Q3 2024 Update

IQ EQ Low Carbon Equity Fund

For Investment Professionals Only

Performance	1 month (%)	Q3 2024 (%)	1 year (%)	3 years p.a. (%)	5 years p.a. (%)
IQ EQ Low Carbon Equity Fund[1] (net of fees)	2.82	4.16	23.13	5.78	9.75
MSCI World Index[2]	1.00	2.14	25.63	10.46	12.52

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

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 Japanese financial markets caused by a surge in the yen. An unwind of the so-called "yen carry trade" in which investors borrow in yen and buy global assets, caused 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 Low Carbon Fund** returned 4.16%, net of fees, in Q3 compared to the MSCI World return of 2.14%. Stock Selection was the main driver of outperformance with Asset Allocation and Currency also positive contributors to returns. Stock Selection was most positive within Financials (Singapore Exchange, Blackrock), Consumer Staples (Clorox) and Technology (Oracle), whilst being weakest within Communication Services (Alphabet). In terms of Asset Allocation, Sector Selection was positive being overweight the Industrials and Materials sectors which outperformed and by not having a position in Energy, the worst-performing sector. Not having any holding in the Real Estate sector, which outperformed, took most from returns. Currency made a positive contribution. In terms of trends on the Low Carbon thematic leaderboard, the top half was well represented by Energy Efficiency names such as Energy Recovery, Oracle and Trane Technologies. As expected in a volatile Q3, the more defensive names within Sustainable Finance, Singapore Exchange and Deutsche Boerse, and Low Carbon Leaders Smith & Nephew, Clorox and Unilever outperformed. The bottom half of the leader board featured some of our Renewable names such as Alfen, Vestas Wind and Solaria Energia. Semiconductor and factory automation names such as Cognex, Cadence Design, Daikin and TE Connectivity, which fit under the theme of Energy Efficiency, were found towards the bottom of the leaderboard.

The ***top five equity contributors*** to relative performance during the quarter were: Oracle Corp., Fortune Brands Innovations Inc., Quanta Services Corp., Singapore Exchange Ltd., and Trane Technologies plc.

The ***bottom five equity detractors*** from relative performance during the quarter were: Alphabet Inc., Microsoft Corp., Cadence Design Systems Inc., Cognex Corp., and TE Connectivity plc.

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.

Quanta Services Inc. ("Quanta") was also a top contributor to return in the quarter, returning 12.7%. During the quarter Quanta acquired Cupertino Electric for $1.5bn which will enhance its position in renewables and data centres. The company also posted Q2 results in August which beat expectations. Electric Power (grid modernization and system hardening) is expected to see organic growth accelerate in the second half of the year as the backlog has grown to $17.2bn, up 26% year-on-year. Although the Renewables business has seen orders decrease due to the timing of contract awards, profitability is back on track with margins set to improve. The next few months may be more volatile sentiment-wise for Quanta given the political ebb and flow surrounding the US Inflation Reduction Act. We view the stock as a natural name for the Low Carbon strategy under the theme of Clean Technology/Energy Efficiency as the company helps its customers move to a carbon-neutral economy. Over 70% of revenues come from regulated utilities with over 90% of total revenues from repeatable and sustainable activity, which we like. Quanta is exposed to favourable long-term trends such as utility grid modernization, system hardening, electrification, communications/5G, and outsourcing. We believe the company is well placed to benefit from the inevitable and significant investment required in power grids and the estimated $3.0trn green capex required in the 2020s to meet the Net Zero target.

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.

Cadence Design Systems Inc. ("CDS") was also a main detractor to returns in the quarter, declining by 15.4%. The fall in shares was partly due to the sell-off in application software and semiconductor names and partly due to quarterly results which came in as expected, but where the guidance for the remainder of 2024 suggests Q4 will be more weighted than expected and, in turn, Q3 will be weaker. In terms of valuation, the shares are trading at a three-year low relative to the market. CDS is a leader in electronic design, building upon more than 30 years of computational software expertise. 86% of revenues are derived from clean technology. The company helps its customers (smartphones, laptops, gaming, 5G, autos, autonomous driving, cloud data centre infrastructure) develop and optimise a complete and functional electronic product. It does this by optimising performance, minimising power consumption and shortening the time to bring customer products to market. In short, CDS design chips that are more productive and with better power performance. We like the high and steadily improving returns and the high visibility/ recurring revenues going into each quarter as approximately 90% of contracts come over multiple time periods. CDS expects to set SBTi targets in the next two years. Cadence Design Systems fits within the strategy theme of Clean Technology/Energy Efficiency.

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. This trend 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 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
Alphabet Inc.	58.3	-39.1	65.3	30.9	28.2
Cadence Design Systems Inc.	69.6	-13.8	36.6	96.7	59.5
Cognex Corp.	-10.8	-39.1	-2.8	47.6	45.5
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
Quanta Services Inc.	51.7	24.6	59.5	77.7	35.8
Singapore Exchange Ltd.	13.7	-0.3	3.5	8.4	28.6
TE Connectivity plc	24.6	-27.7	35.1	29.0	29.4
Trane Technologies plc	47.4	-15.4	41.0	43.5	48.3

Source: IQ EQ Fund Management (Ireland) Limited (IQ EQ Low Carbon Equity Fund Class AA 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.

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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.

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