Q2 2022 Update

Davy Low Carbon Equity Fund

For Investment Professionals Only

Performance	1 Month (%)	Q2 2022 (%)	1 Year (%)	3 Years P.a. (%)	5 Years P.a. (%)
Davy Low Carbon Equity Fund[1] (net of fees)	-4.90	-9.68	-16.45	-6.75	9.50
MSCI World Index[2]	-6.41	-10.80	-13.53	-2.83	10.09

Source: IQ EQ Fund Management (Ireland) Limited (Class AA Acc in EUR) and Bloomberg as at 30 June 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 26 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** 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

The equity market correction which began in early January continued through the second quarter, with the MSCI World Index falling by 10.80% in euro terms. This brought the year-to-date return to -13.53%. Euro-based investors benefited somewhat from a rally in the dollar which supported the euro value of US asset prices during the period.

Market direction during the quarter was dictated in large part by inflation data and increasingly hawkish comments from central bankers about the need for higher interest rates. There was also growing evidence towards the end of the quarter of the negative impact that inflation expectations are having on consumer and business sentiment as evidenced from surveys in major developed economies. Recession risk resulted in a renewal of the traditional performance relationship between bonds and equities: as equities weakened in response to the rising risk of recession, bonds began to rally.

The war in Ukraine is also exacerbating inflationary pressures, particularly in the areas of food and energy. Nevertheless, most measures of broad commodity prices ended the quarter lower as recession fears grew. Meanwhile, China's zero-Covid strategy was in full effect during the quarter, with extended lockdowns in some major cities such as Shanghai driving down China's GDP growth expectations for 2022.

Within the equity market, the second quarter pattern followed that of the first as Technology and Consumer Discretionary stocks underperformed while Energy and Consumer Staples outperformed. The Energy sector was alone in producing a positive return during the second quarter, driven higher by energy prices.

Fund performance

Following two flat months relative to the MSCI World Index, the **Davy Low Carbon Equity Fund** performed strongly in June. For the quarter, the strategy declined -9.68%, net of fees, compared to the MSCI World Index return of -10.8%, a relative gain of +1.12%. The decline in markets was due to the continuing concerns regarding inflation, high commodity costs, Covid-19 in China, supply chain bottlenecks and the pace and extent of interest rate rises and whether that would lead to a soft landing or recession. It was pleasing to see the strategy outperform, particularly in June, as markets declined almost 5%. The Energy sector was the only sector to make a positive return in the quarter. The strategy does not own fossil fuels. Stock Selection was the main driver of performance especially within Technology (Daqo New Energy, Shimadzu) and Industrials (Kurita Water, Cummins). Selection was weakest within Healthcare (Hologic, Roche) and Communication Services (Alphabet). Asset Allocation took from performance by being absent the Energy sector which outperformed and overweight in the Technology sector which underperformed. Currency had a small negative impact by being underweight a stronger US dollar. Given the fall in markets it was of no surprise to see some of our more defensive names within the themes of Low Carbon Leaders and Sustainable Financial System outperform. That included companies such as Unilever, Loblaws, Deutsche Boerse and Singapore Exchange. However, our Renewables theme also saw strong performances from Daqo New Energy, Iberdrola and Orsted. Shimadzu and Kurita Water also outperformed within the theme of Clean Technology/Pollution Prevention & Control. Clean Technology/Energy Efficiency was the worst performing theme driven lower by names such as Cognex, Taiwan Semiconductor Manufacturing Company (TSMC) and Siemens. After a difficult start to the year, particularly in January with the rotation of the market from growth to value, Fund performance looks to have stabilized.

The top five equity contributors to relative performance during the quarter were: Daqo New Energy, Clorox, Unilever, Loblaws and Quanta Services. The bottom five equity detractors from relative performance during the quarter were Alphabet, Cognex, State Street, Boliden and Cap Gemini.

Daqo New Energy was the standout contributor to returns in the quarter as the shares rose over 71%. The bulk of this performance came occurred in mid-May. The price gain was due primarily to a report that President Biden would soon issue a proclamation allowing the import of solar panels from several countries without tariffs for 24 months. Although Daqo is the 3rd largest producer of polysilicon, which is integral in the production of solar cells, the volatility in the share price, the inconsistent supply/demand outlook and the continuous speculation around US/China negotiations was part of the rationale for selling out of this high beta name in June. Recent engagement with the company also made it clear that they are dependent on third-party electricity suppliers and thus independently unable to reduce their own carbon emissions. We are currently looking further up the value chain for a suitable substitute.

Unilever, the global personal care, foods and home care giant, was a top contributor to returns in the quarter as defensive names held up best in a weak market. Results for Q1, reported in April, were much better than expected driven by significant pricing, although volumes were negative. Unilever remains a leader in terms of putting sustainability at the heart of their growth story and fits the theme of Low Carbon Leader. For example, Unilever intends on achieving net zero carbon emissions by 2039, 11 years ahead of their most ambitious peers. Indeed, Unilever was one of the first companies to commit to and set science-based targets to play their part in keeping global temperature rises to 1.5C degrees. They are discovering new lower-carbon ingredients, reformulating products to offer plant-based alternatives like vegan foods and fossil-free cleaning products. Some of their highest emitting products such as deodorant aerosols have been a challenge. However, they have been trialling hairspray bottles that reduce carbon emissions by

96% by using compressed air. Unilever remains a core holding.

Alphabet, the global technology giant, is a high-quality stock focused on search, advertising, Android and YouTube. The shares declined over -16% in the quarter and the stock was the main detractor to returns. The shares had held up well in the first 3 months of the year. However, positive results in February were undone by mixed Q2 results in April. Search remained strong driven by a recovery in retail and travel and Cloud continued to grow by 44%. However, YouTube revenue growth of 14% disappointed investors. Although YouTube was facing a tough comparable period and pressure from rival TikTok, brand advertisers in Europe also reduced spending post the Ukraine invasion. A new share repurchase plan of $70bn authorised by the company indicates that management remain upbeat and confident. We continue to like the valuation of the business and the long-term growth in their search and cloud businesses. Alphabet fits two of our themes, namely Clean Technology and Low Carbon Leader, as it can support an increasingly digital economy through its Search and YouTube offering with a carbon intensity 66% lower than the industry average.

Cognex (CGNX) specialises in machine vision technology, an area integral in factory automation. The shares also detracted from returns as they fell 41%. Despite beating market estimates, the guidance was lowered as Cognex faces customer-related delays, from projects that have been delayed due to suppliers' needs for longer lead times for non-Cognex components. From an end market prospective, demand remains strong for autos, EV batteries and consumer electronics. Factory automation plays a significant role in progressing the adaptation to climate change by helping manufacturers speed-up production by reducing inefficiency and waste. This in turn lessens carbon intensity at a plant versus traditional processes. Its dominance in machine vision helps to support a very high level of profitability which we expect to continue due to its technological advantage. This advantage is, in turn, sustained by a high level of R&D investment. Cognex fits the theme of Clean Technology (Energy efficiency). We added to our position in the quarter on the share price weakness.

Sample portfolio transactions

In May we initiated a position in Quanta Services who specialise in infrastructure solutions for the utility, communications and energy industries. The company is instrumental in helping its customers move to a carbon-neutral economy. To fund this, we sold out of Stanley Black & Decker as we believe Quanta Services fits the strategy's thematic in a more meaningful way. We also took the opportunity to sell out of Daqo New Energy following a significant rise in the share price. It is a high beta name whose outlook in the medium term is uncertain.

The QQE perspective

Last quarter we noted that despite falling equity and bond prices, and the uncertainty generated by the war in Ukraine, investors, by and large, remained confident in the resilience of the economic cycle. This was reflected in the superior performance of the People pillar of our proprietary Quality model. 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.

That confidence was evident through the second quarter as the People pillar continued to perform strongly at a time when Quality, as a style, was out of favour. Towards the end of the quarter, there was some evidence that investors were starting to lose faith in the economic cycle and starting to price in a recession. The most obvious sign was the rally in bonds late in the quarter while equities remained under pressure.

It will be interesting to follow the relative performances of the four pillars of our model in the months ahead as we go through another earnings season in which company managements will describe the current and future business environment. Uncertainty about future economic growth often tempts investors back into Quality companies that can deliver profitable growth for investors. It is this area of the market that we, as bottom-up investors, focus our attention.

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
Boliden AB	25.2	21.2	36.5	-28.5%	20.4
Daqo New Energy	-29.7	460.2	118.8	-60.6	208.0
Loblaws Cos LTD	67.9	-4.4	11.6	13.5	-2.2
Clorox Co	-11.5	34.5	2.2	6.5	27.1
Unilever NV	-1.6	0.0	11.5	3.7	24.7
Quanta Services	59.5	77.7	35.8	-22.9	12.2
Alphabet	65.2	31.0	29.1	-1.0	35.6
Cognex Corp	-2.8	47.6	45.5	-36.5	92.9
State Street	31.1	-4.8	29.3	-34.0	27.8
Cap Gemini	72.1	18.1	27.6	-10.9	25.5

Source: IQ EQ Fund Management (Ireland) Limited (Class AA Acc in EUR) and Bloomberg as at 31 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 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, Key Investor Information Document for the fund are available in English from IQ EQ Fund Management (Ireland) Limited, Davy House, 49 Dawson Street, Dublin 2 or https://iqeq.com/ucits. 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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*Information correct as of 3 February 2022

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