Q2 2023 Update

IQEQ

Davy Low Carbon Equity Fund

For Investment Professionals Only

Performance	1 Month (%)	Q2 2023 (%)	1 Year (%)	3 Years P.a. (%)	5 Years P.a. (%)
Davy Low Carbon Equity Fund[1] (Net Of Fees)	2.83	4.27	14.02	11.40	10.92
MSCI World Index[2]	3.63	6.38	13.56	13.27	10.56

Source: IQ EQ Fund Management (Ireland) Limited (Class AA Acc in EUR) as at 30 June 2023.
[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 (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

Global equity markets made further gains in Q2 while bond markets remained under pressure. The MSCI World Index advanced by 6.38% in euro terms taking the year-to-date return to 12.58% while the JP Morgan Global Bond Index (euro-hedged) fell by 1.13%.

The quarter was characterised by persistently high inflation and a generally hawkish tone from central bankers about the need for higher interest rates. Despite this equity market volatility trended lower during the period as fears about the health of the US banks sector, which dominated sentiment in the first quarter, faded somewhat.

The higher-than-expected inflation data released during the quarter served to raise investor expectations of the ultimate peak in central bank interest rates to levels last seen before the collapse of Silicon Valley Bank.

In an extension of the trend seen in the first quarter, equity market performance was driven by technology stocks, particularly those such as Nvidia, Microsoft, Amazon, Meta, and Google which are associated with the development and implementation of Artificial Intelligence ("AI"). Such was the concentration of performance that the top ten stocks in the MSCI World Index were responsible for over 60% of the return during the quarter.

The Energy and Utilities sectors underperformed during the quarter as oil and gas prices fell in response to the threat of higher interest rates.

Fund performance

The **Davy Low Carbon Equity Fund** returned 4.27%, net of fees during the quarter. This compares to the MSCI World return of 6.38%. Stock Selection was the main driver of underperformance, which was partially offset by positive Asset Allocation. Currency was a detractor to returns as the strategy was overweight a weakening Japanese yen. Stock Selection was strongest within Communication Services (e.g. Alphabet Inc.), but this was not enough to offset weakness within Technology, where Nvidia dominated the sector (not held by the Fund) and where our holdings such as TE Connectivity, SAP and CapGemini underperformed.

Also, within the Consumer Discretionary sector Amazon and Tesla (both not held by the Fund) outperformed our holding, Nike. Positive Asset Allocation came from being overweight the top-performing Technology sector and being underweight the lagging Energy and Real Estate sectors. With the market dominated by the Technology sector, holdings within the Clean Technology, Energy Efficiency thematic, such as Oracle, Energy Recovery, Microsoft, and Quanta Services, topped the leaderboard. Of note within the top five performers were two Resource Conservation names, Fortune Brands and Badger Meter, though their impact was offset by weakness in International Flavors & Fragrances, and Novozymes. Leaderboard laggards included Boliden and Kurita Water after disappointing quarterly results. Finally, the renewable holdings of Solaria Energia, Solaredge Technologies and Vestas Wind Systems were impacted by the profit warning from Siemens Energy (not held by the Fund).

The top five equity contributors to relative performance during the quarter were: Microsoft Inc, Oracle Corp, Alphabet Inc, Quanta Services Inc, and Energy Recovery Inc. The bottom five equity detractors from relative performance during the quarter were: Kurita Water Industries Ltd, Boliden AB, International Flavors & Fragrances Inc, Solaria Energia y Medio Ambiente SA, and Alfen Co.

Microsoft Inc. ("MS"), the software giant, gained almost 18% in the quarter and was the top contributor to returns. Part of the gain stemmed from the quarterly results in April, which exceeded market expectations. Market concern before the results centred around the company's public cloud computing platform, Azure, which was in line with expectations and guidance was better than feared. The shares continued to benefit from the market's interest in MS's AI ChatGPT. Our thesis remains intact as we expect MS to exit any recession stronger than their peers. The company's aim is to be the leading platform provider of technology solutions focused on carbon, water, waste, and ecosystem. Its 2030 target to reduce Scope 1&2 emissions by 75% by 2030 will help avoid over 10m metric tons of carbon emissions by 2030. Following the updated Suppliers code, 87% of their suppliers now report to Customer Data Platform ("CDP"). Azure is also driving the transition to "smart cities, with exposure to reductions in energy usage, water management, waste management, carbon emissions management and crisis management for extreme weather events. MS fits the strategy theme of Energy Efficiency.

Oracle Corp ("Oracle"), the US software giant, gained over 28% in the quarter and was a top contributor to returns. The shares hit a 5-year high mid-June as the AI frenzy continued to drive markets. The boom in generative AI, which requires significant computing power, will boost demand for Oracle's cloud services. Q4 2022 results also reported in June beat expectations where it matters most, namely in the transition to the Cloud. Oracle also guided to a strong Q1 2023. We also see Oracle as well positioned to weather any economic slowdown better than most peers given that 70% of sales are in cloud services and support. The company has already provided long-term guidance out to 2026 where organic revenue growth is expected to grow by 11.2% CAGR from 2022 to 2026 and margins are set to improve too. Oracle fits our theme of Clean Technology, Energy Efficiency. Whilst they have their own decarbonisation targets Oracle's software offers customers efficient cloud computing, sustainability in the supply chain, opportunities to adopt circular economy strategies, and help in planning and moving products to market, thus saving energy and money. Oracle themselves are targeting 100% renewable energy use by 2025 and Net Zero emissions by 2050.

Kurita Water Industries Ltd. ("Kurita") was the main detractor to returns in the quarter as the shares declined almost 17%. Kurita's core business is supplying water treatment facilities and chemicals used in the manufacture of technological components. Share price weakness stemmed from the pullback in end-customer sectors such as semiconductors and electronic components. This was reflected in the Q4 2022 results, released in May, which disappointed the market. They also took a small asset write-down on their US operations. However, they announced a new five-year business plan 2023 to 2027 which is more detailed than previous plans with sales, margin, and Return on Equity ("ROE") targets.

Over 60% of revenues come from business lines involved in clean tech, and 33% of revenues are estimated to come from sustainable water products. The fundamental investment case is that Kurita's continued transition towards greater service revenues will boost margins and provide a more stable and predictable earnings stream. 35% of total revenues are now generated from after-sales services such as maintenance and tool cleaning. We see Kurita as an ongoing beneficiary of the increasing global awareness around water preservation and we applaud their product development that aims to reduce environmental impact and promote water recycling. In 2022 water savings at Kurita customers was 113m meters cubed (m3) with a 2023 target of 240m3. Kurita fits the strategy theme of pollution control.

Boliden AB ("Boliden"), the Swedish miner, is a high-quality company specialising in copper, zinc, and nickel, but was also a detractor to returns in the quarter as the shares declined over 21%. Weakness in the shares followed a poor set of Q1 2023 results in April driven by weaker Mine & Smelter output with cost inflation higher than expected. Operational issues have also led to weakness in the shares with the Irish Tara mine going offline and a fire in June at their copper smelter at Ronnskar which could potentially reduce group earnings by 5%, though this should be covered by insurance. We believe copper and nickel will be the key metals in the drive towards de-carbonisation over the next decade and thus Boliden is well positioned. The group remains one of the highest-rated ESG performers in the sector given that it operates only in Europe and is thus less exposed to corruption, political instability, and water-stressed locations.

They have a strong safety culture with no fatalities in the past three years, and indeed there were no injuries associated with the recent fire. We believe that much of the recent bad news flow is reflected in the valuation of the company. Boliden also produces the greenest copper in the world given that its AITIK copper mine uses hydroelectric power. Overall, the company's carbon intensity is 88% lower than the industry average. Thus, Boliden fits the theme of being a Carbon Leader.

Sample portfolio transactions

There were no significant transactions during the period.

The QQE perspective

How does an equity market go up if investors are concerned about recession? Equity markets made further gains during the second quarter, taking the year-to-date return of the MSCI World Index to 12.6% in euro terms. And yet, when surveyed, many investors expect at least a slowdown, if not outright recession, by the end of the year. Bond investors expect interest rates to start to come down early in 2024 in response to the expected slowdown.

There has been much comment recently about a divergence between bond and equity investors' respective expectations about the likelihood of a recession. However, the nature of the equity rally this year suggests that equity investors are equally unsure about the course of the global economy and are focussing on persistent earnings rather than cyclical earnings.

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 Persistence pillar has been the standout performer so far in 2023, indicating that investors prefer large-cap technology and internet related stocks over smaller cap or economically exposed stocks. It is also worth noting that performance within this equity rally has been concentrated in a relatively narrow group of stocks that investors believe can survive a slowdown. So, perhaps there is no major dichotomy between bond and equity investors. Both expect a slowdown, but equity investors are paying up for Persistence and hoping these stocks can ride out a recession. This is hardly the sign of a gung-ho attitude to economic growth. We will continue to monitor the performance of the four pillars of our Quality model for early signs that equity investors genuinely believe that recession can be avoided.

Calendar year performance	2022 (%)	2021 (%)	2020 (%)	2019 (%)	2018 (%)
Davy Low Carbon Equity Fund (Net of fees) (EUR)	-14.6	27.1	10.8	31.7	-
MSCI World Index (EUR)	-12.8	31.1	6.3	30.0	-4.1
Alfen Co	-4.6	6.8	402.4	33.5	-
Alphabet Inc.	-39.1	65.3	30.9	28.2	-0.8
Boliden AB	19.3	25.2	21.2	36.5	-28.5
Energy Recovery Inc	-4.7	57.6	39.3	45.5	-23.1
International Flavors & Fragrances Inc	-28.4	41.5	-13.3	-1.7	-10.1
Kurita Water Industries Ltd	1.5	40.3	23.7	24.7	-26.1
Microsoft Corp.	-28.0	52.5	42.5	57.6	20.8
Oracle Corp	-4.6	36.9	24.2	19.3	-3.0
Quanta Services Inc	24.6	59.5	77.7	35.8	-22.9
Solaria Energia y Medio Ambiente SA	0.0	-27.6	247.6	71.5	143.3

Source: IQ EQ Fund Management (Ireland) Limited (Class AA Acc in EUR) and Bloomberg as at 30 June 2023. 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.

 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 the UK, IQ EQ Fund Management (Ireland) Limited, trading as IQ EQ Fund Management, is deemed authorised and regulated by the Financial Conduct Authority. Details of the Temporary Permissions Regime, which allows EEA-based firms to operate in the UK for a limited period while seeking full authorisation, are available on the Financial Conduct Authority's website. 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 Financial Conduct Authority and Commission de Surveillance du Secteur Financier are available from us 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.

The Davy Low Carbon Equity Fund (previously named the Davy ESG Ex-Fossil Fuels Fund, the name changed effective as at 12 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 IQ EQ Fund Management (Ireland) Limited, 5th Floor, 76 Sir John Rogerson's Quay, Dublin Docklands, Dublin 2, D02 C9D0, Ireland or https://www.iqeq.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.

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.

*Information correct as of July 2023

Reference: HMG_11082023_1

Find out more
www.iqeq.com

Follow us