# DD EQUITY FUND

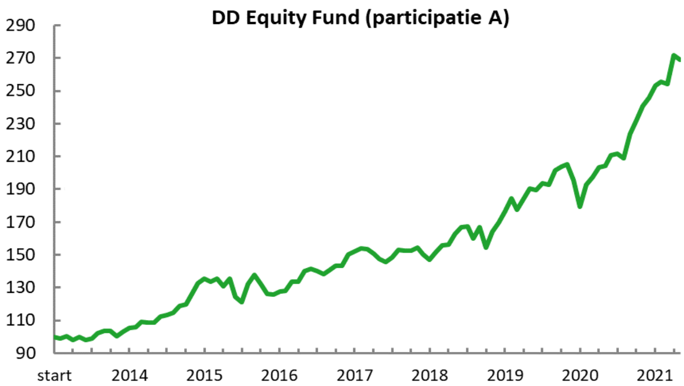
# Monthly report July 2021

## 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 -1.07% in July 2021, as a result of which the net asset value per unit A slightly decreased to € 268.93. This brings the return for 2021 to 16.03%.




* 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 | € 215.6 mln |
| # shares outstanding A | 496,436 |
| # shares outstanding B | 194,862 |
| # shares outstanding C | 109,000 |
| Net Asset Value A* | € 268.93 |
| Net Asset Value B* | € 270.09 |
| Net Asset Value C* | € 270.44 |
| # of positions | 66 |
| Beta | 0.97 |

### Costs

| | |
|---|---|
| Management fee A | 0.80% |
| Management fee B | 0.50% |
| Management fee C | 0.25% |
| Other costs** | 0.20% |
| Up/down Swing factor | 0.25% |

### Other

| | |
|---|---|
| Start date | Part. A: April 2013 |
| | Part. B: January 2020 |
| | Part. C: January 2021 |
| Manager | DoubleDividend Management B.V. |
| Status | Open-end, daily |
| Exchange | Euronext Amsterdam |
| ISIN (A) | NL0010511002 |
| ISIN (B) | NL0014095127 |
| ISIN (C) | NL0015614603 |
| Benchmark | None |
| Currency | Euro |

### Risk monitor


This information does not provide a sufficient basis for an investment decision. Therefore, read the key investor information and prospectus. These are available on the website of DoubleDividend Management B.V. (www.doubledividend.nl). DoubleDividend Management B.V. is manager of DD Equity Fund and has a license as manager and is supervised by the Netherlands Authority for the Financial Markets. The net asset value has not been audited by an external auditor.

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**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 | 0.56 | 3.19 | 0.39 | -1.40 | 7.20 | 3.56 | **13.73** |
| 2021 | 3.83 | 2.21 | 2.87 | 1.10 | -0.64 | 6.97 | -1.07 | | | | | | **16.03** |

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## Market Developments

July was an eventful month for the stock markets. MSCI All Country Index was up 0.6% over the month, but the variance between regions and sectors was wide. Both Europe and the US had a good month with returns of 2.1% for the Eurostoxx 600 and 2.3% for the S&P 500 respectively. However, emerging markets performed poorly last month. The MSCI Emerging Markets Index fell 7% in July, mainly due to China's increasing regulation of the technology sector (*more on that later*). The stock markets in China and Hong Kong have been under considerable pressure since February, with a decline of up to 20%. Outside of China, the technology sector also lagged to a limited extent behind the market. The latest quarterly results make a comparison with last year difficult. In 2020, we were at the peak of the corona crisis in the second quarter in many countries, making it difficult to compare growth figures this year with last year. This is especially true for technology companies that mostly experienced strong growth in the second quarter of 2020.

Another recurring theme during the current round of quarterly results is rising inflation. Companies such as Unilever and Nestlé, among others, warn of pressure on margins due to rising raw material prices. It seems that high margin companies (such as LVMH, for example) and companies in the technology sector are better protected against a rise in inflation at this stage. Given the still early recovery of the economy and the ongoing concerns about the corona virus, many companies do not yet dare to pass on the higher costs to consumers.

## Regulation in China

The Chinese authorities caused considerable turmoil in the stock markets last month with the introduction of a series of new regulations, including for the education sector. China has been tightening the rules for technology companies for some time now. This started with the blocking of the listing of ANT Financial (a sister company of Alibaba) in the fall of 2020. Since then, the government has tightened rules in several areas for technology companies. Tencent, Alibaba, Didi and Meituan Dianping, among others, are dealing with increasing government involvement. Sometimes in the form of an investigation or fine, but sometimes in the form of direct intervention in business operations. For example, the DiDi app (similar to Uber) was no longer allowed to be downloaded after the company ignored government instructions about how to handle privacy-sensitive data and Tencent had to surrender part of its music rights this month. Increasing government interference is the main reason Chinese equities have been under pressure for some time.

This month, the Chinese government announced far-reaching measures for the so-called “Edu-tech” sector. The future of this sector has been completely redefined by the government. These are companies that offer extracurricular education in subjects such as mathematics, Chinese, physics and biology. The main target group is 4-19 year olds, who receive tutoring for university entrance exams, among other things. The market for extracurricular education is a strong growth market in China. The strong demand for extracurricular education is the result of the Chinese one-child policy, the fact that the education system is strongly focused on (admission) exams and the fact that good education is the best way to climb the social ladder. The sector has grown at an annual rate of about 30% in recent years. The Chinese government has helped the industry considerably thanks to its education system and demographic policy. However, the government felt it necessary to intervene. The rumours about this have been in the market for some time, but the outcome is much more drastic than initially expected.

The government has imposed restrictions on teaching on weekends and during school holidays. Restrictions have also been placed on the profitability (maximum prices) of curriculum subjects and access to capital markets. In addition, these companies are no longer allowed to employ foreign teachers. The Chinese government is deepening reforms in the education sector with the increased social pressure on children and the sector's contribution to increasing inequality in the country. On the background plays the desire of the government to increase the birth rate. The imminent aging of the population is a major social and economic problem for China and according to the government more children are a logical solution to this problem. Expensive tutoring, however, is a reason for many families not to want more children.

The new restrictions will lead to a sharp decline in the turnover of companies in the private education sector in China, causing the prices of these companies to go into a free fall. Investors' concerns are not limited to the education sector, however. There is fear and uncertainty about what is to come. In addition, the market has been shocked by the vigor of Chinese policymakers, who are apparently willing to minimize an entire industry to achieve their goals. It seems that the government itself has also been a bit shocked by the market reaction. In a rushed meeting with major investors and investment banks, the government has tried to convince them that the drastic intervention in the education sector is an isolated case. However, we are convinced that more regulations will follow and that this will keep the Chinese stock market busy for some time to come. In addition to the technology sector, sectors at risk of more regulation include the housing sector and healthcare. While many investors are screaming bloody murder, there are also voices that say that government intervention in the technology sector also has a positive side, both for business and society as a whole. The energetic intervention of the government will ultimately also create clarity for the long term, something that we in the west are not ready for yet.

The tightening of the rules in China is partly ideologically and partly socially driven. First of all, those in power in China want to make sure they are in control. For business, this means that companies should not become too big and powerful and that competition should be promoted. Also, companies should not have too much data and this data should certainly not come into foreign hands. In addition, the government wants to protect consumers and employees. The government strives for fair wages for workers, reducing inequality and improving living conditions. These goals fit in with the collective thinking in China and the dogma that nothing and no one is bigger than the communist party. Also, the party knows very well that it can maintain its power as long as the lives of the Chinese improve. The party's success over the past decades has been based on this. Both business-economic policy and socio-economic policy serve party interests. The growing inequality is also a personal mission of Xi Jingping. Many technology billionaires have therefore donated billions to charities to build credit with those in power.

The relationship between the technology sector and the Chinese government is thus a complicated one. On the one hand, the sector is a threat to those in power because of its size and power, and the critical attitude of some tycoons such as Jack Ma (the founder of Alibaba) and Wang Xing (boss of Meituan Dianping). But on the other hand, the party also needs the technology companies to realize the main goals of the last 5 years plan, including China's technological independence, stimulating domestic demand and economic growth of disadvantaged regions. Companies such as Alibaba, Tencent and Baidu play an important role in realizing these goals. Although the risk to these stocks has certainly increased in the short term due to government intervention, the long-term prospects are still good.

The situation in China is not an isolated one. Worldwide we see that the risk of (semi) government intervention has increased sharply. Think of the central banks that have considerably increased their grip on the financial markets since the financial crisis, the government measures surrounding the pandemic, the discussion regarding regulation of the large Western technology companies and data privacy, worldwide agreements on tax payments and the ambition of many governments to narrow the gap between rich and poor. Investors will therefore have to learn to live with this fact and the volatility that this entails.

## Biggest positive and negative contributions

The top 5 list of negative contributions to the result this month consists entirely of Chinese companies. In total, the weighting of Chinese equities in the portfolio is about 11%, which has cost about 2% in returns over the past month.

The highest positive contribution to the result comes from Alphabet, which delivered strong results this month. The company benefited from the strong advertising market at subsidiaries Google and Youtube and strong growth in cloud services. ASML also came up with very good numbers. The company is taking full advantage of the chip shortage and geopolitical tensions that have many manufacturers expanding capacity and looking to produce in more locations.

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

| Top 5 Negative | | | Top 5 Positive | | |
|---|---|---|---|---|---|
| TAL Education (China) | -75,9% | -0,5% | Alphabet (US) | 7,9% | 0,2% |
| Alibaba (China) | -14.0% | -0,5% | ASML (NL) | 10,3% | 0,2% |
| Tencent (China) | -18.0% | -0,3% | Thermo Fisher (US) | 7,0% | 0,2% |
| Baidu (China) | -19,6% | -0,3% | Microsoft (US) | 5,2% | 0,2% |
| JD.com (China) | -11,2% | -0,3% | Nike (US) | 8,4% | 0.1% |

*Source: DoubleDividend/Bloomberg*

## Portfolio changes

Last month 3 new positions were added to the portfolio AMD, Integral Ad Science and Voday. The position in Danone was sold. The total number of positions in portfolio was 66 at the end of the month.

AMD is a chip developer. The company is particularly strong in the development and sale of CPUs (processors), making it a major competitor of market leader Intel. AMD has been able to gain significant market share from Intel in recent years. AMD chips are generally smarter, faster and more energy efficient.

Workday is a software company that mainly offers services in the field of HRM (personnel management) and ERP (planning) and has built up a dominant position in this market, especially with larger companies. The company is expanding its services into financial management, which is a much larger market. Just like salesforce, Wokday offers its services completely in the cloud. The company competes with more established names such as SAP and Oracle that are less advanced in the transition to the cloud.

Cloud software and cloud infrastructure is one of the main themes in the DDEF's portfolio, with companies such as Salesforce, Workday, Docusign, Alphabet and Microsoft. The transition to the cloud is an important growth market and offers users significant benefits in terms of ease of use, efficiency and security. It also offers smaller companies the opportunity to compete better with large companies. The transition also makes an important contribution in the field of sustainability. The cloud infrastructure reduces energy consumption, CO2 emissions and waste. According to research from the Lawrence Berkeley National Laboratory and North Western University, moving IT infrastructure to the cloud can reduce CO2 emissions from about 30% in large companies to 90% in SMEs. The contribution to the climate is mainly the result of efficiency improvements and the fact that many cloud providers such as Workday run their own households and servers completely with energy from sustainable sources.

Finally, Integral Ad Science is a competitor to recent addition DoubleVerify. The company verifies digital ads. IAS prevents fraud, makes advertisements visible and ensures that they are presented in a safe environment. IAS can benefit from the growth in the digital advertising market and stricter privacy regulations.

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

| Companies & weight in portfolio | | | |
|---|---|---|---|
| Alphabet (US) | 4.0% | Applied Materials (US) | 2.4% |
| Microsoft (US) | 3.2% | Johnson & Johnson (VS) | 2.4% |
| Visa (US) | 2.7% | Adobe (US) | 2.4% |
| Thermo Fisher (US)) | 2.7% | eBay (US) | 2.3% |
| PayPal (US) | 2.6% | Mastercard (US) | 2.4% |

*Source: DoubleDividend*

## Team DoubleDividend


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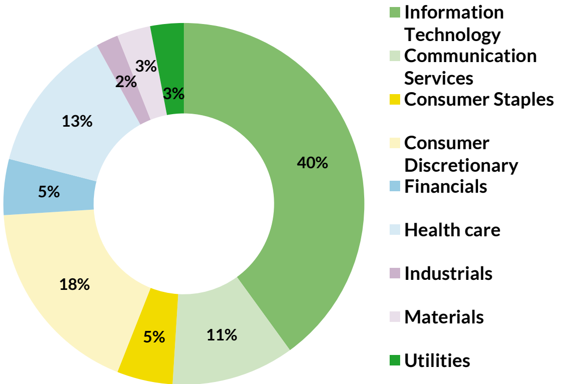
## Appendix: portfolio characteristics

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

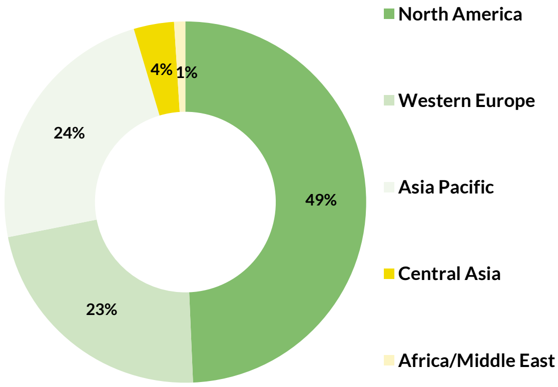
| Valuation | | Risk | |
|---|---|---|---|
| P/E ratio | 35.0 | Bèta (raw) | 0.97 |
| P/E ratio expected | 25.8 | Debt/EBITDA | 2.1 |
| EV/EBITDA expected | 19.6 | VAR (Monte Carlo, 95%, 1 yr) | 27.8% |
| Dividend yield | 1.3% | Standard deviation | 17.0% |
| Price/cashflow expected | 19.3 | Tracking error (vs MSCI world) | 6.2% |

*Source: DoubleDividend/Bloomberg*

### Distribution per sector (GICS)




### Distribution per region

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