DD EQUITY FUND

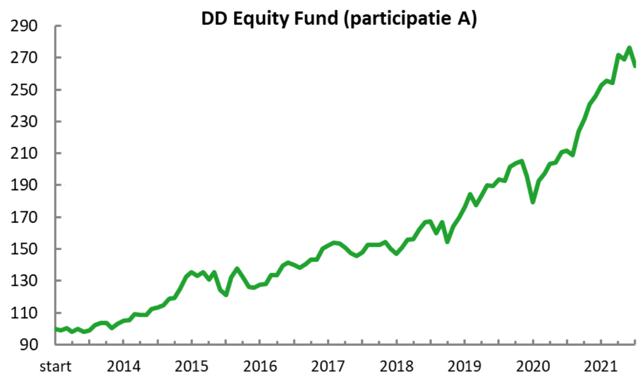
Monthly report September 2021

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 -4.20% in September 2021, as a result of which the net asset value per unit A slipped to € 264.63. This brings the return for 2021 to 14.17%.



* 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	€ 217.941 mln
# shares outstanding A	518,076
# shares outstanding B	194,862
# shares outstanding C	109,000
Net Asset Value A*	€ 264.63
Net Asset Value B*	€ 265.89
Net Asset Value C*	€ 266.36
# of positions	71
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

doubledividend
FINANCIAL & SOCIAL RETURNS

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	2.71	-4.20				**14.17**

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The financial markets have entered more turbulent waters. Equity markets have been under pressure over the past month as a result of a mix of uncertainties: the situation in China, a spike in interest rates and rising energy and commodity prices. In the US, the recurring discussion about the debt ceiling is back, which also contributes to the uncertainties.

The situation in China is starting to affect the financial markets in the rest of the world. In addition to the ongoing reports about stricter rules for companies, the problems at real estate developer China Evergrande Group especially affected market sentiment last month. The largest housing developer in China is in danger of succumbing to a huge debt burden with potentially far-reaching consequences for the financial sector and the Chinese economy. It is estimated that 25-30% of the Chinese economy consists of real estate-related activities, so a crisis in this sector has far-reaching consequences for economic growth expectations in China and therefore the rest of the world. The problems at Evergrande are not new, but recent more strict financial regulations from the Chinese government have pushed the company to the brink of collapse. The Chinese government's new rules are introduced to combat large-scale speculation in the housing market. It is now clear that the broad wave of regulation, the falling stock prices and the crisis in the housing market are negatively affecting growth in China.

Western markets were mainly negatively affected by rising interest rates last month. The US central bank announced this month that it would quickly start phasing out the support measures, and an interest rate hike also seems to be getting closer. However, the FED is not the only central bank that is tightening, the United Kingdom, Norway and Australia, among others, are currently also experiencing a turnaround in monetary policy. It seems likely that more central banks will follow suit and that the extremely accommodative global monetary policy will slowly come to an end. The FED defends the gradual policy change on the grounds that monetary policy objectives have been achieved; the economy has largely recovered from the corona crisis and inflation has risen. Rising interest rates with higher economic growth is normally not a problem, but it is precisely the sharp rise in inflation that creates uncertainties. Central banks have long convinced themselves and the financial markets that the recent rise in inflation is "transitionary", i.e. inflation is temporarily higher due to supply chain restrictions as the economy restarted after the corona period. However, more and more economists are now doubting whether this rise in inflation is really temporary. The FED expects inflation in the US to be 3.7% this year and 2.3% in 2022. In Europe too, inflation is at its highest level in years. In Germany inflation rose to 4.1% in September, the highest level in 29 years, while the EU-wide inflation rate is expected to reach 3.3% this year. Reasons for the continued rise in inflation expectations include rising energy prices (discussed later), sharp rises in transport costs, persistent problems in the supply of goods, shortages of microchips and the like, and geopolitical tensions. For example, the cost of shipping a container from China to Europe has increased more than fivefold in recent months due to the rapid recovery of the economy, rising energy prices and a shortage of containers. These kinds of costs are passed on in product prices and thus lead to higher inflation. The market ultimately translates these higher inflation expectations into higher interest rate expectations and that is exactly what we have seen in the past period.

Closely related to rising inflation expectations are the rising costs of energy and raw materials. For instance, the price of oil has doubled since November from around $40 to $80 a barrel. But the prices of other energy carriers such as coal and gas, and raw materials such as metals and cotton, have also risen sharply. The rapid rise in energy and commodity prices not only feeds into inflation and interest rate expectations, but is also disruptive economically and socially. Such as in China, there is an acute shortage of energy, which is causing economic activity to come to a standstill and in some cities even traffic lights and elevators have been shut down. Furthermore, due to the higher price of coal and stricter environmental measures, the energy shortage cannot be fixed by increasing production. Also, Europe may face shortage of gas during severe winter if there is not enough stock at the beginning of winter. In addition, rising energy prices are causing social unrest, leading to government intervention. In Spain, for example, the government wants to skim the profits of energy companies with an extra tax to finance a tax cut on consumers' energy bills, while the French government fears a revival of the yellow vest movement.

It is clear that geopolitical tensions, disruptions in global supply chains, rising inflation, rising interest rates, increased public sector intervention, and volatility in financial markets are interrelated. The question now is how do we deal with these additional uncertainties and what does this mean for the fund's prospects and strategy?

What does this mean for the outlook?

Firstly, the situation in China. It is likely that the Chinese authorities will eventually come up with a solution for Evergrande. In China, the government likes to have things under control and most banks in China are state-owned, so a Lehman scenario doesn't seem likely at this point. However, this does not mean that there will be a solution without a struggle. Moreover, it is becoming increasingly clear that economic growth is no longer at the top of the political agenda for Chinese government. The party is determined to neutralize what it believes to be the negative effects of the strong growth of recent years and is prepared to sacrifice economic growth for this. The stricter regulations, the problems in the real estate market and the energy crisis are already having a clear impact on economic activity in China. Recent figures show that both consumer spending and industrial production are under pressure. The rest of the world will start to feel this too. China alone has been responsible for about 1% of annual global economic growth in recent years.

Secondly, the public sector is playing an increasingly important role in the financial markets. This is currently most visible in China, but public and semi-public institutions also have an increasing influence on financial markets in Western countries. In Western markets, this applies in the first place to central banks. However, after a long period of liberalization, the public sector is also increasingly interfering with the functioning of markets. Think of the corona measures, Brexit, the intervention in the housing market in Germany, the energy market in Spain, regulation of the technology sector, etc. Given the socio-economic developments of the past decades, it is not a surprise that politics intervene. Almost everyone is convinced that things need to improve socio-economically and the corona crisis has only increased the social inequality between groups of people. On top of that, there is the climate problem. However, when a more active role of the public sector manifests itself in a period when you can argue that the public sector itself is not functioning optimally, this increases the risk of policy errors. Political instability is clearly visible close to home, but (fortunately?) The Netherlands is not alone in this. For example, the US is currently arguing again about the debt ceiling and there is no petrol in the UK as a result of Brexit. For the financial markets, however, a wrong decision by a central banks is currently the biggest risk.

Thirdly, we must bear in mind that the rise in inflation might not be temporary and that interest rates will continue to rise as a result. If economic growth continues, the financial markets can easily absorb this, but when this is accompanied by weakening economic growth, the problems pile up. This risk is greatest for the western markets, because interest rates here are significantly lower. At the moment, you see therefore that growth stocks in particular are under pressure in Europa and the US due to rising interest rates, while banks and oil and gas companies, among others, are performing strongly. The idea behind this is that growth stocks make more profit in the (distant) future and if you discount these future profits at a higher interest rate, the value is lower now, while banks benefit from higher interest rates and energy companies from a high-energy price.

What does this mean for the strategy of the DDEF?

We are maintaining our strong position in growth and technology stocks. We think that stocks in the technology sector are better protected against rising interest rates due to inflation in the long run. The valuation effect is a one-off, while the growth of these companies is less tied to the economic cycle. Digitization is a trend. In addition, companies in the technology sector generally realize higher profit margins because they are less dependent on the purchase of raw materials. In addition, many technology companies often have little or no debt, so that rising interest rates have less of an impact. The long-term prospects for technology remains unquestionably excellent. An ASML investor relations day this month confirmed this once again. The company has sharply revised its revenue forecast for the coming years and expects a decade of strong growth due to global megatrends such as Artificial Intelligence, Cloud, 5G and Big Data. The company predicts that thanks to these megatrends and innovation, the entire technology industry will face a decade of strong growth, making a significant positive contribution to the challenges that lie in the field of climate, ecosystems and well-being.

With regard to DDEF's strategy, current developments increase the importance of diversification. Each region and each sector faces specific risks. In China, the increasing regulatory pressure and the weakening economy are the main risk factors, while in the US and Europe, rising interest rates are a major risk. The valuation of software companies such as DocuSign or Salesforce is under pressure with rising interest rates, while a company such as Unilever or SolarEdge is more affected by higher commodity prices. Nike on the other hand has suffered from supply chain problems as factories in Vietnam have been closed by Covid restrictions, while energy producer Enel is hit by new government regulations in Spain. In recent months we have therefore added a large number of positions to the portfolio, which has increased the number of names in the portfolio to 71 and therefore the portfolio risk has been spread even better.

Finally, the current developments underline once again the importance of a focus on the long term and sustainability. An example is the oil and gas sector, one of the short-term winners of the current developments, thanks to high energy prices. A recent Bloomberg survey shows that the oil and gas sector is making 8.7% of its new investments this year in low-carbon energy projects. More than 90% of the investment budget therefore still goes to coal, oil and gas. In comparison, a utility company like Enel invests more than 90% in energy from renewable sources and the electricity grid, while this company is under pressure due to additional regulations. Mark Carney, former Bank of England governor, once called this "The Tragedy of the Horizon". The cycle in which companies, politicians and banks think and act is too short (for a short-term profit) to take into account the long-term impact on, for example, the climate. Considering that the current uncertainties in energy, inflation, commodity prices and social inequality cannot be separated from the climate problem, it seems unlikely that companies that invest 90% of their money in the problem will also be the winners of the future to be.

The conclusion is that the financial markets may have to deal with a number of trend changes, of which structurally higher interest rates and inflation and a more active role of the public sector being most important. A more active government follows several decades of globalization and liberalization that have led to a number of negative side effects such as pressure on climate and ecosystems and more social inequality. This in turn has contributed to the rise of populism and political fragmentation, which has reduced the functioning of the public sector itself, posing additional risks. The possible structurally higher inflation and interest rates ensure that equities are the preferred asset class within the financial markets. This does however not alter the fact that the risks have also increased within the equity markets as described above. A long-term investment horizon is therefore more important than ever. Still, the equity markets offer ample opportunities to generate attractive returns over the longer term. Sectors in which we are strongly represented, such as software, cloud infrastructure, clean energy, microchips, digital payments, health technology and robotization are experiencing trend growth, have strong business models and a strong balance sheet, invest a lot in innovation and thus make a positive contribution to ESG factors.

Largest positive and negative contribution

The largest positive contribution to the result came from China Longyuan last month. The company that develops and operates wind farms in China has benefited from the rising energy shortage in China and stricter environmental requirements imposed by the Chinese government on energy producers. Netflix also had a strong month. Investors are optimistic about the company's new offering of programs, which had been lagging behind due to corona related restrictions. In the streaming industry, the growth in the number of customers is highly dependent on the supply of new content. The negative contribution to the result came mainly from technology and other growth companies. Utility company ENEL was troubled, among other things, by plans by the Spanish government to skim the profits of energy producers with extra taxes in order to finance a decrease in the energy bills of consumers.

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

Top 5 Positive			Top 5 Negative		
China Longyuan (CH)	23.5%	0.4%	Adobe (US)	-11.6%	-0.3%
Netflix (US)	9.2%	0.1%	Enel (IT)	-13.8%	-0.2%
Inditex (SM)	10.1%	0.1%	Just Eat Takeaway (NL)	-17.8%	-0.2%
Thermo Fisher (US)	4.9%	0.1%	PayPal (US)	-8.2%	-0.2%
Daifuku (JP)	8.9%	0.1%	Samsung SDI (KO)	-10.0%	-0.1%

Source: DoubleDividend/Bloomberg

Portfolio changes

The Union Pacific was added to the portfolio last month. Union Pacific is the second largest railroad company in the US. The company has 53,000 wagons, 7,600 locomotives and 32,000 miles of railroad tracks. The transport of goods by rail is a large market in the US compared to, for example, Europe. In total, seven major railway companies are active, of which Union Pacific is the second largest with a market share of about 19%. Despite the fact that the majority of trains run on diesel, rail transport offers significant benefits from a sustainability perspective. The carbon emissions of rail transport are 75% lower than road transport. Also from a financial perspective, Union Pacific is performing well, mainly thanks to an improvement in efficiency. Thanks to these efficiency improvements, earnings per share have roughly doubled over the past 10 years. The company also expects a further increase in turnover and profit for the future, thanks to economic growth, further efficiency improvements and a larger share of rail in the transport of goods.

Table: top 10 holdings in portfolio per month end

Companies & weight in portfolio			
Alphabet (US)	3.8%	Applied Materials (US)	2.3%
Microsoft (US)	3.2%	Adobe (US)	2.3%
Thermo Fisher (US)	2.8%	Johnson & Johnson (VS)	2.2%
PayPal (US)	2.5%	Salesforce (US)	2.1%
Visa (US)	2.5%	HDFC Bank (India)	2.1%

Source: DoubleDividend

Team DoubleDividend

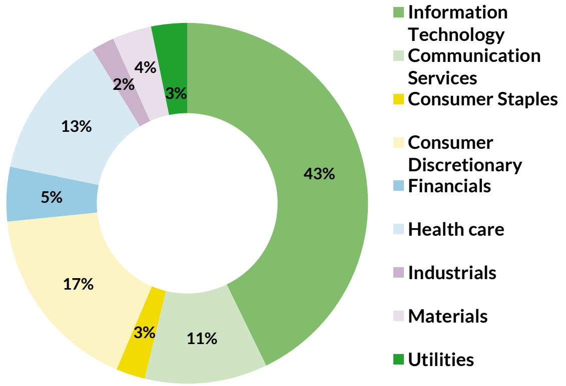
Appendix: portfolio characteristics

Table: Characteristics portfolio DDEF per month end

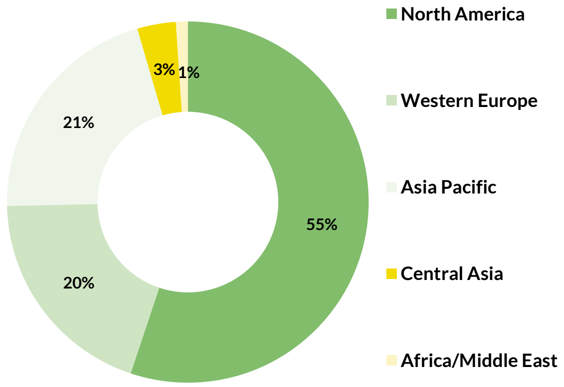
Valuation		Risk	
P/E ratio	34.1	Bèta (raw)	0.97
P/E ratio expected	25.5	Debt/EBITDA	2.1
EV/EBITDA expected	18.5	VAR (Monte Carlo, 95%, 1 yr)	25.63%
Dividend yield	1.3%	Standard deviation	15.54%
Price/cashflow expected	21.0	Tracking error (vs MSCI world)	5.65%

Source: DoubleDividend/Bloomberg

Distribution per sector (GICS)



Distribution per region



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