Q4 2024 Update

IQ EQ Low Carbon Equity Fund

For Investment Professionals Only

Performance	1 month (%)	Q4 2024 (%)	1 year (%)	3 years p.a. (%)	5 years p.a. (%)
IQ EQ Low Carbon Equity Fund[1] (net of fees)	-1.11	2.62	15.84	3.62	9.40
MSCI World Index[2]	-0.66	7.61	26.60	9.71	12.98

Source: IQ EQ Fund Management (Ireland) Limited (IQ EQ Low Carbon Equity Fund Class AA Acc in EUR) as at 31 December 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 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 Low Carbon Fund** returned 2.62% in Q4, net of fees. This compares unfavourably to the MSCI World Index return for the quarter of 7.61%. Stock Selection was the main driver of underperformance, with Asset Allocation and Currency also detracting from returns. Despite strong returns from TSMC and Cadence Design, Stock Selection within the Technology sector overall was weak (Capgemini, Shimadzu). Selection was also poor within Industrials (Vestas Wind Systems, Fortune Brands). Positive selection in Communication Services (Alphabet) was unable to offset the overall weakness. Asset Allocation also took from returns as the strategy was underweight the best-performing sector, namely Consumer Discretionary, and overweight the Industrials sector which underperformed. This was partially offset by being underweight the Healthcare sector which also underperformed. Currency was a detractor too, as the strategy was underweight a strong US dollar. In terms of themes on the Low Carbon leaderboard ranked by total return, Energy Efficiency names topped the list led by Alphabet, TSMC, Cadence Design and Cummins. These companies were followed by a group of Sustainable Finance names such as Singapore Exchange, Blackrock and Broadridge Financial which promote transparency, climate change, and reporting. Low Carbon Leader Lululemon rebounded 51% in Q4 to be the top performer. Other Carbon Leaders were ranked towards the top and middle of the table. Resource Conservation names such as Fortune Brands, International Flavors & Fragrances and Xylem were in the bottom third of the table. As expected, the election of Donald Trump as US President sent shivers through our renewable companies with Vestas Wind Systems, Solaria Energia and Orsted propping up the table.

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

The ***bottom five equity detractors*** from relative performance during the quarter were: Vestas Wind Systems A/S, Capgemini SE, Fortune Brands Innovations Inc., Orsted A/S, and International Flavors & Fragrances 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 bought a new position in Ecolab Inc., a global leader in water, hygiene and infections prevention. The company is considered a low carbon solutions provider as 66% of revenues are derived from products or services that deliver a clear social or environmental benefit. The purchase was funded through the sale of Daikin Industries Ltd. which specialises in HVAC equipment and heat pumps, areas where demand is sluggish. The company is also exposed to "forever chemicals", which may prove problematic in the future.

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 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 Low Carbon Equity Fund (Net of fees) (EUR)	**15.8**	**12.4**	**-14.6**	**27.1**	**10.8**
MSCI World Index (EUR)	**26.6**	**19.6**	**-12.8**	**31.1**	**6.3**
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
Cummins Inc.	48.9	1.7	14.1	-1.7	30.5
Daikin Industries Ltd.	-17.6	15.0	-21.9	14.7	49.9
Ecolab Inc.	19.3	37.9	-37.1	9.4	13.2
Fortune Brands Innovations Inc.	-9.1	35.2	-36.5	26.0	33.0
International Flavors & Fragrances Inc.	6.3	-19.5	-28.4	41.5	-13.3
Orsted A/S	-13.4	-39.4	-23.3	-32.0	83.1
Quanta Services Inc.	46.6	51.7	24.6	59.5	77.7
Taiwan Seminconductor Manufacturing Co. Ltd.	92.6	42.3	-36.8	12.1	92.7
Vestas Wind Systems A/S	-54.2	6.0	1.2	-30.1	116.8

Source: IQ EQ Fund Management (Ireland) Limited (IQ EQ Low Carbon Equity Fund Class AA 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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www.iqeq.com/davy-funds-plc

Our Summary of Investor Rights can be found at our website at:
IQ-EQ1239_PolicyAndProcedure_Complaints-Policy_2023_FA_02

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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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