

# IQ EQ Low Carbon Equity Fund

For Investment Professionals Only

Performance	1 month (%)	Q1 2025 (%)	1 year (%)	3 years p.a. (%)	5 years p.a. (%)
IQ EQ Low Carbon Equity Fund <sup>1</sup> (net of fees)	-7.70	-8.42	-0.64	3.27	11.28
MSCI World Index <sup>2</sup>	-8.01	-5.86	7.02	8.65	16.49

Source: IQ EQ Fund Management (Ireland) Limited (IQ EQ Low Carbon Equity Fund Class AA Acc in EUR) as at 31 March 2025

<sup>1</sup>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.

<sup>2</sup>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.

bellwether Walmart in February, followed by several weak economic data releases, started a retreat in markets. The move lower gained momentum as the Trump administration in the US announced plans for wide-ranging tariffs on US imports. Canada, Mexico and China, the US’s three largest trading partners, were first to experience the effects of the new tariffs. After a brief respite, equities weakened again into the quarter-end as investors awaited President Trump’s “reciprocal tariff” announcements.

There was a marked divergence in equity market performance between regions and sectors during the quarter. From a geographical perspective, Europe was the best performing developed market region spurred on by an announcement from the EU Commission of plans to spend up to €800bn to strengthen Europe’s defence capabilities. The MSCI Europe index rose by 6.1% during the quarter, led by the Financials and Industrials sectors. The MSCI US index, in contrast, fell by 8.6% in euro terms as artificial intelligence (AI)-related technology giants fell following

## Market comment

Global equity markets were volatile during the first quarter of 2025, with the MSCI World Index (net) falling by 5.86% in euro terms. Equity markets had made a promising start to the year, rising by almost 5% in the first seven weeks. However, a disappointing earnings report from US consumer

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Chinese startup DeepSeek's release of an AI model in January that purportedly rivalled existing US-developed models at a fraction of the hardware cost. Over two-thirds of the US market fall was attributed to the so-called "Magnificent Seven" stocks during the first quarter.

The Consumer Discretionary and Information Technology sectors were the worst performing sectors during the quarter. The Consumer Discretionary sector was driven lower by a collapse in Tesla's share price, which fell by over 38%. The Information Technology sector experienced a broad-based selloff, with weakness in Nvidia and Apple shares the most impactful.

The Financials, Energy and Consumer Staples sectors were the best performing sectors during the quarter, the latter driven higher by a strong rebound in the relatively defensive food, beverage and tobacco shares.

## Fund performance

The **IQ EQ Low Carbon Fund** returned -8.42% in Q1, net of fees. This compares unfavourably to the MSCI World Index return for the quarter of -5.86%. Stock Selection was the main driver of underperformance, particularly within Industrials (Quanta Services, Cummins) and Communication Services (Alphabet). Selection was best within the Technology sector (TE Connectivity, Dassault Systems). Sector Allocation was marginally negative as the positive allocation from being underweight the Consumer Discretionary sector which underperformed, and an overweight position in Industrials which outperformed, was offset by being overweight Technology, which was the second-worst performing sector. Currency had a positive impact on returns as the strategy was underweight a weakening US dollar. Returns also benefited from the underperformance of the "Magnificent 7" names in the period, driven lower in particular by Nvidia, Apple and Tesla. Of note in terms of themes on the Low Carbon leaderboard, ranked by total return, was the weakness in Energy Efficiency names. The Technology sector was the worst-performing sector in the period following the launch of DeepSeek's AI model and talk of Microsoft cutting back on datacentre capacity. Energy efficiency names, such as Quanta Services,

Alphabet, Cognex, Oracle and TSMC, with exposure to AI and datacentres sold off, and thus populated the bottom of the table. Lululemon Athletica was the worst-performing name as management cut guidance for the remainder of the year. Higher market volatility saw the more defensive names towards the top of the table. Companies included the exchanges, such as Deutsche Boerse (a top performing stock) and Singapore Exchange, where the volume of derivatives rises in times of stress. Some of the Low Carbon Leaders which tend to be more defensive, such as Roche, Smith & Nephew, Loblaws and Unilever, also featured towards the top. Renewable names such as Vestas Wind Systems, Orsted and Solaria performed mid-table.

The **top five equity contributors** to relative performance during the quarter were: Deutsche Boerse, AG, Siemens AG, Vinci SA, Roche Holding AG, and Boliden AB.

The **bottom five equity detractors** from relative performance during the quarter were: Alphabet Inc., Oracle, Corp., Quanta Services Inc., Taiwan Semiconductor Manufacturing Co. Ltd., and Microsoft Corp.

**Deutsche Boerse AG ("DB")** was the top contributor to returns in the quarter, as the shares gained 22.3% to hit a new high at the end of the period. Stock exchanges come into their own during periods of market volatility, as happened when we saw heightened market volatility on DeepSeek AI news and as President Trump ramped up tariff talk. Such volatility typically sees trading volumes, and particularly derivative trading volumes, increase. Mid quarter, DB also posted Q4 results which were solid but also included a surprise €500m share buyback. DB scores highly in terms of governance relative to peers, with a board that is 100% independent of management and with female representation at 41%. The company also operates in regions where corruption levels are thought of as being low. DB is seen as a leader in sustainability, where its role as an organiser of capital markets is particularly important in driving progress in climate change, such as providing liquidity for green bonds or encouraging improved environmental disclosure from exchange

participants. Deutsche Boerse also owns International Shareholder Services Inc. ("ISS") which provides a proxy voting service.

**Siemens AG ("Siemens")**, the German industrial, gained 14.9% over the three-month period, reached a new high in March and was a top contributor to returns. The company focuses on industrial automation, electrification, digitalisation and solutions for transportation, power, and medical diagnosis. The company reported Q1 2025 results mid-quarter which beat expectations in terms of orders, sales, profits and cashflow. Management also confirmed the outlook for 2025 and spoke of an improving order intake in digital industries automation products. This was the highest level of order intake in 18 months. The company also recently announced its intention to review its holding in Healthineers (the subsidiary specialising in medical technology) which could see the holding company discount of c. 15% drive a higher valuation. The shares were further boosted by the announcement that Germany will spend €500bn on defence and infrastructure investment. Siemens is a high performing ESG name investing heavily in R&D which allows for industry-leading innovation and product development in factory automation and smart grids, climate-friendly electrical products, and electrical vehicle charging. For example, in a joint venture with Deutsche Bahn called 'H2goesRail', the company is currently working on green hydrogen trains in Germany which could save 330 metric tons of CO<sub>2</sub> per year. Siemens fits neatly into our Low Carbon thematic of Energy Efficiency.

**Alphabet Inc. ("Alphabet")** went from being the top contributor to returns in January to being a main detractor to returns in February and March. Indeed, the shares pulled back by 21.6% over the three-month period following Q4 2024 results mid-quarter. The shares fell 7% on the announcement as results missed expectations with Cloud revenues seen as disappointing. On a positive note, Search and YouTube saw growth re-accelerate. As with all the major AI players, the company also raised guidance on CapEx by ca. \$20bn to \$75bn. The concern for the market is that, while Alphabet invests heavily in its GenAI portfolio, the incremental return on the capital invested has yet to be determined. The arrival of DeepSeek, the Chinese AI start-up model which is competitive

to western chatbots, is also a threat as lower inferencing costs may accelerate the adoption of search alternatives. Furthermore, the lean operating structure of DeepSeek also reminds the market that the company is overstaffed, which could accelerate a cost-saving plan. Although Alphabet faces some new pressures, it remains a Low Carbon Leader and Energy Efficiency name within the Clean Technology thematic of the Fund. Indeed, the company boasts datacentres that are 1.5 times more energy-efficient than a typical enterprise datacentre, with up to three times more computing power.

**Quanta Services Inc. ("Quanta")**, the electrical specialist contractor, fell by 22.8% in the quarter. The shares had been performing well before a sell-off in global technology companies at the end of January. That decline followed the arrival of DeepSeek AI which caused shockwaves beyond the chipmakers. Indeed, electrical companies exposed to datacentres were typically down 10%-15% as DeepSeek, the Chinese startup, has developed an AI model that is more cost and computationally efficient than its US peers. Quanta fell 18% on the day. However, if DeepSeek is to change the CapEx dynamics in the technology space, it is likely to take significant time for the hyperscalers to adjust CapEx levels lower, and so near-term growth should remain. Amidst the AI news flow, Quanta reported Q4 results ahead of expectation, which benefited from high storm-restoration volumes and an arbitration settlement from an old project. However, the market was disappointed that there will be a loss of transparency in future reporting as the Electric and Renewables segments are to be combined. We view Quanta 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 activities, which we like. The company is exposed to favourable long-term trends such as utility grid modernisation, renewable energy infrastructure solutions, system hardening, electrification, communications/5G and outsourcing. We believe Quanta 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.

## Sample portfolio transactions

We sold out of UPS and reduced the Fund's position in Alphabet, as well as adding to more defensive Low Carbon Leader names such as Clorox and Smith & Nephew.

## Calendar year performance

Index / Stock	2024 (%)	2023 (%)	2022 (%)	2021 (%)	2020 (%)
<b>IQ EQ Low Carbon Equity Fund (Net of fees) (EUR)</b>	<b>15.8</b>	<b>12.4</b>	<b>-14.6</b>	<b>27.1</b>	<b>10.8</b>
<b>MSCI World Index (EUR)</b>	<b>26.6</b>	<b>19.6</b>	<b>-12.8</b>	<b>31.1</b>	<b>6.3</b>
Alphabet Inc.	36.0	58.3	-39.1	65.3	30.9
Boliden AB	0.9	-13.6	19.3	25.2	21.2
Clorox Co.	17.7	5.0	-17.0	-11.5	34.5
Deutsche Boerse AG	21.8	18.1	11.9	7.9	1.3
Microsoft Corp.	12.9	58.2	-28.0	52.5	42.5
Oracle Corp.	60.0	30.9	-4.6	36.9	24.2
Quanta Services Inc.	46.6	51.7	24.6	59.5	77.7
Roche Holding AG	8.8	-12.8	-21.4	26.3	1.3
Siemens AG	14.1	34.9	-12.6	33.3	15.4
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
United Parcel Service Inc.	-16.0	-5.9	-16.3	30.0	48.7
Vinci SA	-8.7	26.5	3.9	17.7	-16.6

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**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](http://www.iqeq.com/davy-funds-plc)

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## About us\*

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