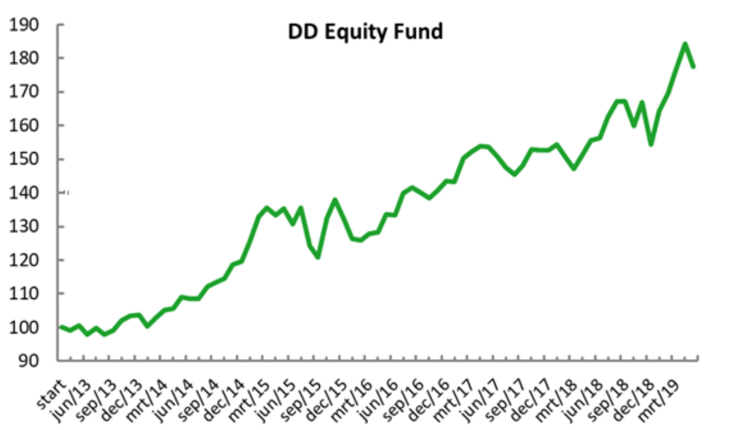
# DD Equity Fund
# Monthly report May 2019

## Profile

DD Equity Fund (DDEF) invests in a globally diversified portfolio of high-quality companies that are at the forefront of sustainability. At DDEF, the analysis on sustainability and financial aspects is fully integrated. The fund aims for a net return of 8%* per year in the long term and has no benchmark. DDEF is managed by an independent partnership with the conviction that sustainability makes a positive contribution to the return and risk profile of an investment portfolio. The partners of DoubleDividend also invest in the fund themselves. The fund is listed on Euronext Amsterdam and can be traded on a daily basis.

## Return*

DD Equity Fund achieved a return of -3.62% over the month of May 2019, as a result of which the net asset value per participation decreased to € 177.59. The return for 2019 comes to 15.1%. Since the fund was launched in April 2013, the return has been 77.6%.




* The value of your investment may fluctuate. Results achieved in the past do not provide any guarantees for the future.

In this monthly report extra attention is paid to the trade dispute between the US and China.

## Fund information

### Key facts

| | |
|---|---|
| Fund size | € 48.1 mln |
| # shares outstanding | 271,057 |
| Net asset value* | € 177.59 |
| # of positions | 46 |
| Beta | 0.89 |

### Costs

| | |
|---|---|
| Management fee | 0.80% |
| Other costs** | 0.25% |
| Up/ down Swing factor | 0.25% |

### Other

| | |
|---|---|
| Start date | April 2013 |
| Manager | DoubleDividend Management B.V. |
| Status | Open-end, daily |
| Exchange | Euronext Amsterdam |
| ISIN | NL0010511002 |
| Benchmark | None |
| Currency | Euro |

### Risk monitor


* per share
** estimated

**Table: monthly returns in % (net of costs and fees) ***

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Okt | Nov | Dec | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2013** | | | | -0.84 | 1.37 | -2.53 | 1.95 | -2.01 | 1.31 | 3.02 | 1.26 | 0.35 | **3.79** |
| **2014** | -3.29 | 2.58 | 2.17 | 0.43 | 3.26 | -0.58 | 0.09 | 3.37 | 1.00 | 1.09 | 3.60 | 0.70 | **15.17** |
| **2015** | 5.01 | 5.81 | 2.05 | -1.59 | 1.47 | -3.44 | 3.71 | -8.30 | -2.70 | 9.50 | 4.12 | -4.06 | **10.66** |
| **2016** | -4.52 | -0.31 | 1.46 | 0.44 | 4.09 | -0.07 | 4.79 | 1.18 | -0.95 | -1.25 | 1.58 | 2.03 | **8.44** |
| **2017** | -0.06 | 4.86 | 1.16 | 1.13 | -0.17 | -1.75 | -2.16 | -1.42 | 1.83 | 3.12 | -0.13 | 0.10 | **6.49** |
| **2018** | 1.10 | -2.62 | -2.16 | 2.92 | 2.79 | 0.41 | 3.97 | 2.78 | 0.10 | -4.42 | 4.50 | -7.59 | **1.01** |
| **2019** | 6.37 | 3.36 | 4.19 | 4.25 | -3.62 | | | | | | | | **15.09** |

* The value of your investment may fluctuate. Results achieved in the past do not provide any guarantees for the future.

## Market Developments

After a strong start in 2019, the stock markets took a big step back in May. The global stock market (MSCI Total Net Return Index) lost 5.2% last month, reducing the return for the year to 12.6%. DD Equity Fund also lost ground and ended the month with a loss of 3.6%, bringing the annual result to 15.1%.

The reason for the negative sentiment is a hardening of the trade dispute between the US and China. Due to insufficient progress in the negotiations, President Trump announced on May 10th to raise import rates on $ 200 billion of Chinese goods from 10% to 25%. The relationship between the two countries substantially worsened when Trump, 10 days later, blacklisted Huawei and a number of other Chinese companies. As a result of this new measure, Chinese companies are no longer allowed to buy chips from American (and European) companies and can no longer supply equipment to American telecom providers. Several American chip producers such as Broadcom, Intel and Qualcomm responded immediately by stopping all deliveries to Huawei. Google also announced that the mobile operating system Android will only be available on Huawei phones to a limited extent. Although Trump postponed the sanctions for three months a day later, the damage had already been done. Stock prices of companies in the chip and semiconductor sectors fell sharply. Investors are afraid that China will take countermeasures and boycott products from American companies. China, for example, has already threatened that it may be curbing the supply of rare earth metals. The biggest risk for the stock market, however, is that the escalation of a trade conflict puts the global economy into a recession.

## The importance of 5G in the trade dispute

It is expected that, partly due to the American boycott, Chinese companies will develop their own chips, software and operating systems in order to be less dependent on Western companies. This affects the growth potential and profitability of American technology companies in particular. This, potential, declining technological dominance of the US and espionage opportunities by Chinese companies and government have long been a thorn in the eyes of Donald Trump. Protecting intellectual property is therefore the main reason why Trump started the trade dispute with China. It would therefore be better to speak of a technology conflict. The reason Trump is escalating the trade conflict right now has to do with the introduction of the 5G network. 5G is the successor to the wireless 4G network that was introduced in 2009. According to many, 5G will radically change the world because 5G not only increases internet speed by up to 100 times, but is also a condition for the internet of things era to grow. 5G is needed for the introduction of new technologies such as self-driving cars and connecting smart devices. The 5G network is currently only being rolled out in five countries: China, the United States, the United Kingdom, South Korea and Switzerland. Tests are also being conducted in other European countries and in Japan, but it will take until the end of 2020 before all licenses for the network to be granted, so it takes years before there is full coverage of the network.

However, recently more telecom providers and governments have second thoughts about the 5G network. Telecom providers doubt about the revenues from the new network, while the licenses are very expensive and the costs for the installation are increasing. Various governments are afraid of possible espionage by Chinese companies, especially Huawei, the largest and most advanced supplier of 5G telecom equipment.

Because of all these uncertainties, further investments in 5G are expected to be delayed until there is more clarity with regard to the security and revenue model of the network. This means that the cyclical chip sector will grow less rapidly in the coming period. However, the long-term outlook is good and the valuations of stocks in the chip sector are attractive. Almost everyone is convinced that the technological possibilities will be exploited and will benefit the technology sector for many years to come. Large falls in stock prices are therefore a reason for us to expand our positions or to take on new positions. However, we continue to operate cautiously.

The European elections had hardly any influence on the direction of the financial markets. This was not surprising, since in most countries pro-European and green parties were able to resist the attack of populist and euro-sceptical parties. On balance, the Christian Democrats, along with the Social Democrats, remained the two largest parties in Europe but lost the majority in Parliament. Collaboration with the liberals and/or greens is obvious. The general expectation is that the current European policy will be broadly continued, which means that Europe will continue to work for free trade and more integration. The announcement of the resignation of Prime Minister May as a result of the Brexit debacle also made little impression on investors. Whether the new prime minister will be able to leave the European Union before the deadline of 31 October and under what conditions is still uncertain.

## Biggest positive and negative contribution

The largest positive contribution to the result this month came from Adidas, which announced very good quarterly figures. Medtronic and Cerner also performed well last month. The Chinese tech giants Alibaba and Tencent accounted for the largest negative contribution to the result due to trade tensions.

**Table: top 5 positive and negative contribution to result (in €)**

| Top 5 positive | | | Top 5 negative | | |
|---|---|---|---|---|---|
| | Return | Contribution | | Return | Contribution |
| Adidas (Ger) | 13.3% | 0.3% | Alibaba (Chi) | -19.1% | -0.4% |
| Medtronic (US) | 4.8% | 0.2% | Tencent (Chi) | -15.2% | -0.3% |
| Cerner (US) | 5.9% | 0.1% | Unibail-Rodamco-West (Fra) | -11.7% | -0.3% |
| Worldpay (US) | 4.4% | 0.1% | Henkel (Ger) | -8.7% | -0.3% |
| Danone (Fra) | 1.8% | 0.1% | ASML (Neth) | -8.8% | -0.3% |

*Source: DoubleDividend/Bloomberg*

## Portfolio changes

In the past month we have added two new positions to the portfolio: Infineon Technologies and Baidu. The German company Infineon was split off from Siemens in 1999 and makes (micro) chips, sensors and LED drivers. The mission of Infineon is to make life easier, safer and more sustainable. Infineon focuses on the transition to clean energy, sustainable mobility and secure infrastructure. Customers are large companies such as Alstom, Amazon, Bosch, Continental, Dell, Hitachi, Microsoft and Vestas. Infineon has a very strong market position and a good track record. The long-term outlook for Infineon is very good, but since some 25% of sales comes from China, Infineon is vulnerable to a further escalating trade conflict. As a result, the share price was under considerable pressure last month, creating a good opportunity for us to start building up a position.

Besides Alibaba and Tencent, Baidu is the third main player on the Chinese internet market. Baidu owns the largest search engine in China. You can say Baidu is the Google of China. The advertising income is approximately three-quarters of revenues. Baidu also has a number of other products and services such as Baidu MAP, Baidu Postbar and Baidu Knows. In recent years, Baidu has mainly focused on the development of Artificial Intelligence (AI) and autonomous driving. Finally, Baidu has an interest in iQiyi, the Netflix of China. The share price of Baidu was also under considerable pressure last month, not only due to trade tensions but also due to disappointing quarterly figures. This allowed us to start building up a position.

**Table: top 10 Holdings in portfolio per month end**

| **Company & weight in portfolio** | | | |
|---|---|---|---|
| Medtronic (uS) | 3.3% | Alphabet (US) | 2.9% |
| SAP (Ger) | 3.2% | Mastercard (US) | 2.9% |
| eBay (US) | 3.2% | ASML (Neth) | 2.8% |
| Henkel (Ger) | 3.1% | Microsoft (US) | 2.8% |
| Danone (Fra) | 3.0% | Siemens (Ger) | 2.7% |

*Source: DoubleDividend*

**Team DoubleDividend**

## Appendix: portfolio characteristics

**Table: Performance DDEF***

| | May 2019 | 2019 | from start (April 2013) |
|---|---|---|---|
| **Share price** | -4.01% | 13.04% | 63.45% |
| **Currency** | 0.26% | 1.52% | 9.69% |
| **Dividend** | 0.22% | 1.03% | 13.61% |
| **Other** | -0.09% | -0.50% | -9.17% |
| **Total RTN** | **-3.62%** | **15.09%** | **77.59%** |

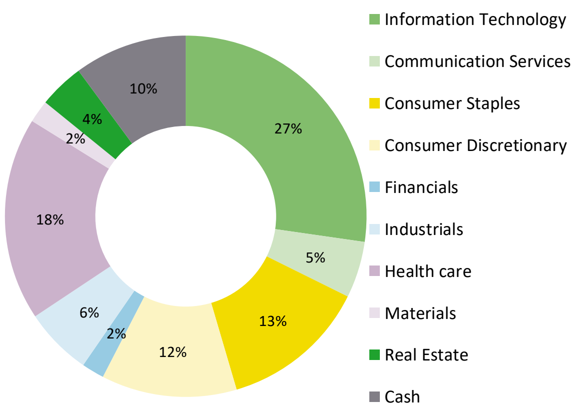
* The value of your investment may fluctuate. Results achieved in the past do not provide any guarantees for the future.
*Source: DoubleDividend*

**Table: Characteristics portfolio DDEF per month end**

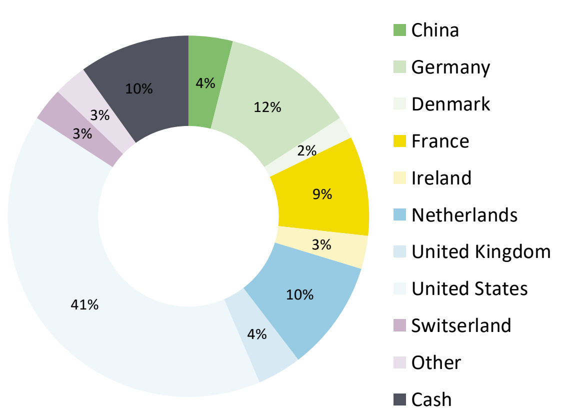
| **Valuation** | | **Risk** | |
|---|---|---|---|
| P/E-ratio | 20.9 | Bèta (raw) | 0.89 |
| P/E-ratio (est) | 17.0 | Debt/EBITDA | 3.0 |
| EV/EBITDA (est) | 13.3 | VAR (Monte Carlo, 95%, 1 yr) | 21.8% |
| Dividend yield | 2.5% | Standard deviation | 11.7% |
| Price/ cashflow (est) | 13.0 | Tracking error (vs MSCI world) | 3.9% |

*Source: DoubleDividend/Bloomberg*

### Distribution per sector (GICS)




### Distribution per country of origin




### Distribution based on revenues