DD EQUITY FUND

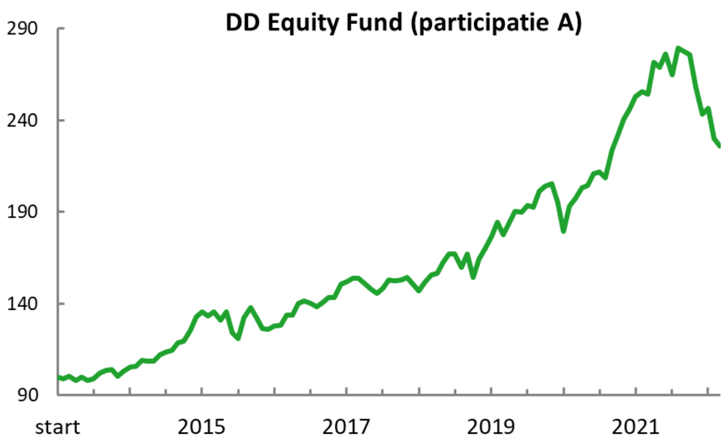
Monthly report May 2022

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 -1.81% in May 2022, as a result of which the net asset value per unit A declined to € 226.



* 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	€ 200 mln
# shares outstanding A	562,031
# shares outstanding B	213,263
# shares outstanding C	109,000
Net Asset Value A*	€ 225.96
Net Asset Value B*	€ 227.45
Net Asset Value C*	€ 228.27
# of positions	81
Beta	1.09

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

* per participation
** expect

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	5.57	-0.56	-0.76	**18.94**
2022	-6.20	-5.97	1.35	-6.62	-1.81								**-18.04**

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Market developments

Global equity markets continued the negative trend of recent months in May. High inflation, rising interest rates, the war in Ukraine, the COVID situation in China and weakening economic growth continue to weigh on sentiment. After a sharp decline at the beginning of the month, recovery started in the second half of the month. The sharp falls in prices lure the first bargain hunters to the market.

Optimists expect inflation to have peaked and to ease during this year. This provides room for the FED to stabilize interest rates in 2023 after a series of hikes in 2022. Under this scenario, economic growth will weaken, but a serious recession can be avoided. The lower share prices offer then an attractive entry point. The recent earnings season shows that the majority of companies continue to perform very well. Yes, some companies are suffering from declining consumer confidence and pressure on margins due to inflation and supply chain problems, but the price decline has more than provided for this.

Although this scenario is very possible, and perhaps the most likely scenario, it is also surrounded by a lot of uncertainty. The crucial factor remains inflation. Some economists claim that inflation has peaked, but this is far from certain. In the EU, inflation was 8.1% last month, higher than expected. Core inflation, an inflation rate of goods and services whose prices are less volatile, was 3.8%. This figure means that inflation is slowly becoming more structural. Simply put, price increases for products such as oil and gas lead to price increases elsewhere. The war in Ukraine and the accompanying sanctions against Russia are also putting continued upward pressure on inflation. In this regard, the situation does not appear to be improving in the short term.

As a result, inflation is increasingly becoming a social and political problem. Last week saw a rare meeting between President Biden and FED Chairman Powell. Biden stressed that the FED operates independently and expressed confidence that the FED will get inflation under control. In fact, he gave his blessing for a series of rate hikes, which is quite unusual in an election year (the US mid-term elections are in November). It is clear that inflation is high on the political agenda. It is mainly the low and middle income groups that suffer a lot from the high inflation. Many Western leaders, including Biden and Macron, know that the success of their presidency, and the future of their country, depends on reducing inequality and improving conditions for the middle class. Failure means the country is at the mercy of populist leaders like Trump and LePen. All indications show that Trump will run for the US presidency again in 2024, so much is at stake.

On the positive side, central banks have acknowledged their mistake and no one is underestimating inflation anymore. Central banks and governments are adjusting policies to keep inflation under control. The FED was absolutely clear about this last month. Powell said; we will keep adjusting monetary policy until inflation is under control and if it has economic consequences then so be it. In Europe too, people have woken up and the first interest rate hike by the ECB is planned in July. Ultimately, the combination of measures will have an effect. In the shorter term, improving the COVID situation in China can help. Important cities such as Shanghai are gradually returning to the order of the day. This mitigates supply chain problems, which has a beneficial effect on inflation and economic activity. A number of economic sectors, including the chip sector, for example, suffer from stiff supply chains. The underlying demand for products is there, but companies cannot meet the demand because parts are not supplied. With the reopening of China, the situation in this area is expected to improve in the coming months.

The conclusion is that the companies in general continue to perform well. Demand and profitability are at a high level. There is some pressure on margins due to high inflation and some slack in demand due to declining consumer spending and product delivery issues, but recent price declines have greatly improved valuation. On balance, the long-term return prospects have improved. The major uncertainties mainly arise from the environment in which these companies operate. Inflation, interest rates, the war in Ukraine and the ongoing COVID crisis are creating uncertain macro conditions. In general, the portfolio companies are well protected against these uncertainties, thanks to their strong market position, high margins, strong balance sheet and the tailwind of trend growth. Of course, a possible recession will lead to some drop in demand and inflation will put some pressure on margins, but we are convinced that companies with a strong market position are better able to pass on higher costs to customers, companies with higher margins will experience less margin pressure, trends such as digitization and sustainability are far from being worked out and companies with a strong balance sheet can absorb macroeconomic shocks and strengthen their market position under difficult economic conditions through innovation and acquisitions. In addition, the shares of many companies are trading well below the average valuation in recent years.

So we are not so concerned about business economics. The concerns are more in the macro circumstances in which these companies operate. How will the war in Ukraine end? Who will be US president in 2 years? Will there be new COVID outbreaks? When will we get inflation under control? Is increased inequality leading to more social unrest and polarization? Is China sticking to its zero COVID policy? The best way to deal with these conditions is by investing in high quality companies with good growth opportunities, by keeping a long-term focus, diversifying broadly and, where possible, contributing our investments to a solution to the challenges we face.

Largest positive and negative contribution

The largest positive contribution last month came from a number of companies in the chips sector. The sector continues to benefit from continued strong underlying demand. For example, AMD saw revenues increase by 71% in the first quarter compared to a year earlier and the company expects revenue growth of 60% in the coming year. Suppliers such as Lam Research and Applied Materials are also benefiting from the demand for microchips and the increasing need for production capacity. China's Baidu reported strong numbers, mainly due to growth in cloud services, artificial intelligence, chips and the expansion of robot taxi services to 100 cities in China. The company's large R&D expenditures in recent years are starting to pay off. Alibaba also reported good quarterly figures, which boosted sentiment for the Chinese technology sector.

Gen-tech company Illumina made the largest negative contribution to the result. The company is suffering from the lockdowns in China. Despite this, the company expects a 15% revenue growth in the coming year. Software company Okta was under pressure because of a hack of its systems and Workday because of disappointing results.

Table: top 10 positive and negative contribution to the monthly result (in €)

Top 5 Positive			Top 5 Negative		
	Return	Contri.		Return	Contri.
LAM Research (US)	10.0%	0.2%	Illumina (US)	-20.5%	-0.4%
Electronic Arts (US)	15.7%	0.2%	Salesforce (US)	-10.3%	-0.2%
Baidu (Chi)	11.3%	0.1%	Okta (US)	-31.5%	-0.2%
AMD (US)	17.3%	0.1%	Crowdstrike (US)	-20.7%	-0.2%
Applied Material (US)	4.9%	0.1%	Workday (US)	-25.5%	-0.2%

Source: DoubleDividend/Bloomberg

Portfolio changes

With the purchase of the Danish Rockwool, we are adding a new theme to the portfolio; making buildings more sustainable. According to the World Green Building Council, buildings are responsible for 39% of global carbon emissions. Of this, 28% can be attributed to operational emissions (heating, cooling, lighting, ventilation) and 11% to the use of materials. Making buildings more sustainable is therefore a must for achieving the climate objectives. Many governments are tightening up the requirements for new construction and encouraging improving sustainability of existing buildings. The war in Ukraine has only increased the need for this. Making existing buildings more sustainable is a process that will take decades to complete. In addition, a lot of new construction will have to take place due to the shortage of housing and the worldwide population growth. Companies that respond to building environment more sustainable can therefore benefit from years of trend growth. Recently, we have made an analysis of the market and a number of companies that can contribute to making buildings more sustainable and also meets our financial criteria.

One of those companies is Rockwool. The company produces and sells the insulation material rock wool, which is made from volcanic rock. Rockwool products can reduce the energy consumption of buildings by up to 70%. During the lifetime of rock wool, 100 times more energy is saved than is required in the production of rock wool. In addition, rock wool has a number of advantages over other insulation materials; it has a long lifespan, is often more fire resistant and also easier to recycle. Rockwool is the market leader in rock wool insulation with an estimated global market share of 57%. In addition to a strong growth market, Rockwool benefits from attractive margins and a strong balance sheet. Rockwool is originally a family business. The founders still have a strong bond with the company, which ensures a clear culture and a long-term vision. A share price drop of almost 50% since September 2021 offers an attractive entry point for a quality company with attractive long-term growth opportunities. Important risks include pressure on margins due to higher energy prices and the activities in Eastern Europe, including Russia.

In addition to Rockwool, the Swiss pharmaceutical company Roche has also been added to the portfolio after a price decline. Tal Education was sold due to uncertain prospects for the Chinese education sector due to changes in government policy.

Positions in NVIDIA, Nike, Illumina, Ringcentral, Amazon, Okta, Union Pacific, Dr.Martens, Zoom and Servicenow have expanded. Positions in AIR Liquide, Mastercard, Visa, Merck, Thermo Fisher, Umicore and Johnson & Johnson have been reduced.

Table: top 10 holdings in portfolio of the month end.

Companies & weight in portfolio			
Microsoft (VS)	3,8%	Adobe (VS)	2,5%
Alphabet (VS)	3,5%	PayPal (VS)	2,5%
Thermo Fisher (VS)	2,9%	Visa (VS)	2,4%
Amazon (VS)	2,7%	Johnson & Johnson (VS)	2,2%
Applied Material (VS)	2,6%	ASML (NL)	2,2%

Source: DoubleDividend

Sustainability

Last month we published our sustainability report. The report can be downloaded via the link below.

https://www.doubledividend.nl/duurzaamsrapport-2021/

In addition, we are busy preparing for SFDR. SFDR or Sustainable Finance Disclosure Regulation is European regulation that aims to improve the transparency of sustainable investment products in order to prevent greenwashing. Market parties are obliged to publish data on the sustainability characteristics of the investment portfolios. The regulations will be introduced step by step in the coming years. We have already come a long way in setting up the analysis for the DD equity fund. The challenge currently lies mainly in the availability of data. Many companies still publish little data about the sustainability characteristics of their business operations.

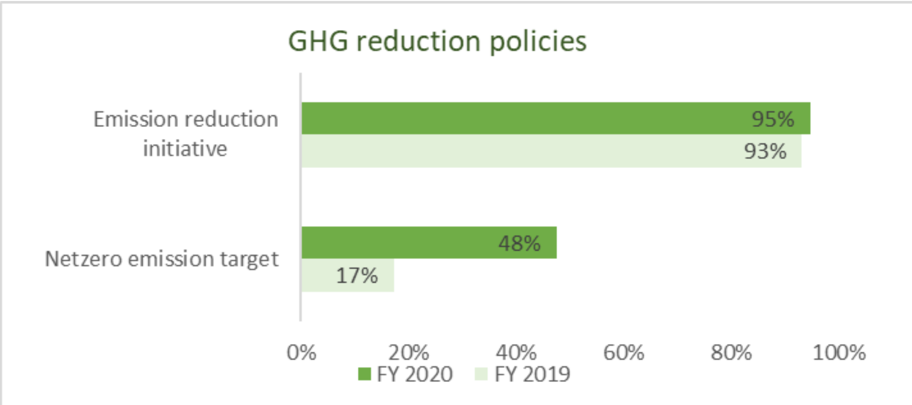
However, it is expected that this will improve significantly in the coming period, whether or not forced by regulations.

In the near future we would like to share the first results of the analysis of the sustainability characteristics of the DD Equity fund here. Ultimately, if the data is sufficiently available, we will make sustainability data available on a permanent basis.

This month we share some data on the carbon emissions of companies in the DDEF portfolio and the carbon intensity of the portfolio. The analysis is based on the composition of the portfolio as at May 2022. Most data come from Bloomberg (reported by the companies & Bloomberg estimated). Where no data is available, Bloomberg usually makes an estimate (usually Co2 emissions). No data is available at all for some smaller companies.

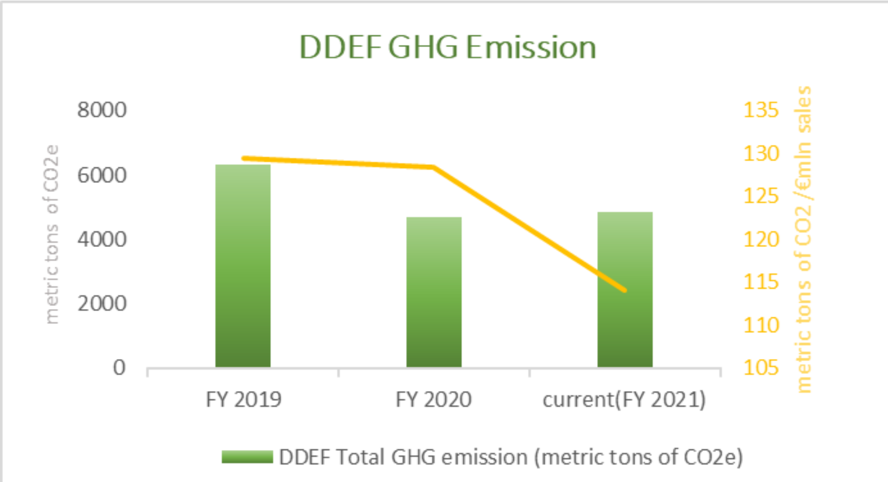
Policy

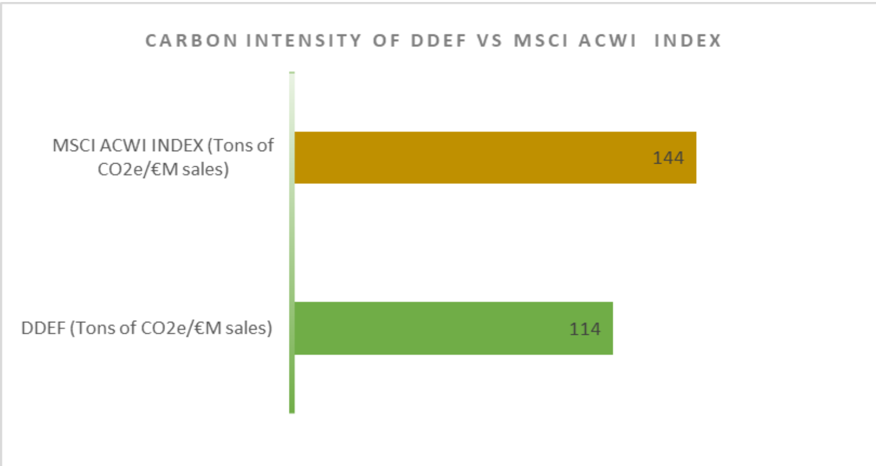
- 95% of the companies in the portfolio had a policy in 2020 to reduce CO2 emissions.
- 48% of the companies in portfolio had a net zero emission target for the future in 2020, a significant improvement compared to 13% in 2019.



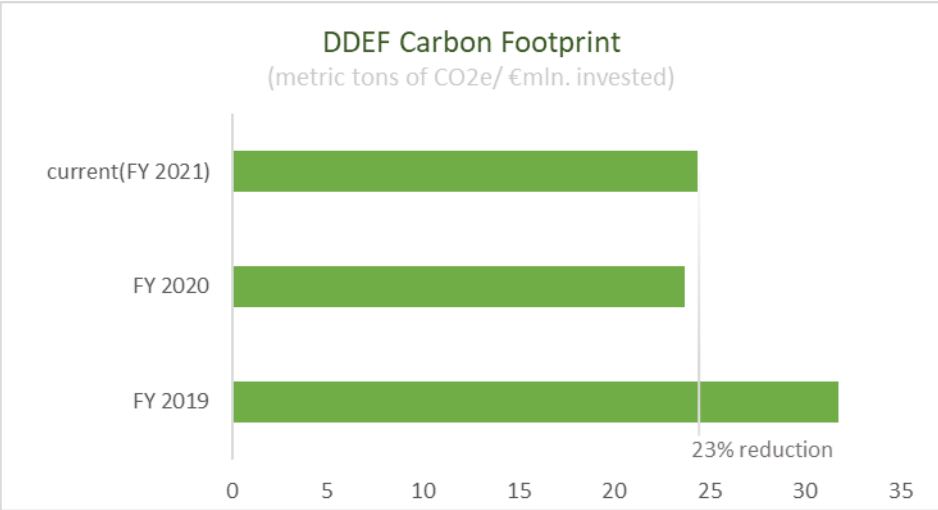
DDEF emissions

- The total CO2 emissions of the DDEF portfolio decreased from 6313 metric tons to 4711 metric tons in 2020, but it is estimated to have increased slightly in 2021 due to the growth of the companies after the corona period. Over the period of 2 years, the decrease is estimated to be 23%.
- The carbon intensity of the portfolio has decreased over the past 2 years. This measures the average Tons of Co2 emissions per million euros sales of the companies in the portfolio. This is estimated to have fallen to 114 in 2021 compared to 129 metric tons of co2 per million sales in 2019.
- The carbon intensity of 114 compares to an average carbon intensity of 144 tons of CO2e/€mln sales for the MSCI all country index.
- The top 5 emitters are responsible for 77% of the portfolio's carbon intensity. These companies make up 7% of the portfolio. If we were to sell these 5 companies, the carbon intensity of the portfolio would drop from 114 to 29 tons of CO2e/€mln sales.
- The irony is that we invest in these companies precisely because of their contribution to the reduction of emissions; AIR product and AIR Liquide because of their role in the development of hydrogen, China Longyuan because of the large portfolio of wind turbines, ENEL because of the large investments in renewable energy sources and Taiwan Semiconductor Manufacturing Company for making energy efficient chips.
- This shows the risk of rules such as SFDR and benchmarking of carbon emissions. It is important to look at the facts and circumstances behind the numbers. Simply avoiding companies with emissions will not make the world a better place. The companies that create emissions in DDEF's portfolio invest heavily in the energy transition and is part of the solution for climate change mitigation.





Carbon footprint
- The carbon footprint calculates the CO_2 emissions of the portfolio per million Euros invested.
- It is estimated to have decreased by 23% in 2021 compared to 2019. The increase from 2021 compared to 2022 is mainly due to the fall in share prices.



Conclusion

- The quality of the data is still moderate. Many companies are still in the start-up phase of reporting. Where data are not yet available, estimates are used. But the process is largely standing and the data will improve in the future.
- The cautious conclusion is that the carbon emissions and carbon intensity of DDEF's portfolio are declining. In addition, the portfolio is relatively carbon light compared to the global stock market.
- We bought the companies in the portfolio that emit a lot of Co2 precisely because of their contribution to the energy transition. The top 5 emitters make up less than 7% of the portfolio, but are estimated to be responsible for 77% of Co2 emissions intensity.
- It is good that the introduction of the SFDR offers more transparency, but there is a risk that investors will simply focus on “low carbon” and thus avoid investing in solutions

Team DoubleDividend

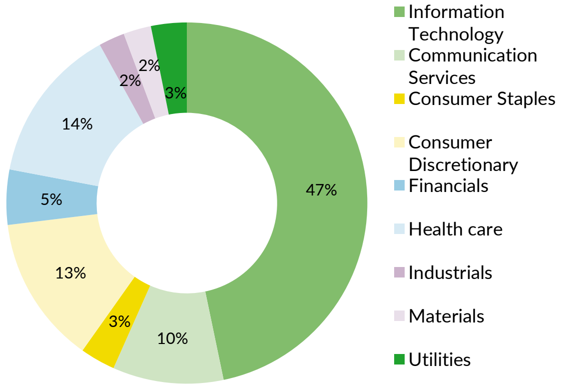
Appendix: portfolio characteristics

Table: Characteristics portfolio DDEF per month end

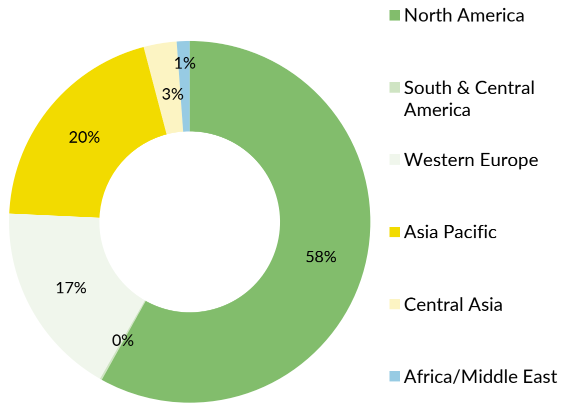
Valuation		Risk	
P/E ratio	31,1	Bèta (raw)	1,09
P/E ratio expected	21,3	Debt/EBITDA	2,4
EV/EBITDA expected	15,1	VAR (Monte Carlo, 95%, 1 yr)	32,1%
Dividend yield	1,5%	Standard deviation	20,4%
Price/cashflow expected	17,8	Tracking error (vs BBG World)	6,9%

Source: DoubleDividend/Bloomberg

Distribution per sector (GICS)



Distribution per region



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