DAVY

Davy **Low Carbon Equity Fund**

Quarterly update Q1 2022

For Investment Professionals Only

Performance	1 Month (%)	Q1 2022 (%)	YTD (%)	1 Year (P.A.) (%)	3 Years (P.A.) (%)
Davy Low Carbon Equity Fund[1] (Net of Fees)	2.35	-7.50	-7.50	9.73	14.76
MSCI World Index[2]	3.72	-3.06	-3.06	16.32	15.33

Source: Davy Global Fund Management (Class AA Acc in EUR) and Bloomberg as at 31st March 2022.

[1] The Davy Low Carbon Equity Fund (previously named the Davy ESG Ex-Fossil Fuels Fund) is a newly established (UCITS) fund and was launched on 26th April 2018. As such there is currently insufficient data to provide any useful indication of past performance to investors.

[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 aim of the **Davy Low Carbon Equity Fund** (the 'Fund') is to achieve long-term capital growth. We aim to achieve this by investing in a portfolio of "blue chip" global companies chosen based on carbon emissions criteria. The Fund favours corporate practices that have actively embraced carbon emissions reduction relative to peers. The Fund does not invest in companies which explore, extract and/or profit from the burning of fossil fuels.

Market comment

Equity markets recovered some poise in the latter half of March to finish a volatile quarter well above the lows of February in the days following the Russian invasion of Ukraine. The MSCI World Index returned -3.06% to euro-based investors during the quarter, helped significantly by strength in the dollar, which was driven by a flight to safety.

The quarter was dominated by an increasingly hawkish tone from central banks, particularly the US Federal Reserve (Fed), and the war in Ukraine. Fears of a wage-price spiral due to supply chain disruptions and a tight labour market were at the root of a change in message from the Fed early in the year which pressured bonds and drove a rotation in equity markets. The war between Russia and Ukraine exacerbated inflation fears due to the importance of the two countries in the supply of a broad range of energy and food-related commodities.

There was a wide dispersion of returns among the various sectors of the equity market during the quarter. Energy and commodity-related stocks were the best performers as prices of oil, gas and metals soared in response to the supply disruption caused by the war. Last year's best performers in the technology, internet-related sectors lagged as interest rates rose during the quarter.

Fund performance

The **Davy Low Carbon Equity Fund** returned -7.50%, net of fees, in the first quarter of 2022 underperforming the MSCI World Index return of -3.06%. The quarter was dominated by the change in tone from the US Federal Reserve, the invasion by Russia of the Ukraine and a sharp rise in commodity prices. Indeed, markets were down 10% as the invasion began. The strength of the US dollar was of significant benefit to euro-based investors. The Fund's underperformance was driven by stock selection as quality as a style underperformed. Furthermore, the rotation from growth to value names in the market took from performance. Two themes within the fund, namely Renewable Energy and Clean Technology, which tend to be of high quality and growth in terms of style, faced such headwinds. Thus stock selection was weakest within Industrials as Xylem, Fortune Brands and Daikin underperformed. Positive stock selection within Communication Services (Alphabet) and Financials was not enough to offset the weakness. Asset allocation had a negative impact on returns as the Energy sector was the top performing sector, up over 33%, to which the fund is not exposed. FX also had an impact being underweight the US dollar. The top three contributors to return were Boliden, American Express and Deutsche Boerse. The volatile start to 2022 has pushed the longer-term relative returns lower. However, the annualized return since inception remains a healthy +14.1%.

The top five equity contributors to relative performance during the quarter were Boliden, American Express, Loblaws, Deutsche Boerse and Singapore Exchanges. The bottom five equity detractors from relative performance during the quarter were TE Connectivity, Xylem, PPG Industries, Fortune Brands and Omron.

Boliden, the Swedish miner specialising in copper and zinc, and with no exposure to fossil fuels, was the top contributor to return as the shares rose over +35% to hit a new all-time high at the end of the quarter. Whilst Q4 results in February were positive with strong free cash flow seeing the group move to a net cash position, the supply risk coming from the Russia/Ukraine conflict has led to higher commodity prices and earnings upgrades, and was the main driver of share price performance. Boliden remains one of the highest rated ESG performers in the sector given that they operate only in Europe and are thus less exposed to corruption, political instability and water stressed locations. They also produce the greenest copper in the world given that their AITIK copper mine uses hydroelectric power. Overall, their carbon intensity is 86% lower than the industry average and fits into the Funds theme of being a 'Carbon Leader'.

American Express (AXP), the global payments company, was a top contributor to return in the three month period, as the shares rose over 17%. Q4 2021 results reported in the quarter solidly beat market expectations driven by higher revenues and lower loss provisions. The company also had the confidence to give a bullish outlook on revenues and earnings for 2022, 2023, and long-term beyond 2024. For 2022 revenues are expected to grow 18%-20% and in excess of 10% thereafter. We continue to like their core business trends and the tailwinds from the recovery in Travel and Entertainment. AXP is a strong-performing ESG company that has also committed to net-zero emissions by 2035 in alignment with the Science Based Target Initiative. They are also piloting low-carbon product innovations, including carbon tracking and offset solutions as many of their customers wish to understand the environmental impacts associated with their spending. We include AXP as a 'Carbon Leader' given its significantly lower GHG intensity relative to its industry peers.

TE Connectivity (TE) was the main detractor from returns as the shares declined almost -17% in the quarter. As a major supplier of sensors and connectors to the auto industry, it was no surprise that supply chain challenges are impacting the company as automotive manufacturers faced disruption to production and higher raw material inflation. Supply chain issues have worsened year-to-date, but demand remains very solid. TE continues to execute strongly and is benefiting from its broad based exposure to secular growth areas such as EVs, factory automation and data centres. In automotive, TE acts as a broad proxy for the growth of electric vehicles globally as its role as a supplier to all EV manufacturers gives the company ETF-like exposure to the electrification of transport as a theme. The company outperforms its peers on key ESG issues such as responsible sourcing of conflict materials, chemical safety, and it has a strategy focused on integrating clean technology in its product line.

Xylem, the world's largest water solutions company, also detracted from performance as the shares declined over -27% in the quarter. The market rotation to less expensive companies did not favour Xylem which is considered to be an expensive growth name. Q4 results reported in February were in line with expectations; however, guidance for 2022 was lower than anticipated as supply chain issues (chip shortages, port congestion) are likely to remain for the first half of the year before recovering thereafter. Inflation was also more severe than expected and the group have implemented price increases where it expects to be price-positive again by Q2. Xylem continues to be the dominant way in which to play global water investment. Xylem produce a wide range of water-related products and services, ranging from pumps and valves through to metering equipment and software. We continue to see Xylem as a beneficiary of increased awareness around water conservation at a governmental and corporate level.

Sample Portfolio transactions

During the quarter the Fund added two new holdings. Roche, the Swiss pharmaceutical company best known for its strong oncology franchise. It is also known as one of the most sustainable companies in the sector and falls under our Low Carbon Leader theme. We also bought Cummins who are best known for their heavy trucks but are also a leader in low emissions technologies. A new unit called New Power has been established which includes battery electric and fuel cell electric products as well as products for renewable hydrogen production. Cummins falls under our Clean Tech theme. The purchases were funded through partial sales of mainly European names to increase our overall US exposure.

The QQE perspective

The change in tone within the equity market at the start of the year was very much on the side of continued economic expansion and rising rates. The war in Ukraine has cast a shadow on growth prospects, particularly within Europe, and exacerbated what is now seen as the "inflation problem". Our view is that deflation was the aim of the zero interest rates and quantitative easing policies of the past two years.

Our quality model guides stock selection within our equity portfolios. It assigns a quality rank to each stock in a broad universe based on four pillars of Profitability, Persistence, Protection and People. In the first quarter, the People pillar, which rates companies based on capital allocation, was the best performing of the four pillars. In the past, such outperformance has reflected investor confidence in the economic cycle. This is an important support to markets as we enter another quarterly earnings season during which company managements face heightened risks. Against this uncertain background, we are confident that our quality framework will stand our clients in good stead.

Calendar Year Performance	2021 (%)	2020 (%)	2019 (%)	2018 (%)	2017 (%)
Davy Low Carbon Equity Fund (Net of fees) (EUR)	27.1	10.8	31.7	-	-
MSCI World Index (EUR)	31.1	6.3	30.0	-4.1	7.5
JPM Global Bond Index (EUR)	-3.1	4.9	4.6	-0.3	0.4
Boliden AB	25.2	21.2	36.5	-28.5%	20.4
American Express Co	36.9	-1.2	32.5	-2.6	36.2
Loblaws Cos LTD	67.9	-4.4	11.6	13.5	-2.2
Deutsche Boerse AG	7.9	1.3	36.6	10.8	30.0
Singapore Exchanges	3.5	8.4	28.6	0.4	7.9
TE Connectivity Ltd	35.1	29.0	29.4	-18.9	39.9
Xylem	18.9	30.9	19.6	-1.0	39.5
PPG Industries Inc	21.3	10.0	32.8	-11.0	25.3
Fortune Brands	26.0	33.0	74.9	-43.7	29.5
Omron Corp	25.7	45.1	62.9	-39.6	51.9

Source: Davy Global Fund Management (Class AA Acc in EUR) and Bloomberg as at 31st December 2021. 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 Davy Low Carbon Equity Fund (previously named the Davy ESG Ex-Fossil Fuels Fund, the name changed effective as at 12th July 2019) 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 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.

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