Q2 2024 Update

IQ EQ Low Carbon Equity Fund

For Investment Professionals Only

Performance	1 month (%)	Q2 2024 (%)	1 year (%)	3 years p.a. (%)	5 years p.a. (%)
IQ EQ Low Carbon Equity Fund[1] (net of fees)	1.28	1.51	9.27	5.13	10.34
MSCI World Index[2]	3.35	3.42	22.35	10.52	13.14

Source: IQ EQ Fund Management (Ireland) Limited (IQ EQ Low Carbon Equity Fund Class AA Acc in EUR) as at 30 June 2024.

[1]The IQ EQ Low Carbon Equity Fund is a UCITS fund and was launched on 26 April 2018. On 1 May 2024 the Fund name was changed from Davy Low Carbon Equity Fund to IQ EQ Low Carbon 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 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 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 Low Carbon Fund** returned 1.51%, net of fees, in Q2 compared to the MSCI World return of 3.42%. Stock Selection was the main driver of underperformance, with Asset Allocation positive and Currency a small negative. Stock Selection was weakest within Technology (not owning Nvidia and Apple, both of which outperformed) and Industrials (Alfen, Fortune Brands). Positive selection within Communication Services (Alphabet) and Materials (IFF, Boliden) was not enough to offset this. In terms of Asset Allocation, the strategy benefited most by being overweight Technology, the top performing sector, and by being underweight Consumer Discretionary which underperformed. The main detractor from Asset Allocation was the overweight position in Industrials which underperformed. There was no discernible trend on the Low Carbon thematic leaderboard. Energy Efficiency names such as TSMC, Alphabet and Oracle were at the top of the table, closely followed by Resource Conservation names Badger Meter and International Flavors & Fragrances, and Low Carbon leaders Boliden, Unilever, and Roche. The bottom of the table was filled by Renewable names such as Vestas Winds Systems and two companies that issued profit warnings due to weaker demand, namely Alfen and Solaredge. Consumer-facing Fortune Brands Innovations and Lululemon Athletica also performed poorly despite satisfactory results.

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

The ***bottom five equity detractors*** from relative performance during the quarter were: Alfen NV, Fortune Brands Innovations Inc., Vinci S.A., Capgemini SE, and Vestas Wind Systems A/S.

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 AIand 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.

Alfen NV ("Alfen") was the main detractor of returns as the shares declined 64.5% after a number of negative events. Alfen operates at the heart of the energy transition and was a first mover in electric Vehicle ("EV") charging. However, in May the shares fell as much as 20% after a poor set of Q1 results with weakness in battery storage as the main driver of the decline. This was followed by a second profit warning in late June which saw the share price collapse by c. 46% in line with EBITDA guidance. Effectively, the guidance confirmed a month earlier was cut. Again, the main driver of the miss was in battery storage where large systems that were to be signed in Q2 are being postponed as far out as 2025. Full-year guidance was cut, and the company is taking two one-off amounts of €11m for a provision and obsolete inventory. Furthermore, banking covenants for credit facilities are under pressure. Alfen reports to CDP and has just filed emissions targets with the SBTi which are in keeping with its medium-term targets announced in May 2023. As a solutions provider, Alfen fits the Low Carbon strategy's Renewables theme, but given the recent turmoil, we will review the holding.

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 and 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

During the quarter we bought ***S&P Global Inc. ("S&P Global")*** which provides independent credit ratings, benchmarks, analytics and data to the global capital and commodity markets. The company provides S&P Global ESG scores, clean energy indices, as well as ESG data intelligence. Its Corporate Sustainability Assessment (CSA) leads the field in helping companies make the link between sustainability and their business strategies. Sustainability and energy transition represent 2.4% of total revenues, and we expect this figure to improve. It is a high-quality company with strong market shares, pricing power and high margins. S&P Global also has SBTi-approved emission targets and a 2040 NZ target.

We sold ***State Street Corp. (State Street)*** to fund the purchase of S&P Global. Although State Street's asset management business has been proactive in terms of ESG integration, adopting ESG into its investment management business, as well as an ESG solutions business which provides data and analytics to asset managers and owners, it is difficult to quantify these activities in terms of revenues. Hence, we saw S&P Global as a better fit for the Low Carbon thematic of Sustainable Financial Systems given its transparency.

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 Low Carbon Equity Fund (Net of fees) (EUR)	12.4	-14.6	27.1	10.8	31.7
MSCI World Index (EUR)	19.6	-12.8	31.1	6.3	30.0
Alfen NV	-28.4	-4.6	6.8	402.4	33.5
Alphabet Inc.	58.3	-39.1	65.3	30.9	28.2
Badger Meter Inc.	42.6	3.2	14.1	46.4	33.4
Capgemini SE	23.6	-26.6	72.1	18.1	27.6
Fortune Brand Innovations Inc.	35.2	-36.5	26.0	33.0	74.9
Microsoft Corp.	58.2	-28.0	52.5	42.5	57.6
Oracle Corp.	30.9	-4.6	36.9	24.2	19.3
S&P Global Inc.	32.8	-28.4	44.7	21.4	62.3
State Street Corp.	3.5	-13.7	31.1	-4.8	29.3
Taiwan Semiconductor Manufacturing Co. Ltd.	42.3	-36.8	12.1	92.7	64.8
Vestas Wind Systems A/S	6.0	1.2	-30.1	116.8	38.5
Vinci SA	26.5	3.9	17.7	-16.6	41.5

Source: IQ EQ Fund Management (Ireland) Limited (IQ EQ Low Carbon Equity Fund Class AA 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 Low Carbon Equity Fund (previously named the Davy Low Carbon Equity Fund – name change effective on 1 May 2024. The Fund had previously been named the Davy ESG Ex-Fossil Fuels Fund; this changed to Davy Low Carbon Equity Fund on 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 April 2024

Reference: NC_24022024_1

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