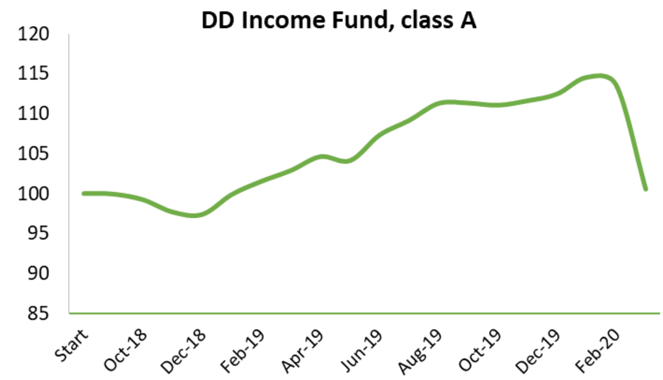
DD Income Fund
Monthly report March 2020

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 participation A*

DD Income Fund achieved a return of -11,48% for March 2020, bringing the net asset value per participation to € 24.58. Since the fund was launched in September 2018, the return has been 0.60% (Class A).



** 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	€ 51.2 mln
# shares outstanding A	1,311.465
# shares outstanding B	770,558
Net Asset Value A*	€ 24.58
Net Asset Value B*	€ 24.59
# of positions	91

Costs

Management fee A	0.65%
Management fee B	0.50%
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

Table: monthly returns in %, Class A (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	-0.24	0.50	0.76	**15.50**
2020	1.86	-0.85	-11.48										**-10.60**

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Market developments

Bond markets were under enormous pressure in March as a result of the corona crisis. The Barclays European Aggregate Index declined by 3.5%, while the European High Yield Index even lost 15.4%. The global indices performed slightly better, partly due to a stronger dollar. The (mixed) portfolio of the DD Income Fund recorded a loss of 11.5% last month. While bonds fell less than the stock markets, they did not provide the protection we had hoped for.

The poor performance of the bond markets has a number of causes. Interest rates are normally cut sharply during a crisis. A lower base rate normally helps bond prices to partially offset rising risk premiums. The US Fed still had some room to cut interest rates, but the ECB did not. In addition, governments are providing large aid programs that cause the government debt of many countries to rise (sharply), resulting in a substantial demand for capital, i.e. rising rates. At the same time, governments receive less tax revenue because economic activity is declining. Investors therefore also see the risk of government bonds rising, offering less protection. At the beginning of the coronavirus outbreak, we saw government bond yields fall, but interest rates have started to rise again in many countries.

In addition, the risk premiums have risen. The risk premium on safe investment grade euro-bonds rose from 1.4% to 2.4% in the past month, while in the more risky high-yield segment the risk premium rose in March from 4.1% to 7.8%. In the US, the risk premium has even risen from 3.5% to 11%, partly due to the large share of oil companies.

With the rise in risk premiums, the markets are pricing in the deteriorating economic conditions. The probability of default has increased and investors want to be compensated for this with a higher risk premium. In addition, there is also a great demand from businesses for cash money. Many companies want to increase cash positions in order to create a buffer to get through the crisis. This also leads to an increase in interest rates.

An increase in the risk premium in times of crisis makes sense, but there are also less fundamental factors that contribute to the pressure on the bond markets. In particular, the lack of liquidity has played an important role in recent weeks. Many investment funds suffered from outflows and were therefore forced to sell in a weak market. Due to a lack of buyers, this did put enormous pressure on the prices, including the prices of (relatively) safe bonds. Also, the fact that bonds are traded OTC (over-the-counter), i.e. there is no central market place, is not helpful.

As far as liquidity is concerned, the situation has greatly improved in the past week. Central banks buy bonds on a large scale, which gives the market some relieve. As a result, risk premiums have fallen and prices have recovered somewhat. Central banks will continue to provide liquidity to the financial markets, so we expect bond markets to normalize further in the near future.

As a result of the depreciation of the portfolio, the expected return on the portfolio (yield-to-worst) has risen to 4.9%. This return will be realized if all companies and governments in the portfolio meet their interest and repayment obligations. The average credit rating of the portfolio has increased from BBB to BBB +.

Table: Main portfolio characteristics DDIF per month end*

# of positions	91
# of issuers	77
Overall credit rating	BBB+
Euro exposure	71.4%
Cash	3.0%
Investment grade (incl cash)	74.1%
Expected return (yield-to-worst)	4.9%
Duration (Option Adjusted Duration in years)	7.5

Source: DoubleDividend/Bloomberg

* Yield-to-Worst is the return on the portfolio, including cash, if the ability to repay the loan earlier is taken into account. The actual return may differ because an issuer cannot meet its obligations and due to currency fluctuations. The duration indicates the approximate percentage value change of the portfolio if the interest rate changes by 1%.

Portfolio developments

No new bonds have been added to the portfolio in the past month. Purchases and sales mainly took place to facilitate the inflow and outflow.

Table: portfolio per building block

Building blocks	Range	Weight	Yield-to-worst	Duration
Government bonds developed markets	10-50%	10.4%	1.3%	4.7
Government bonds emerging markets	0-25%	10.5%	4.7%	13.0
Corporate bonds investment grade	10-50%	44.9%	4.4%	8.7
Corporate bonds high yield	0-25%	16.6%	6.2%	6.7
Microfinance	0-25%	2.6%	6.3%	3.1
Other	0-25%	11.9%	8.6%	6.5
Cash	0-25%	3.0%	-0.6%	0.0
Total		**100%**	**4.9%**	**7.5**

Source: DoubleDividend

Top movers in the portfolio

There were few bonds with a positive contribution in March. A Korean government bond, bonds from development banks with a short duration, and a bond from Microsoft managed to close the month positively. The list of the weak performers mainly comprises of perpetual and subordinated bonds from financial institutions and bonds from emerging markets. These bonds carry more risk and are more affected during financial market turmoil. However, the prices of these bonds stabilized towards the end of the month as a result of the interventions by central banks and government support measures. The ECB and DNB also called on financial institutions to temporarily suspend payment of dividends and share repurchases. This is bad news for shareholders, but good news for bondholders.

Table: top 5 movers in the portfolio, in euro's

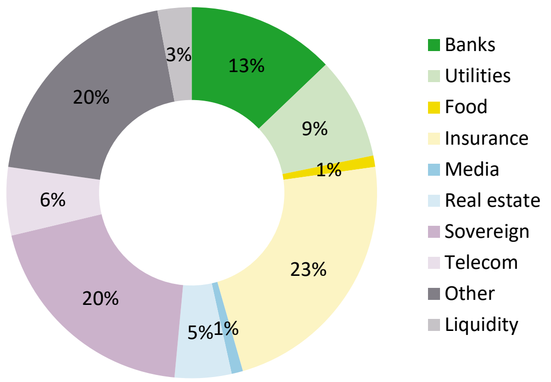
Top 5 best performers		Top 5 worst performers	
	Return		**Return**
Korea 2023 (gov DM)	1.7%	Banort Perp. (MF)	-31.9%
EBRD 2022 (gov DM)	0.2%	Ghana 2051 (gov EM)	-28.4%
Microsoft 2055 (corp)	0.2%	Rabobank certificaten (other)	-27.8%
AFDB 2020 (corp)	0.1%	Caixabank Perp. (other)	-26.4%
EBRD 2020 (gov DM)	0.0%	Belfius Perp. (other)	-26.0%

Source: DoubleDividend/Bloomberg

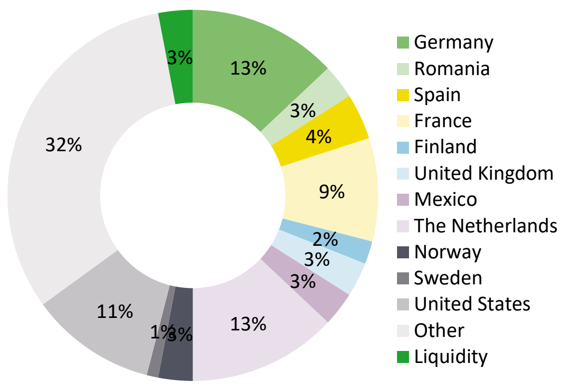
Team DoubleDividend

Appendix: portfolio characteristics

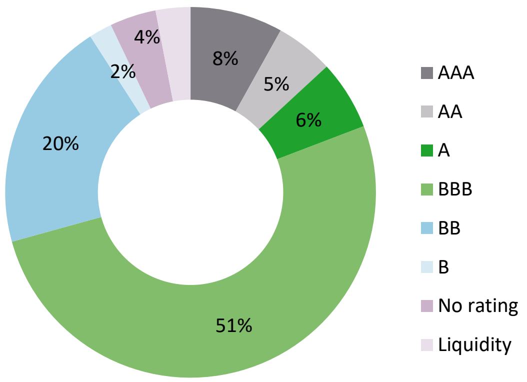
Distribution per sector (GICS)



Distribution per country of origin



Distribution per rating



Distribution per currency