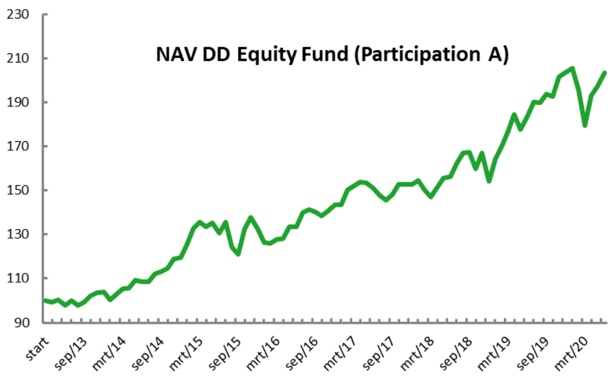
DD Equity Fund
Monthly report June 2020

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 participation A*

DD Equity Fund achieved a return of 3.0% over the month of June 2020, as a result of which the net asset value per participation of participation A increased to € 203.28. Since the fund was launched in April 2013, the return has been 103.3%.



* 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	€ 82.6 mln
# shares outstanding A	298,047
# shares outstanding B	108,081
Net asset value A*	€ 203.28
Net asset value B*	€ 203.58
# of positions	46
Beta	0.73

Costs

Management fee A	0.80%
Management fee B	0.50%
Other costs**	0.25%
Up/ down Swing factor	0.25%

Other

Start date	Class A: April 2013 Class B: January 2020
Manager	DoubleDividend Management B.V.
Status	Open-end, daily
Exchange	Euronext Amsterdam
ISIN A	NL0010511002
ISIN B	NL0014095127
Benchmark	None
Currency	Euro

Risk monitor

* per share
** estimated

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

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	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	3.53	3.45	-0.28	2.10	-0.56	4.63	1.16	**32.08**
2020	0.73	-4.77	-8.16	7.40	2.32	3.02							**-0.26**

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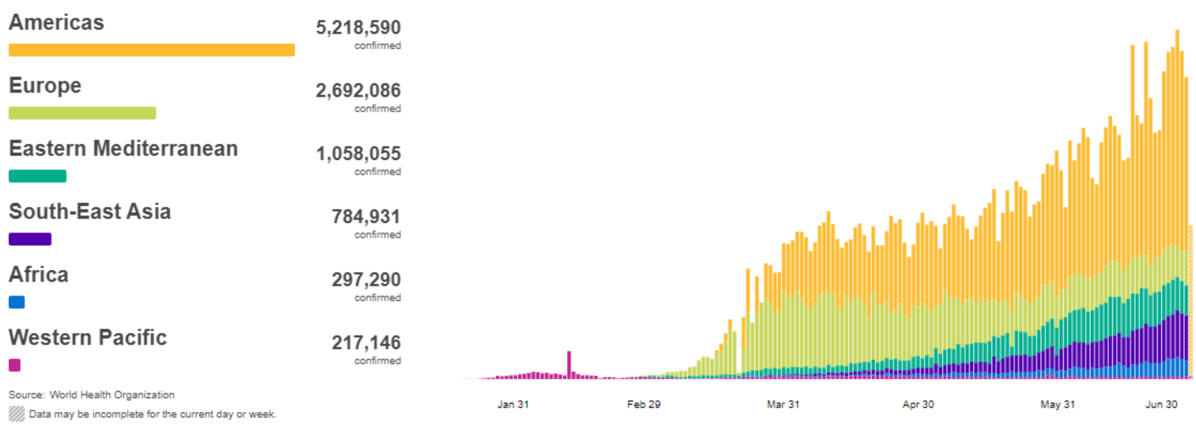
Market Developments

The stock markets kept the positive sentiment of the past months. The MSCI World Index delivered a return of 1.7%, bringing the result for the year to -5.8%. Despite our cautious approach and large cash position of 25%, the DD Equity Fund performed slightly better in June with a return of 3%. This means the fund almost fully recovered.

The news on medical, economic and business levels was both positive and negative last month. As a result volatility on the stock market increased again. In Europe and Asia, the virus is largely under control. In North and South America, on the other hand, the situation is far from under control and outbreaks are again occurring locally in Asia and Europe. The WHO (UN World Health Organization) warned last month that the virus is far from defeated and that the outbreak is still accelerating on a global scale. The increasing number of covid-19 patients is partly the result of more testing, but the number of fatalities also continues to grow steadily.

Graph: number of Covid-19 cases globally



Source: UN/WHO

In economic terms, (relatively) positive news was reported in a number of countries. For example, retail spending and industrial production in the US, France and Germany recovered faster than expected. Nevertheless, the IMF downgraded global economic growth expectations last month. The IMF now expects a global shrinkage of 4.9% from a previous forecast of 3% in April. This negative adjustment seems to be mainly due to the fact that we are dealing with the crisis longer. Previously, the IMF assumed a brief severe crisis and a rapid recovery, while a longer and more gradual recovery is currently projected.

Global stock exchanges seem to be pricing in a rapid recovery in the economy. Global indices are on average at a loss of around 6% for the year, which is disproportionate to the magnitude of the crisis and economic effects. So there is plenty of room for disappointments from this perspective. Volatility on the stock market has already increased last month. In the middle of the month, the global stock markets reacted strongly to negative news. So we have been warned.

However, this does not tell the whole story. From the beginning of the outbreak, we have expressed the expectation that the virus outbreak will accelerate a number of social and economic changes. Changes in the areas of e-commerce, payments, digitization of the economy, cloud services, logistics and healthcare are obvious. It is now also clear that in the field of fighting poverty, inequality, racism and climate change, the call for change is more widely supported and more actively propagated. Partly because vulnerable groups are disproportionately hit by the crisis and partly because people simply don't take it anymore. This is good news for some companies, but not for others. A good example is the boycott of Facebook by a group of advertisers including Starbucks, Coca-Cola and Unilever, following the spread of hatred and misinformation on the network.

Picture: Black Lives Matter support for Starbucks after Facebook boycott

Source: FT 28 june 2020

In addition to the crisis, stock markets are also pricing in these more fundamental changes, both at individual company and industry levels. As a result, the differences in returns between companies and sectors are enormous and seem to be increasing. Companies active in the field of e-commerce, digital payment and technology are performing very strongly, while companies in, for example, oil, retail, banks and real estate are barely recovering. It is also striking that sustainable companies have performed structurally better in recent years than non-sustainable companies. On a 1, 3 and 5-year basis, the sustainable Dow Jones Sustainability Index outperforms the “regular” MSCI World Index, while on a 10-year basis it was the other way around.

The conclusion is that the sharp recovery of the market in recent months has increased risks. The virus is not gone yet, corporate profits are under pressure and equity markets are quite expensive. A gradual economic recovery is more likely than a short rapid recovery. This means that the risk of a new correction in the equity markets is high. On the other hand, the strong stimulus measures of governments and central banks have a positive effect and bonds and cash hardly offer an alternative because of the low interest rates. A possible new outbreak of the virus in the fall is possible, but is likely to be less disruptive as much more is known about the virus. A global “lockdown” is not the most obvious scenario. There are also a number of sectors and companies that clearly benefit from the socioeconomic changes resulting from (or accelerated by) the virus outbreak and therefore have good long-term prospects.

Based on the above, we will stick to the chosen path. We will continue to focus on the technology, health care and consumer goods sectors. Quality, sustainability and a long-term view remain preconditions. We do not aim for the highest return, but look for the balance between risks and opportunities. New investments are mainly made in the technology sector with special attention to cloud services, digital payment, e-commerce, robotisation and digitization of SMEs. The relatively large cash position helps to limit the risks and offers the opportunity to capitalize on the opportunities of individual companies in promising sectors and dampens the risk in the event of a market correction.

Biggest positive and negative contribution

Our focus on technology also made an important contribution to the result last month. The biggest positive contribution came from the Chinese Tencent, which increased in value by more than 20% this month and even stands at a return of almost 33% for the year.

Tencent is benefiting from increasing activity on its social network WeChat, fintech activities (WePay) and media services (Gaming, video and music streaming). Companies like Tencent and Alibaba have the advantage of managing an entire ecosystem, making them operate as a one-stop shop. These companies combine the activities of Amazon, Spotify, Netflix, PayPal, Google and Facebook on one platform. Having a broader platform is becoming increasingly important because the various online services are increasingly linked to each other. The Chinese technology companies are ahead of the American companies in this area.

eBay also made a significant positive contribution to the result. The stock rose by 14%, bringing the increase for the year to 45%. eBay has long lagged other e-commerce platforms such as Amazon, but has been able to revise the growth forecast significantly thanks to the outbreak of the Covid-19 virus. Despite the sharp price increase, eBay is still very attractively valued compared to other e-commerce platforms. Lam Research and Teradyne also made a significant positive contribution to the monthly result. Both are major suppliers to the chip sector, which is expected to grow strongly thanks to digitization and the introduction of 5G. Teradyne is also, as discussed last month, an important producer of CoBots.

The largest negative contribution came from a number of healthcare companies including Johnson & Johnson, Cerner, Medtronic and Dentsply.

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

Top 5 positive			Top 5 negative		
	Return	Contribution		Return	Contribution
Tencent (Chi)	20.4%	0.4%	Johnson & Johnson (US)	-6.2%	-0.2%
eBay (US)	14.1%	0.4%	Cerner (US)	-6.6%	-0.1%
AIA Group (HK)	15.5%	0.3%	Medtronic (US)	-7.2%	-0.1%
LAM Research (US)	17.6%	0.3%	Dentsply (US)	-5.9%	-0.1%
Teradyne (US)	25.0%	0.3%	Alphabet (US)	-2.0%	-0.1%

Source: DoubleDividend/Bloomberg

Portfolio changes

Last month, we added the Chinese e-commerce platform JD.com to the portfolio. The company is China's number two online retailer after Alibaba. JD.com mainly competes with Alibaba subsidiary T-Mall in the B-to-C (Business to Consumer) market. Compared to other providers, JD.com distinguishes itself by the offer of high quality products and its own stock and distribution network. So the company is much more than just a platform. JD.com's logistics capabilities are especially Hi-tech, with fully automated storage and distribution including robots, drones and self-driving electric cars. (for enthusiasts: https://youtu.be/XGSl9DCkxvo). We also expanded our position in Alibaba in the past month. The Chinese technology industry is leading in a number of areas and is attractively valued.

The positions in Merck, Essity, Medtronic and Illumina are also somewhat expanded. We have slightly reduced our position in Adidas.

Table: top 10 Holdings in portfolio per month end

Company & weight in portfolio			
Alibaba (Chi)	4.4%	Unilever (Neth)	2.8%
Alphabet (US)	3.8%	Danone (Fra)	2.8%
Johnson & Johnson (US)	3.0%	SAP (Ger)	2.5%
Applied Materials (US)	2.9%	AIA (HK)	2.3%
eBay (US)	2.8%	Tencent (Chi)	2.2%

Source: DoubleDividend

Team DoubleDividend

Appendix: portfolio characteristics

Table: Performance DDEF, Participation A*

	Jun 2020	2020	from start (April 2013)
Share price	3.53%	-0.71%	89.07%
Currency	-0.56%	0.21%	9.23%
Dividend	0.13%	0.70%	16.14%
Other	-0.08%	-0.47%	-11.16%
Total Return	**3.02%**	**-0.26%**	**103.28%**

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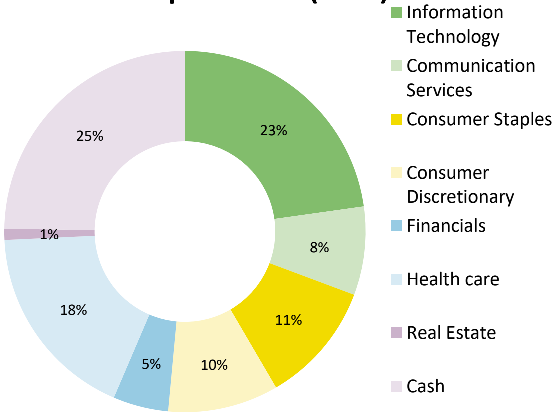
Source: DoubleDividend

Table: Characteristics portfolio DDEF per month end

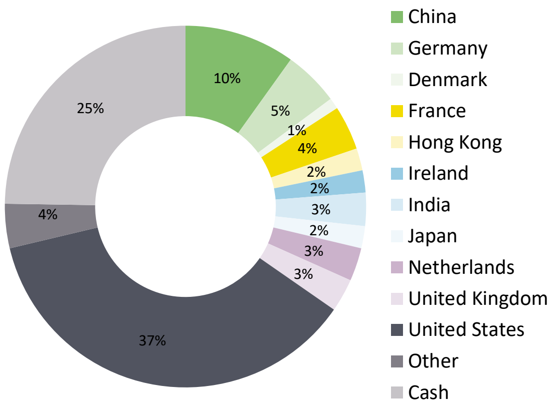
Valuation		Risk	
P/E-ratio	23.5	Bèta (raw)	0.73
P/E-ratio (est)	20.1	Debt/EBITDA	2.9
EV/EBITDA (est)	16.7	VAR (Monte Carlo, 95%, 1 yr)	31.7%
Dividend yield	2.2%	Standard deviation	18.8%
Price/ cashflow (est)	15.8	Tracking error (vs MSCI world)	11.7%

Source: DoubleDividend/Bloomberg

Distribution per sector (GICS)



Distribution per country of origin



Distribution based on revenues