Q2 2024 Update

IQ EQ ESG Equity Fund

For Investment Professionals Only

Performance	1 month (%)	Q2 2024 (%)	1 year (%)	3 years p.a. (%)	5 years p.a. (%)
IQ EQ ESG Equity Fund[1] (net of fees)	2.43	2.16	15.05	9.17	12.48
MSCI World Index[2]	3.35	3.42	22.35	10.52	13.14

Source: IQ EQ Fund Management (Ireland) Limited (IQ EQ ESG Equity Fund Class A Acc in EUR) as at 30 June2024.

[1]The IQ EQ ESG Equity Fund is a UCITS fund and was launched on 10 May 2011. On 1 May 2024 the Fund name was changed from Davy ESG Equity Fund to IQ EQ ESG Equity Fund.

[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 **IQ EQ ESG Equity Fund** (the "Fund") is to achieve long-term capital growth. We aim to achieve this by using both quantitative and fundamental research that should result in a portfolio of high-quality companies that exhibit strong environmental, social and governance characteristics.

Market comment

Equity markets made further gains in the second quarter, rising by 3.42% in euro terms as measured by the MSCI World Index (net). This brought the total return for the year-to-date to 15.18%. The course of inflation and the timing of future interest rate cuts from the world's central banks were the dominant themes during the quarter. The European Central Bank cut interest rates by 0.25% for the first time since 2016 during the quarter, while the Swiss National Bank and Bank of Canada were also among the central banks easing policy during the period. The US Federal Reserve was a notable holdout, preferring to wait for more evidence of a cooling economy.

After a brief pause earlier in the year, technology and internet-related shares once again drove equity market performance during the quarter. Market performance was very concentrated, with Nvidia, Apple, Microsoft Alphabet and Amazon essentially accounting for all of the return during the three months. Investors are placing a premium on companies that can produce solid earnings growth and these US tech companies delivered during the quarter.

At the other end of the performance spectrum, cyclical sectors such as Industrials, Materials and Energy fell during the quarter as earnings disappointed.

Fund performance

The **IQ EQ ESG Equity Fund** returned 2.16%, net of fees, in the second quarter. This compares to the MSCI World Index return of 3.42%. Both Stock Selection and Asset Allocation took from performance. Stock Selection was weakest within Technology (Nvidia, Apple neither owned and each outperformed, CapGemini) and within Healthcare (Iqvia, Merck). Positive selection within Communication Services (Alphabet) and Materials (IFF, Boliden) only partially offset this. In terms of Asset Allocation, the strategy benefited most by being underweight the Consumer Discretionary and Real Estate sectors which underperformed. However, being overweight the Materials and Industrials sectors took from performance as they, too, underperformed. Technology was the best-performing sector in which the strategy is broadly neutral. The impact from Currency was a small positive. The 'Magnificent 7' again detracted from returns with the group outperforming the MSCI World Index, driven by Alphabet, Nvidia and Apple.

The ***top five equity contributors*** to relative performance during the quarter were: Alphabet Inc., Taiwan Semiconductor Manufacturing Co. Ltd., Oracle Corp., Microsoft Corp., and TJX Companies Inc.

The ***bottom five equity detractors*** from relative performance during the quarter were: Vinci SA, Fortune Brands Innovations Inc., Lululemon Athletica Inc., Capgemini SE, and IQVIA Holdings Inc.

Alphabet Inc. ("Alphabet"), the global technology giant, gained +21.7% in the second quarter and was the top contributor to returns. Indeed, the shares again hit a new 12-month high towards the end of the quarter. Following blowout quarterly results in April, the market has had to digest product and developer news from the developer conferences held by Apple, Google, Microsoft and OpenAI. The shares responded positively as investors see Alphabet as a driver and beneficiary of an increasingly digital economy and advances in Generative AI. The company has a path across Search and YouTube ads as Artificial Intelligence ("AI") drives higher returns in investment and TV dollars shift online. Already Generative AI is beginning to drive improved user engagement and advertiser return. Efforts to reduce the cost base are also now showing through in higher margins. Alphabet has been carbon neutral since 2007 with the goal of being carbon-free by 2030. The group continues to roll out features to reduce emissions such as eco-friendly routing in Google Maps, energy efficiency features in their Nest thermostats and carbon emissions data in flight itineraries from Google Flights. Alphabet is also a leader in many ESG areas such as Privacy & Data Security and Opportunities in Clean Technology. However, the company remains under the microscope regarding anti-trust, content integrity and workforce diversity where improvements can be achieved.

Taiwan Semiconductor Manufacturing Company Ltd. ("TSMC"), the semiconductor foundry operator, was also a top contributor to returns in the 3-month period, gaining +29.1%. The company's reports have generally surprised investors positively during 2024, showing continued momentum, particularly in the Artificial Intelligence (AI) and High-Powered Computing (HPC) divisions. AI deployment requires the sort of chips that TSMC leads the world in producing. Currently, TSMC is putting through higher prices whilst also seeing stronger revenue growth from accelerating demand for AI in data centres. Indeed, AI revenues from data centres alone could represent 28% of revenues by 2028. There is also the prospect of a potential replacement cycle for iPhones in 2025. TSMC is a high-quality company with excellent sustainability credentials operating with an exceptionally strong competitive moat. The company continues to lead peers in managing key ESG risks such as water stress where it has significantly reduced the water intensity of its manufacturing process, primarily through reuse and recycling. TSMC has a target to reclaim 60% of used water in its fabs in Taiwan by 2030. This is especially relevant given that water stress is an area of concern in Taiwan where most of the company's plants are based.

Vinci S.A. (“Vinci”), the French concession, construction and contracting group declined by 14.6% over the quarter and was the main detractor of returns within the strategy. The shares slumped on political risk as President Macron dissolved the lower house of parliament and called for new elections following his party’s defeat in the European elections. With the rise in the far-right parties, markets were rattled by the risky move and questions were raised about stretched public finances and the current pro-business agenda. There are fears that a Le Pen government could raise taxes on transport infrastructure, or even nationalise the assets that Vinci manages, such as the toll roads. Neither outcome is expected in the medium term. Vinci has a quality management team, a large order book and strong balance sheet in which we believe the group can navigate its way successfully through this turmoil. Vinci is also highly rated in terms of ESG. Given the large workforce, labour management is seen as a key business risk. However, Vinci has adopted best practice by linking safety performance to executive pay, thus incentivising continuous improvement in the company’s health and safety standards. We added to the position on the recent pullback.

Fortune Brands Innovations Inc. (“Fortune Brands”) was also a detractor to performance as the shares declined 22.4% in Q2. The company is focused on creating smart and safer homes through strong brands and innovation, supplying water faucets and showerheads, water leakage detection systems, entry door systems, wood-alternative decking and cladding, and security locks with brands such as Yale and August. The business split by revenues is 25% New Construction, and 75% Repair and Refurbishment. Since spinning off the cabinets business in 2022, the company’s strategy is now more focused and centralised. Given that it is a consumer-orientated business, consumer confidence is key. Q1 results came in better than expected and full-year guidance was maintained, although management pointed to choppier consumer demand exiting the quarter. We believe that also reflects management conservatism at this time of the year. The share price weakness has also gone hand-in-hand with interest rate expectations which have not fallen as hoped. Fortune Brands scores highly in terms of ESG with strong labour management governance practices versus peers. The company also leads peers in decarbonisation initiatives with a target to reduce Scope 1&2 emissions by 30% by 2030.

Sample portfolio transactions

We bought ***Bureau Veritas SA (“Bureau Veritas”)***, a global leader in laboratory testing, inspection, and certification (TIC) services. It has leading market positions, protected by high barriers to entry and a well-diversified business where scale matters. They are structurally well placed to outgrow the TIC market which typically grows at 4% p.a. Strong cash generation will support future M&A. We like the high and improving returns as well as the valuation which has derated from 27x to 20x. The company is a strong ESG performer where it is strong on governance and human rights versus peers.

To fund the purchase of Bureau Veritas we sold our position in ***Equinor ASA (“Equinor”)***. Equinor is the second-largest natural gas supplier to Europe. The shares have underperformed as gas prices have been weak, explained by a mild winter, excess Liquified Natural Gas (“LNG”) in Europe from North America, demand weakness, and the decline in power prices. We believe that near term gas fundamentals seem to be more bearish with further LNG capacity to come on stream in 2025, geopolitical risks ever present, and a wavering European recovery in demand.

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. We noted at the end of the first quarter that investors were paying a premium for those profits as valuations soared to levels not seen since the “dotcom” frenzy. Persistence was, once again, the standout performing pillar during the second quarter. It is dominated by technology stocks, which have generally had a very strong earnings season and, in many cases, are trading higher still. There is another possible reason for the crowding into technology stocks, and that is the loss of momentum in the US economy, particularly in the manufacturing sector, which has weakened in recent months according to leading indicator data. In such circumstances, it is natural for investors to seek refuge in companies that are delivering persistent profits when all other sectors are struggling. However, at current valuations, any slip in the AI-related bull market could be very painful indeed.

Calendar year performance	2023 (%)	2022 (%)	2021 (%)	2020 (%)	2019 (%)
IQ EQ ESG Equity Fund (Net of fees) (EUR)	12.4	-9.2	32.7	7.5	31.1
MSCI World Index (EUR)	19.6	-12.8	6.3	30.0	-4.1
Alphabet Inc.	58.3	-39.1	65.3	30.9	28.2
Bureau Veritas SA	-4.1	-13.8	25.9	-6.4	34.1
Capgemini SE	23.6	-26.6	72.1	18.1	27.6
Equinor ASA	2.8	56.4	67.0	-13.5	0.5
Fortune Brands Innovations Inc.	35.2	-36.5	26.0	33.0	74.9
IQVIA Holdings Inc.	12.9	-27.4	57.5	16.0	33.0
Lululemon Athletica Inc.	59.6	-18.2	12.5	50.2	90.5
Microsoft Corp.	58.2	-28.0	52.5	42.5	57.6
Oracle Corp.	30.9	-4.6	36.9	24.2	19.3
TJX Companies Inc.	19.7	6.7	12.8	12.2	38.8
Taiwan Semiconductor Manufacturing Co. Ltd.	42.3	-36.8	12.1	92.7	64.8
Vinci SA	26.5	3.9	17.7	-16.6	41.5

Source: IQ EQ Fund Management (Ireland) Limited (IQ EQ ESG Equity Fund Class A Acc in EUR) and Bloomberg as at 30 June 2024. 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 IQ EQ ESG Equity Fund (previously the Davy ESG Equity Fund and prior to that the Davy Ethical 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, 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.

The MSCI World Quality Index is based on MSCI World, its parent index, which includes large and mid cap stocks across 23 Developed Market (DM) countries*. The index aims to capture the performance of quality growth stocks by identifying stocks with high quality scores based on three main fundamental variables: high return on equity (ROE), stable year-over-year earnings growth and low financial leverage. The MSCI Quality Indexes complement existing MSCI Factor Indexes and can provide an effective diversification role in a portfolio of factor strategies.

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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