Q3 2024 Update

IQ EQ ESG Equity Fund

For Investment Professionals Only

Performance	1 month (%)	Q3 2024 (%)	1 year (%)	3 years p.a. (%)	5 years p.a. (%)
IQ EQ ESG Equity Fund[1] (net of fees)	2.11	3.15	23.15	9.22	11.78
MSCI World Index[2]	1.00	2.14	25.63	10.46	12.52

Source: IQ EQ Fund Management (Ireland) Limited (IQ EQ ESG Equity Fund Class A Acc in EUR) as at 30 September 2024.

[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

Global equity markets rose by 2.14% in the third quarter, taking the year-to-date return to 17.64% in euro terms as measured by the MSCI World Index (net). It was a relatively volatile quarter, with two periods of declines, one in early August, and another in early September. The August rout was sparked by poor earnings outlooks from semiconductor makers and extreme volatility in financial markets during July and August.

September's downward lurch was due, once again, to disappointing forecasts from large technology companies. However, equity markets recovered into the quarter-end on a 0.5% cut in interest rates from the US Federal Reserve ("the Fed") and hopes that the Fed would engineer a soft landing for the US economy, which had shown weakening labour market conditions during the quarter.

Interest rate-sensitive sectors such as Utilities and Financials were among the best performing sectors during the quarter as US interest rates declined in September. There was some evidence from data released during the month of cooling in the US labour market, which drove the move lower in interest rates. The benchmark US 10-year Treasury yield fell from 4.4% to 3.8% during the quarter.

Large technology shares underperformed during the quarter on those disappointing outlooks. Meanwhile, energy shares also weakened as the price of a barrel of Brent crude oil fell from $85 to $72 on the slowdown in US labour data and a cut in its forecast for global demand from OPEC.

Fund performance

The **IQ EQ ESG Equity Fund** returned 3.15%, net of fees, in the third quarter. This compares to the MSCI World Index return of 2.14%. Stock selection was the main driver of performance with asset allocation also contributing positively to returns. Currency was marginally negative. Selection was particularly strong within Technology (Oracle, Shimadzu) and Financials (American Express, Singapore Exchange) and weakest within Communication Services (Alphabet). The contribution from Asset Allocation came mostly from being underweight Energy and Technology, the two worst performing sectors over the three months. Being underweight Real Estate, the second-best performing sector after Utilities, took most from Asset Allocation. The "Magnificent 7" performed in line with the market.

The ***top five equity contributors*** to relative performance during the quarter were: Oracle Corp., Iberdrola SE, Fortune Brands Innovations Inc., American Express Co., and Singapore Exchange Ltd.

The ***bottom five equity detractors*** from relative performance during the quarter were: Alphabet Inc., Microsoft Corp., Merck & Co. Inc., TE Connectivity plc, and Waste Management Inc.

Oracle Corp. ("Oracle"), the US software giant, having been a top contributor to returns in both Q1 and Q2, was again a top contributor over Q3, rising by 16.2%. The strong performance followed solid quarterly results reported in early September and confirmation of the company's full-year guidance. Highlights from the results included 46% growth in cloud infrastructure, revenue growth of 8% (which was at the high end of the guidance), strong margin control, and a database deal with Amazon Web Services ("AWS") which came sooner than expected in the same week as the company's annual conference, which showed off a strong line-up of technology innovation. At the conference, management went further and raised revenue guidance for 2026 and initiated strong guidance for 2029. We believe that investor concerns about growth, the database business, and Oracle's Cloud are fading. Oracle remains a top five holding in the portfolio. In terms of ESG, controversies remain in relation to the Board and ownership issues as Larry Ellison owns 42% of the company. However, the company's ESG performance has improved driven by workforce management advances as it follows several best practices such as extensive compensation, non-monetary benefits, and stock purchase plans. On the positive side, Oracle excels in terms of Privacy & Data Security.

Iberdrola S.A. ("Iberdrola"), the Spanish utility, is a world-leading wind and solar renewables player. The shares returned over 18% in the quarter and the stock was also a main contributor to returns. Indeed, the shares outperformed the Utility sector and the market. Early in August, Iberdrola bought a majority stake in Electricity North-West ("ENW") in the UK for £2.1bn. ENW operates local distribution grids which are regulated, making them desirable for investment as they offer certainty of returns. The company had also posted better-than-consensus first-half results towards the end of July and raised its full-year guidance. Furthermore, the sector and Iberdrola benefited from lower sovereign yields which will reduce the cost of capital and boost valuations. Iberdrola remains a high-performing ESG company with strong carbon emissions commitments where it aims to reduce its absolute scope 1, 2 & 3 emissions by 65% by 2030. The company also has plans to invest €46bn between 2024-2026 to further increase its renewable energy capacity and modernise its grids. Iberdrola expect to be carbon-neutral by 2039. The company remains a high-conviction investment and a strong ESG performer, particularly in the management of environmental risks.

Alphabet Inc., ("Alphabet"), was a main detractor to returns in the third quarter, declining by 12.4%. Alphabet is the holding company of Google, the firm behind the world's most-used search engine, Android, as well as a plethora of other internet services including YouTube, Google Pay, and Other Bets which includes emerging businesses. Following a weak performance in July, the much-awaited antitrust case in the United States reached a landmark decision in August. A federal judge ruled that Google acted illegally to maintain its monopoly as an online search engine, causing shares to fall by nearly 5% after the ruling. The pullback in the shares reflects fears of an impairment to the business to a level that is cheap relative to the market. However, we will wait to review the US Department of Justice's remedy to Search which is due in early October. The share price reacted well to other news on developments such as an Indian startup using Google AI to identify tuberculosis, though it was not enough in terms of magnitude to offset share price performance. On the ESG front, Alphabet is a leader in many areas such as Privacy & Data Security, and opportunities in Clean Technology. In welcome news, the company announced plastic-free packaging for its Pixel, Nest, and Fitbit devices ahead of its 2025 goal.

Microsoft Corp. ("MS"), the software giant, was also a detractor from returns as the shares declined by 7.3% in the quarter. The shares hit a new high mid-July before pulling back 10% ahead of quarterly results which were reported on the last day of the month. The results were solid and beat expectations. However, Azure growth of 30% was short of a high bar. The easing of capacity constraints for Azure should benefit the second half of the year as the company works to build data centre capacity to meet demand. We believe that MS is well positioned to benefit from continued cloud adoption, its large distribution channels and installed customer base, whilst expanding margins to drive earnings growth. We see MS as a beneficiary of Artificial Intelligence ("AI"), where the company can enhance its product range and bring AI to the masses. In terms of ESG, MS aims to deliver platforms, tools, and solutions in a sustainable way to help organisations around the world build their own technological intensity. The company aims to be the leading platform provider of technology solutions focused on carbon, water, waste, and ecosystems. MS is a high-performing ESG name and is particularly strong in terms of Privacy and Data Security.

Sample portfolio transactions

There were no significant transactions during the quarter.

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. However, in the third quarter our quality model underperformed, driven by the Information Technology sector, which underperformed. We noted at the end of the second quarter that investors were paying a premium for steady profit growth as reflected in the strong performance from our Persistence pillar, which has a high allocation to technology shares. We wrote at the time that there was little valuation support for the pillar if preferences changed. Thistrend went into reverse in the third quarter, with the People pillar performing strongest of the four. This pillar reflects companies that reward shareholders with capital repayments, including dividends. These shares fared well during the third quarter as interest rates fell. The performance of the People pillar is also symptomatic of an increase in market breadth, which is necessary if equity market performance is to be maintained into the end of the year.

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
American Express Company	28.7	-8.5	36.9	-1.2	32.5
Fortune Brands Innovations Inc.	35.2	-36.5	26.0	33.0	74.9
Iberdrola S.A.	13.6	9.8	-7.5	32.7	36.7
Merck & Co. Inc.	1.0	49.4	1.8	-7.2	22.3
Microsoft Corp.	58.2	-28.0	52.5	42.5	57.6
Oracle Corp.	30.9	-4.6	36.9	24.2	19.3
Singapore Exchange Ltd.	13.7	-0.3	3.5	8.4	28.6
TE Connectivity	24.6	-27.7	35.1	29.0	29.4
Waste Management Inc.	16.2	-4.5	43.8	5.5	30.5

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

IQ EQ Fund Management (Ireland) Limited, trading as IQ EQ Fund Management, is regulated by the Central Bank of Ireland. 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 Central Bank of Ireland and the Commission de Surveillance du Secteur Financier are available from us upon request.

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.

Find out more
www.iqeq.com

Follow us