DD ALTERNATIVE FUND

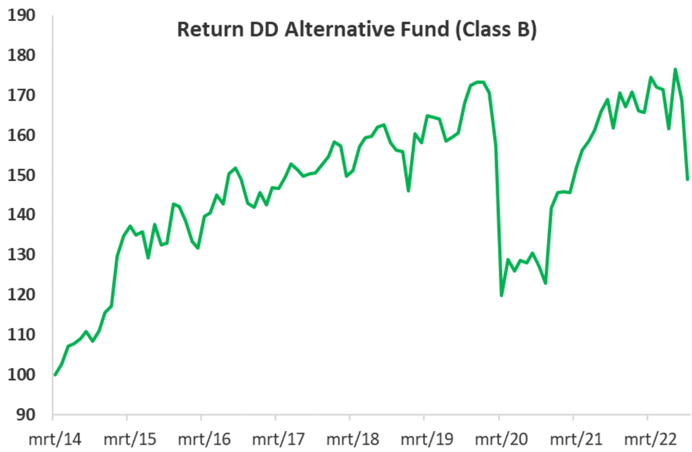
Monthly report September 2022

Profile

DD Alternative Fund N.V. (DDAF or DD Alternative Fund) is a global sustainable equity fund that invests in alternative investment categories, including in particular companies that invest in real estate and infrastructure. DDAF invests in at least twenty companies that meet our quality investment criteria. At DDAF, the analysis on sustainability and financial aspects is fully integrated. The fund aims for a net return of 7%* per year in the long term and has no benchmark. DDAF is listed on Euronext in Amsterdam and can be traded daily.

Return class B*

DD Alternative Fund achieved a return of -11.8% (class B) for the month of September 2022. At the end of September 2022, the net asset value per share B amounted to € 29.96, bringing the return for 2022 to -12.9%.



Fund information

Key facts

Fund size	€ 35.8 mln
# shares A	318,898
# shares B	626,130
# shares C	262,764
Net asset value A*	€ 28.76
Net asset value B*	€ 29.96
Net asset value C*	€ 30.12
# positions	46

Costs

Management fee A	1.20%
Management fee B	0.70%
Management fee C	0.50%
Overige kosten**	0.45%
Op- en afslag	0.25%

Other

Start date	Class A: May 2005 Class B: January 2015 Class C: January 2020
Manager	DoubleDividend Management B.V.
Status	Open-end, dagelijks
Exchange	Euronext Amsterdam
ISIN (A)	NL0009445915
ISIN (B)	NL0010949350
ISIN (C)	NL0014095119
Benchmark	None
Currency	Euro

Risk monitor

* per share

** estimated

doubledividend
FINANCIAL & SOCIAL RETURNS

Table: monthly total return in % (after costs. dividend included) *

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2012	1.53	2.02	4.59	-3.24	-2.34	1.51	3.09	-0.18	1.49	2.56	0.48	-0.02	**11.81**
2013	0.83	0.72	-1.41	4.38	1.39	-7.59	2.56	-1.31	3.14	2.61	-0.81	-0.67	**3.35**
2014	-0.47	5.76	-1.86	2.69	4.37	0.54	1.24	1.66	-2.20	2.36	4.13	1.48	**21.18**
2015	10.58	3.96	1.72	-1.51	0.52	-4.86	6.54	-3.70	0.32	7.37	-0.40	-2.56	**18.13**
2016	-3.76	-1.28	6.08	0.71	3.13	-1.62	5.37	1.01	-1.97	-4.02	-0.70	2.66	**5.13**
2017	-2.14	3.02	-0.13	2.01	2.08	-0.83	-1.11	0.45	0.11	1.32	1.34	2.44	**8.74**
2018	-0.74	-4.78	1.03	3.91	1.37	0.32	1.40	0.29	-2.75	-1.15	-0.21	-6.35	**-7.82**
2019	9.85	-1.37	4.20	-0.25	-0.27	-3.32	0.67	0.65	4.62	2.61	0.42	0.02	**18.63**
2020	-1.55	-7.63	-23.87	7.51	-2.27	2.09	-0.42	1.90	-2.56	-3.42	15.36	2.84	**-15.88**
2021	0.03	-0.08	4.41	2.80	1.41	1.66	2.96	1.82	-4.23	5.47	-2,10	2.28	**17.27**
2022	-2.82	-0.22	5.37	-1.50	-0.32	-5.77	9.24	-4.36	-11.79				**-12.88**

* From 2015 Class B shares returns are used. The value of your investment may fluctuate. Results achieved in the past do not provide any guarantees for the future.

Developments in the market and portfolio

The DD Alternative Fund (DDAF) closed the month with a loss of 11.8%, the second largest monthly decline in more than 10 years. Rising interest rates due to persistently high inflation combined with weakening economic growth are hitting capital-intensive sectors such as real estate and, to a lesser extent, sustainable infrastructure hard. The EPRA Index, a measure of the performance of European real estate stocks, fell 16.6% last month, taking its 2022 loss to 39.5%. An unprecedented sharp drop reminiscent of the malaise during the financial crisis. Sustainable infrastructure also showed a sharp decline in September. The sector was doing reasonably well until recently, but rising interest rates, tighter regulation and uncertainty about energy prices are also leaving their mark here. The Eagle Global Renewables Infrastructure Index fell 9,1% (in euros) last month.

The fear of a (deep) recession is now well in investors' minds. Not surprising given the high inflation rates, the energy crisis, the war in Ukraine and central banks raising interest rates by hefty steps in their fight against inflation. In our previous monthly reports, we have discussed in detail the impact of higher interest rates on the value of real estate and sustainable infrastructure. In this monthly report, we assess the impact of a recession on the DD Alternative Fund.

While it is difficult to predict whether we will soon be in a recession, let alone know how deep it will be and what the impact of any support from governments (and central banks?) will be, it is a scenario that we as investors take into account. For the DD Alternative Fund, it is especially important to analyse what a recession means for real estate. For sustainable infrastructure (about 32% of the portfolio), a recession has less of an impact. Although demand for energy will decrease and prices may fall, most contracts are fixed for very long periods, mostly inflation-proof, and the sector will continue to benefit in the coming decades from the energy transition and the intention to become completely independent of Russian energy sources.

A recession combined with rising interest rates generally does not work out well for real estate investments. Falling rents and rising initial yields mean that income and values can fall sharply, especially when a large part is financed by debt. Previous recessions have shown that retail rents in particular suffer greatly in a recession. And since consumer confidence in Europe is at its lowest ever due to extremely high inflation, this time is expected to be no different. Retailers are already struggling because of increased competition from online and are still recovering from the effects of the corona pandemic. Consumers are expected to be careful, putting further pressure on retailers' sales. If this continues for an extended period of time, it will likely lead to bankruptcies or calls for rent reductions. The weighting of retail in the portfolio is currently 6.5%, down sharply from 29% in January 2020. Nearly half of the exposure comes from a position in Eurocommercial Properties (ECMPA). ECMPA invests in shopping centers in Belgium, France, Italy and Sweden. The company has proven during previous crises that it can take a beating and is among the best-performing real estate funds this year. Vacancy is only 1.5% and, for now, rents are still rising as ECMPA has had a moderate rent policy in the past. A number of properties have been sold in recent years, which has also reduced the debt ratio to around 37%. An increase in initial yields will therefore not cause problems so soon.

Office rents are also expected to suffer greatly from a recession. On top of that, Covid-19 has reinforced the trend of working from home and office space has to get a different function, requiring owners to invest more. Exposure to offices was around 6.7% at the end of September, down from 25% at the beginning of 2020. The office companies still in portfolio have assets in cities such as Barcelona, Hong Kong, Los Angeles, Madrid, New York, Stockholm and Tokyo. A recession will not happen simultaneously and not in the same intensity in all cities at the same time. Also, the valuation of these companies is extremely low and in some cases even lower than during the financial crisis.

The logistics sector is expected to do better, but will certainly not be immune. In recent years, demand for logistics centers has risen very strongly because of the growth in e-commerce, diversification of suppliers, reshoring and the fact that sustainability in the logistics process is becoming increasingly important. In many countries there is a huge shortage of modern sustainable distribution centers and rents are rising because construction costs are also rising sharply (cost inflation of labour, building materials and land). This year's European real estate logistics survey shows that 89 percent of tenants expect to need as much or more logistics real estate over the next three years. Although initial yields will also rise in the logistics sector, this increase is expected to be largely offset by higher rents. DDAF has about 8% invested in distribution centers, both in Europe and in other parts of the world.

Healthcare real estate is also believed to be better protected during a recession. The sector is less dependent on economic developments and will benefit from the aging trend in the coming decades. Moreover, the sector has long leases that are automatically indexed and where the tenant is responsible for all maintenance and other costs. The biggest risk for the sector is that a number of tenants (care providers) are in trouble due to rising costs (such as higher financing, staffing and energy costs), while prices for residents cannot be raised fast enough due to regulation. DDAF has 7.4% invested in healthcare real estate through Aedifica, Care Property Invest and Healthcare Trust, among others.

For residential properties, the outlook is mixed. Rents are not expected to fall even during a recession, except in the high end (which DDAF has no exposure to). However, current low initial yields are a concern, especially if interest rates rise further, increasing financing costs and putting pressure on values. DDAF is 12.2% invested in housing through investments in Capreit (Canada), I-RES (Ireland) and German housing investors LEG Immobilien and Vonovia, among others. In addition, the fund has investments in student housing through positions in English Empiric Student Property and Belgian XIOR.

Finally, data centers and telecom towers, 5.9% and 8.6% of the portfolio respectively, are benefiting fully from the digitization of the economy and, as a result, increased data traffic. Because of this trend growth, these sectors are less dependent on the economy. However, these sectors are also capital-intensive. In recent years, companies in these sectors could easily grow by financing acquisitions at low interest rates or issuing shares at high valuations. Those days are behind us for now. In addition, maintenance costs will rise. For data centers, competition is fierce. Many data centers rent to large cloud companies such as Amazon, Google and Microsoft, but these tech giants also build their own facilities. Still, many companies will want to keep their own servers in data centers rather than rely exclusively on the cloud.

Unfortunately, there are few if any places to hide. The markets are expected to remain volatile for the foreseeable future until there is greater visibility of a drop in inflation and a stabilization of interest rates. Valuations are very attractive, in many cases even lower than during corona or the financial crisis.

Largest positive and negative contribution

Store Capital was the only gainer in the portfolio last month with a total return of more than 20%. The company received a bid of $ 14 billion in cash from Singapore sovereign wealth fund GIC and Oak Street, a division of asset manager Blue Owl Capital. While not a knock-out bid, it is not a bad deal given current market conditions. Store management has been given four weeks to see if another party is willing to make a higher offer. We have partially taken profits on the position as there are other opportunities due to the sharp price declines and there is always a risk that the deal may not go through after all. All other companies in the portfolio showed negative returns with no specific sector that stood out.

Table: top 5 contribution to result (in €)

Top 5 highest contribution			Top 5 lowest contribution		
Store Capital (US)	20.7%	0.5%	Vonovia (Ger)	-17.7%	-0.7%
Hufvudstaden (Swe)	-5.4%	-0.0%	CTP (Neth)	-22.1%	-0.7%
Eurocomm. Prop (Neth)	-2.4%	-0.1%	Atlantica Sustainable (US)	-19.2%	-0.7%
Shurgard (Bel)	-12.1%	-0.1%	China Longyuan (Chi)	-20.5%	-0.6%
Acciona Energia (Spa)	-7.4%	-0.1%	Digital Realty (US)	-16.8%	-0.6%

Source: DoubleDividend/Bloomberg

Portfolio changes

Over the past month, we have slightly increased the weighting of 7C Solar Parks, Cellnex, Grenery, Prologis and Voltalia. Positions in Empiric Student Property, Greencoat Renewables, Greencoat UK Wind, Northland Power and Store Capital have been reduced somewhat. No new positions were added to the portfolio. Cash positions were close to 5% at the end of September.

Table: top 10 positions in portfolio per end month

Company and weights			
Vonovia (Ger)	3.7%	Cellnex (Spa)	3.0%
Greencoat Renewables (Ire)	3.5%	Atlantica Sustainable (US)	3.0%
Innergex Renewable (Can)	3.2%	I-RES (Ire)	2.9%
Eurocommercial Prop (Neth)	3.2%	Equinix (US)	2.8%
Digital Realty (US)	3.1%	CTP (Neth)	2.7%

Source: DoubleDividend

Team DoubleDividend

Annex: portfolio characteristics

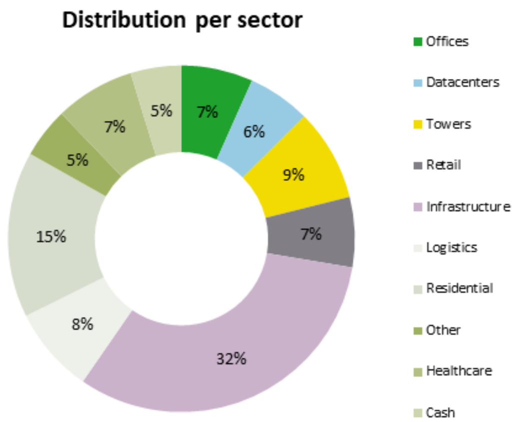
The table below shows the main characteristics of the portfolio. The cash flow yield shows the direct return (the rental income less costs) compared to the current price. Revaluations of the real estate are therefore not included. The price to net asset value indicates whether the portfolio is trading at a premium or a discount in relation to the value of the underlying real estate. If this value is lower than 100%. then there is a discount to net asset value and vice versa. The dividend yield is the dividend yield of the current year divided by the current price (closing price of the month).

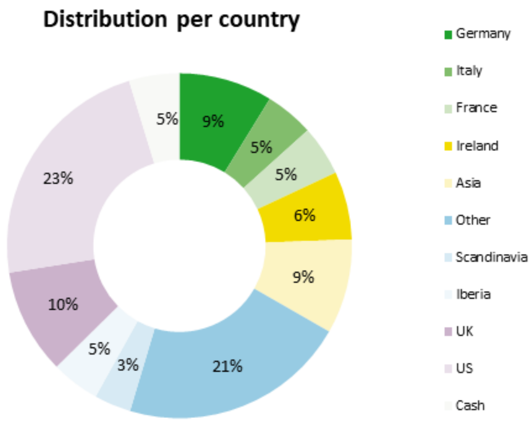
The debt ratio is the net debt to the market value of the property. The VAR (Value At Risk) shows the maximum loss of the portfolio on an annual basis with 95% certainty based on Monte Carlo simulation. The standard deviation is a statistical measure for the distribution of the returns around the mean.

Table: Characteristics DDAF per month end

Valuation		Risk	
Cashflow yield, current	8.6%	VAR (Monte Carlo, 95%, 1-year)	24.1%
Dividend yield, current	5.2%	Standard deviation	16.9%

Source: DoubleDividend/Bloomberg





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