P. Morgan GBI series provides a comprehensive measure of local currency denominated fixed rate government debt issued in developed markets. The global series tracks 13 countries and the broad series tracks 27 countries. The series is available in a number of different segments and breakouts including - maturity sectors and individual countries as well as hedged and unhedged in over twenty currencies.

Davy Global Fund Management

June 2021

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