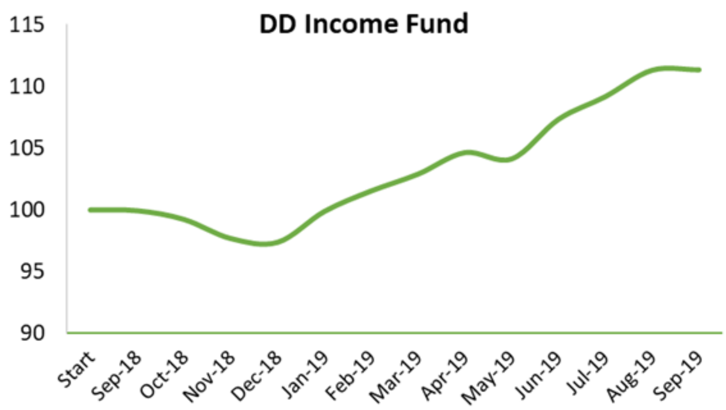
DD Income Fund
Monthly report September 2019

Profile

The DD Income Fund (DDIF) is an actively managed global sustainable bond fund. The fund invests globally in government bonds of developed and emerging countries, corporate bonds, high yield, microfinance and other financial instruments with stable income. DDIF pursues an active investment policy and does not use a benchmark. The fund is managed by an independent partnership with the conviction that sustainability makes a positive contribution to the return and risk profile of the portfolio. The fund is listed on Euronext Amsterdam and can be traded on a daily basis.

Return*

DD Income Fund achieved a return of 0.03% for September 2019. At the end of September, the net asset value per participation amounted to € 27.42. This brings the result for the year, including the dividend payments, to 14.33%.



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

Fund information

Key facts

Fund size	€ 49.0 m
# shares outstanding	1.788.504
Net Asset Value*	€ 27.42
# of positions	103

Costs

Management fee	0.65%
Other costs**	0.30%
Up / down Swing factor	0.25%

Other

Start date	September 2018
Manager	DoubleDividend Management B.V.
Status	Open-end, daily
Exchange	Euronext Amsterdam
ISIN	NL0013025539
Benchmark	None
Currency	Euro

Risk monitor

* per share
** estimated

Deze informatie biedt onvoldoende basis voor een beleggingsbeslissing. Lees daarom de Essentiële Beleggersinformatie en het prospectus. Deze zijn verkrijgbaar op de website van DoubleDividend Management B.V. (www.doubledividend.nl). DoubleDividend Management B.V. is beheerder van DD Income Fund en heeft een vergunning als beheerder en staat onder toezicht van de Autoriteit Financiële Markten. De intrinsieke waarde is niet door een externe accountant gecontroleerd.

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

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2018									-0.06	-0.71	-1.56	-0.31	**-2.62**
2019	2.57	1.66	1.34	1.69	-0.48	3.08	1.71	1.95	0.03				**14.33**

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Market developments

Both the European Central Bank (ECB) and the FED (Federal Reserve Board) lowered interest rates last month. The FED lowered interest rates for the second time this year by 0.25% (to 2-2.25%). The interest rate cut was in line with expectations and therefore had no major impact on the bond markets.

The ECB's interest rate cut did not come as a surprise either. The ECB lowered the rate from minus 0.4% to minus 0.5%. In addition, the ECB starts with QE (Quantitative Easing) again, which means buying bonds to increase liquidity in the market. The ECB starts buying € 20 billion in bonds per month. The idea is that the ECB buys bonds from market participants and that they then use the money to do something useful for the economy. The ECB claims this is necessary because of lower economic growth expectations and the fact that the inflation target, of slightly less than 2%, is getting out of sight.

It is clear that the European economy is currently suffering from a slowdown in growth. This was first visible in German industrial production, but now growth in other countries and the service sector is also under pressure. Nevertheless, the ECB's measures are controversial, both internally and externally. A number of members of the ECB policy team (including Germany, France, Austria, Estonia and the Netherlands) were against restarting QE. The question is whether the economy needs more liquidity and whether an interest rate reduction from minus to more minus has much effect. Our best guess is that the effect will be limited, that there is sufficient money in the system and that buying up bonds from investors will not help the economy much further. QE will only create a greater surplus of liquidity in the financial system, resulting in further financial asset price inflation, without any real economic effect. An asset bubble is becoming a real risk, with the risk of financial and economic instability and a distorted distribution of wealth.

A further reduction in interest rates from minus 0.4% to minus 0.5% will probably also be ineffective. We see companies (also from the US) borrowing more money in euros, but in the absence of good investment opportunities, this money is often used for the refinancing of existing loans or shares buybacks. The ECB calls on politicians for more fiscal stimulus; borrow more money and invest by governments. Fiscal policy should strengthen monetary policy. With a negative interest rate, the ECB has created the opportunity for governments to borrow and invest more. However, countries like Germany and the Netherlands that have the budgetary room to do this, seem to have limited enthusiasm. Like QE, the interest rate cut will likely be an ineffective measure, while the negative effects on for example the pension and savings system are getting stronger. Investors are also being forced to take more and more risk.

The ECB has not achieved its own inflation target for some time. The central bank thinks that low inflation will stand in the way of economic growth. In theory consumers postpone their spending if inflation is too low. Is that really true? We question whether this theory is still valid. Maybe other factors (such as globalization, aging, technological developments) are causing a low level of inflation. Inflation does help to reduce debt levels in real terms, but on the other hand the policy of the ECB contributes to building that same level of debt. In our opinion, a healthy (positive) interest level and a normal economic cycle have a purifying effect on the economy. It ensures that investments are made only in matters that really matter, that the debt level remains at an acceptable level and that bad businesses go bust during a recession.

Table: Main portfolio characteristics DDIF per month end

# of positions	103
# of issuers	80
Overall credit rating	BBB
Euro exposure	75.3%
Cash	3.8%
Investment grade (incl cash)	69.5%
Expected return (yield-to-worst)	2.6%
Duration (in years)	6.3

Bron: DoubleDividend/Bloomberg

Portfolio developments

It is not easy to find value in the bond market, but there are still some attractively priced bonds for sale. In our opinion, the European financial sector for example still offers good investment opportunities. This month we added two subordinated bonds from the Spanish La Caixa Bank and the Dutch insurer Achmea to the portfolio, with a return of 5.7% and 4.6% in euros respectively. These bonds are subordinated and therefore carry more risk, but given the high capital buffers, we think the return outweighs the risk.

Also in the US dollar bond market there are still attractive opportunities. This month we have purchased a bond from the World Bank and a bond from Nestlé. Both bonds have a very high rating of AAA and AA respectively, but still offer a descent return of 2.6% and 3.1% respectively. Bonds from institutions such as the World Bank, African Development Bank and the EBRD offer an attractive alternative to government bonds. They have the same high rating, often offer a slightly higher return and, above all, carry a greater positive impact. These institutions are committed to combating poverty, improve education and health care in underdeveloped and emerging countries. We expect to be able to make more investments in this area in the coming period. Finally, we purchased a loan from National Grid, the gas and electricity network operator in the UK, with an interest rate of 2.2% in euros.

In addition, positions in EDF, Aroundtown, CNP Assurances, Merck Kga, CVS Health and Netflix bonds were expanded last month. The loan of the German real estate fund DIC Asset was sold completely as a result of the sharp rise in the price.

Table: portfolio per building block

Building blocks	Range	Weight	Yield-to-worst	Duration
Government bonds developed markets	10-50%	13.0%	1.8%	3.0
Government bonds emerging markets	0-25%	8.6%	3.1%	13.0
Corporate bonds investment grade	10-50%	39.4%	2.2%	7.5
Corporate bonds high yield	0-25%	19.8%	3.0%	5.4
Microfinance	0-25%	3.1%	4.0%	3.5
Other	0-25%	12.4%	4.0%	7.2
Cash	0-25%	3.8%	-0.4%	0.0
Total		100%	2.6%	6.3

Source: DoubleDividend

Top movers in the portfolio

Table: top 5 movers in the portfolio

Top 5 best performers		Top 5 worst performers	
	Return		Return
Nordex (Corp HY)	3.3%	Softbank (Corp HY)	-3.1%
Banort (MF)	3.2%	Nationale Ned (Corp)	-2.1%
Nationwide (Corp HY)	2.7%	Achmea (Corp)	-2.0%
Grupo Bimbo (Corp HY)	1.9%	Netflix (Corp HY)	-1.9%
Schaeffler (Corp HY)	1.7%	Peru (EM Gov)	-1.9%

Source: DoubleDividend/Bloomberg

Team DoubleDividend

Appendix: portfolio characteristics