Q4 2024 Update

IQ EQ ESG Equity Fund

For Investment Professionals Only

Performance	1 month (%)	Q4 2024 (%)	1 year (%)	3 years p.a. (%)	5 years p.a. (%)
IQ EQ ESG Equity Fund[1] (net of fees)	-0.19	3.86	19.22	6.74	11.64
MSCI World Index[2]	-0.66	7.61	26.60	9.71	12.98

Source: IQ EQ Fund Management (Ireland) Limited (IQ EQ ESG Equity Fund Class A Acc in EUR) as at 31 December 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 7.6% in the fourth quarter, taking the full-year 2024 return to 26.6% in euro terms as measured by the MSCI World Index. Most fourth quarter gains were made during November following the results of the US elections. The Republican clean sweep at the polls was greeted favourably by equity investors due to expectations of lower corporate and personal tax rates in the US and greater deregulation which could, in turn, be good for corporate profits.

From a geographical perspective, the gains during the quarter were concentrated in the US market, which rose by 10.7% in euro terms while other markets, notably Europe, lagged due to the high likelihood of significant tariff increases from the new US administration. European equities fell by 2.7% during the quarter, weighed down by lower relative economic growth rates and fears over the aforementioned tariffs.

Technology and internet-related shares were strong performers in the quarter, as was the Financials sector which benefited from higher long-term interest rates in the period. Equity returns for the year were, once again, heavily dependent on a relatively small number of companies exposed to the development and implementation of Artificial Intelligence ("AI") systems. The top ten performers within the MSCI World Index during 2024 contributed 41% of the total return. Seven of those companies are directly exposed to the AI theme.

Fund performance

The **IQ EQ ESG Equity Fund** returned 3.86% net of fees in Q4 compared to the MSCI World Index which returned 7.61%. Stock Selection was the main driver of underperformance with Asset Allocation and Currency also detracting from performance. Selection was particularly weak within the Technology (Capgemini, Oracle) and Consumer Discretionary (Tractor Supply) sectors. Selection was strongest within Communication Services (Alphabet) and Utilities (Iberdrola). Asset Allocation also took from performance by being overweight the Materials sector, the worst performing sector, and by being underweight the best-performing Consumer Discretionary sector. This more than offset the benefit of being underweight both Real Estate and Energy which underperformed. Currency was also a detractor from performance being underweight a strong US dollar. The "Magnificent 7", five of which the Fund cannot own due to ESG and exclusion criteria, accounted for 40% of the market return, outperforming the market, driven by Nvidia, Tesla and Apple.

The ***top five equity contributors*** to relative performance during the quarter were: Alphabet Inc., Taiwan Semiconductor Manufacturing Co. Ltd., Visa Inc., American Express Co., and SAP SE.

The ***bottom five equity detractors*** from relative performance during the quarter were: Capgemini SE, International Flavors & Fragrances Inc., Fortune Brands Innovations Inc., Smith & Nephew Ltd., and IDEXX Laboratories Inc.

Alphabet Inc. ("Alphabet") was the top contributor to returns in the 4th Quarter, gaining 23.1%, having been one of the worst contributors to return in Q3 when, in August, a US federal judge ruled that Alphabet's subsidiary Google had acted illegally to maintain its monopoly as an online search engine. On 8th October 2024 the US Department of Justice ("DOJ") proposed its remedies to the search function ("Search"), ranging from Google's control over distribution channels to preventing Google from using Chrome, Play and Android products to enhance its Search monopoly. We believe the DOJ's ability to force a breakup is low. The most likely scenario is that exclusive clauses, particularly with Apple IOS and the implementation of choice screens or search default bans, will end. The company also posted Q3 results at the end of October which were better than expected with the larger beats all non-ad businesses, led by subscriptions, platforms, devices, Cloud and Waymo. Google also announced a breakthrough in quantum computing using its new quantum chip and reinforces its technology leadership. Despite heightened competition from both Gen AI search (Microsoft, OpenAI) and advertising (Meta and Amazon: social and retail media) the shares returned a healthy 45% in 2024. Alphabet is a Low Carbon Leader within the Clean Technology thematic of the Fund. The company boasts data centres which are one and a half times more energy efficient than a typical enterprise data centre, with up to three times more computing power.

Taiwan Semiconductor Manufacturing Company Ltd. ("TSMC") was a leading contributor to performance during the quarter. The company's earnings reports generally surprised investors positively during 2024, showing continued momentum, particularly in the AI and High-Powered Computing divisions. TSMC leads the world in the production of the high-powered of chips that are required for the deployment of AI systems. The company's shares rose strongly in October following a strong earnings report. Revenue and margin guidance exceeded expectations, confirming that TSMC is in a very strong position to benefit from the global demand for AI semiconductors. Despite some concerns about tariffs and restrictions on the sale of semiconductors to China in the wake of the US elections, the company confirmed that its investment plans were unchanged. There was further positive news in early December as TSMC began talks with Nvidia to make new chips, while an Arizona fabrication plant began to close in on its original production schedule after initial delays. TSMC is a high-quality company with excellent sustainability credentials operating with an exceptionally strong competitive moat. That strength allows the company to pay out 70% of free cash flow to investors in dividends every year.

Vestas Wind Systems A/S ("VWS"), which develops, manufactures and markets wind turbines that generate electricity was the main detractor from returns, declining by 33.7%. At the start of November, the share price declined over 25% following the release of the company's Q3 results. The results were mixed with margin guidance narrowed to the lower end of the 4%-5% range. This lowered guidance was driven mainly by lower profitability expected in the service business. Although the problems in the service business have not yet bottomed out, a significant margin compression is priced in. This implies a strong pick up in Q4. Around this time Donald Trump won the US presidential election. In the past Trump has commented negatively on wind projects. The US is a key region for Vestas, where it is the no. 2 player. Although Trump has mentioned wind and a repeal of the Inflation Reduction Act (IRA)/tax credits for wind developers, we do not believe the outcome will be as negative as the market is pricing in, as approx. 46% of IRA project announcements are from Republican States which will benefit from jobs, tax and economic activity. As expected, the renewables sector has been volatile pre and post the US election. However, Vestas is a natural fit for our Renewables theme within the Low Carbon strategy and we will choose a time to raise our position as sentiment, risk/reward and fundamentals improve.

Capgemini SE ("Capgemini"), Europe's largest global systems integration and consulting services company was the main detractor to performance as the shares declined -18.4%. The decline followed Q3 results released at the end of October which disappointed the market. Management also lowered 2024 revenue guidance for the second time having done so previously in July. This lowering of the full-year guidance suggests that Q4 will be like Q3 with no return to organic growth likely before H2 2025. In the short term the shares may remain volatile given the political background in France. However, we believe Capgemini will continue to execute well and we expect to see margins and cashflow improve in 2025. The shares now look attractive and are near trough valuation, which will benefit from any gradual recovery. As a data controller and processor, data security is a key risk that must be managed and, indeed, the company operates a strong data security framework with international certification. Capgemini is also well placed to help their clients tackle sustainability challenges by using technology (cloud, data, AI, connectivity, digital engineering) to form part of the solution to climate related issues. Capgemini also have several SBTi validated targets which include a reduction in their Scope 1&2 emissions by 80% and Scope 3 emissions by 50% by 2030 as part of their net zero target

Sample portfolio transactions

We took advantage of share price weakness to initiate a new position in L'Oréal S.A., the world's leading beauty player. The company has several growth avenues backed by the largest R&D budget in the sector. The company no longer conducts animal testing and has SBTi approved targets. This purchase was funded through the sale of Daikin Industries Ltd. which we sold for fundamental reasons and concern over the company's exposure to "forever chemicals". We also sold out of TotalEnergies SE ahead of compliance with ESMA guidelines. The proceeds of these sales were spread over a number of holdings.

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. A slight dip in the performance of the Persistence pillar in the third quarter turned out to be short-lived as investors rushed back into technology-related stocks in December. Relatively low volatility companies with consistent payouts, as represented by our Protection and People pillars, were left behind in the rush into mainly AI-related shares. Valuation is clearly not a priority for investors at the moment, otherwise the level of concentration in market performance would not be as high as it has been in the past two years. For the moment at least, investors have no doubt that a small group of mainly large-cap companies will be able to

The QQE perspective (cont'd)

monetise the opportunity that AI is presenting. The upcoming earnings season, where company managements will report on progress and give year-ahead forecasts, will be of critical importance to investors that have already placed their bets on the success of the AI trend.

Calendar year performance	2024 (%)	2023 (%)	2022 (%)	2021 (%)	2020 (%)
IQ EQ ESG Equity Fund (Net of fees) (EUR)	**19.22**	**12.4**	**-9.2**	**32.7**	**7.5**
MSCI World Index (EUR)	**26.60**	**19.6**	**-12.8**	**6.3**	**30.0**
Alphabet Inc.	36.0	58.3	-39.1	65.3	30.9
American Express Company	60.3	28.7	-8.5	36.9	-1.2
Capgemini SE	-14.8	23.6	-26.6	72.1	18.1
Daikin Industries Ltd.	-17.6	15.0	-21.9	14.7	49.9
Fortune Brands Innovations Inc.	-9.1	35.2	-36.5	26.0	33.0
IDEXX Laboratories Inc.	-25.5	36.1	-38.0	31.7	91.4
International Flavors & Fragrances Inc.	6.3	-19.5	-28.4	41.5	-13.3
L'Oréal S.A.	-23.0	37.0	-18.9	35.7	19.3
Microsoft Corp.	12.9	58.2	-28.0	52.5	42.5
SAP SE	71.5	47.2	-20.7	18.4	-9.6
Smith & Nephew plc	-5.5	0.1	-11.9	-12.6	-15.8
Taiwan Semiconductor Manufacturing Co. Ltd.	92.6	42.3	-36.8	12.1	92.7
TotalEnergies SE	-9.0	10.4	41.4	35.5	-22.6
Visa Inc.	22.3	26.3	-3.4	-0.3	17.1

Source: IQ EQ Fund Management (Ireland) Limited (IQ EQ ESG Equity Fund Class A Acc in EUR) and Bloomberg as at 31 December 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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IQ-EQ1239_PolicyAndProcedure_Complaints-Policy_2023_FA_02

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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.

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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.

Reference:
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