

ESG PORTFOLIO MANAGEMENT

Monthly Report January 2021



Are central banks black holes?

January: Our equity put options and interest rate hedges reduced losses.

Source: <https://cdn.images.express.co.uk/img/dynamic/80/590x/A-black-hole-1070838.jpg?r=1547233015320>

ESG PORTFOLIO MANAGEMENT

Christoph Klein; CFA, CEFA, CSIP is delivering ESG seminars for Moody's Analytics to enhance the understanding of sustainable investing and lending worldwide.



Moody's ANALYTICS | Instructor-Led
ESG Risk Assessment for Lenders & Asset Managers

Overview

Discussions around various risks related to ESG (Environmental, Social and Governance) have become increasingly important and have been amplified by the COVID-19 black swan event. Companies are dealing with changing behaviors, habits, routines and priorities that will forever change business practices. Even more urgently, banks are managing the unfolding crisis of changing asset values and associated credit risks from both a lending and asset management perspective.

This seminar provides delegates with an understanding of sustainable financing and investing with a special focus on ESG considerations. Discussions will focus on their applicability to credit analysis and credit portfolio management. Background content will be provided on critical concepts, including ESG KPIs and quality, SDG (Sustainable Development Goals) impact, CO2 scope, climate risk forecasting, engagement and proxy voting, UN PRI (Principles for Responsible Investment) reporting, and upcoming regulations. The seminar will then demonstrate the relevance and materiality of those topics in ESG implementation for dealing with the current crisis. Case studies will discuss what banks and asset managers are doing to survive, thrive and protect their clients.

Learning Objectives

BY THE END OF THIS COURSE, YOU WILL BE ABLE TO:

- Protect the value of a bank's asset portfolio, including that of its loan book.
- Make sound lending decisions from a more sustainable perspective.
- Manage the risks associated with ESG-related issues, especially credit risk.
- Apply rated sustainability research, including ESG quality, SDG impact and CO2 analysis, to underwriting and asset management businesses.
- Interpret and overcome the quality issues related to ESG/SDG/CO2 data sets.
- Implement a sustainable research, investment and selection process (from ESG/SDG analysis to engagement and proxy voting and reporting) in underwriting and asset management businesses.
- Write a PRI report (as every PRI signatory is required to perform).
- Design a transparent sustainability reporting for your bank, fund, loan book, asset management company.

Who Should Attend?

- Portfolio/asset/fund managers
- Credit analysts
- Rating advisors
- Equity analysts
- Credit risk professionals
- Asset owners
- Investment and commercial bankers
- Financial regulators
- Banking supervisors

Duration: 2 Days

Delivery Channel: Virtual Instructor-Led OR In-Person Classroom

Program Level: Intermediate to Advanced

Prerequisites: None

Advanced Preparation: None

CPE Credits: 16

https://www.moodyanalytics.com/-/media/esg_product_card.pdf

OUR SUMMARY AND OUTLOOK

We understand that central banks aim to support governments to overcome the covid crisis and also try to incentivise companies to invest.

On the other hand, unintended consequences start to bite:

The disparity of wealth and income is increasing at a record speed. Most asset prices are jumping up - from real estate to securities and collectables whereas many wages do not keep up. If this continues, more talented, well educated and highly motivated people cannot afford an apartment for their family whereas more wealthy children will never have to work. This is not an ideal fundament for a healthy society.

Furthermore, negative bond yields make it difficult to live from hard earned conservatively invested pension capital without depleting it.

It is hard to motivate children to save their pennies if there is no positive compounding interest. This could lead to even more people to start gambling instead of prudent investing.

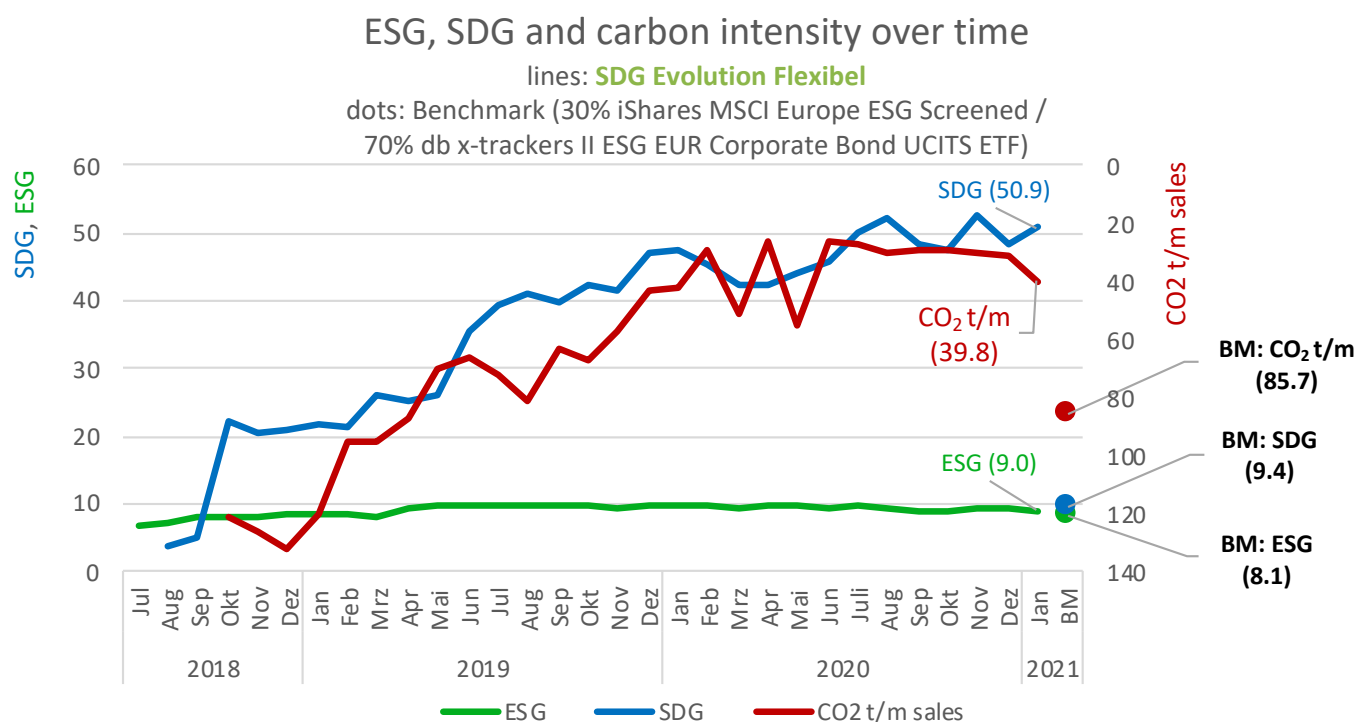
As GameStop`s earnings are negative, the P/E ratio is N.A., and what does an interest expense coverage of minus ten mean? Regardless, this stock increased 1,625% in January.

We can imagine that equity markets can correct further and we aim to be slow and careful when taking profit on our equity put options. We expect a continuing steepening of the BUND curve as one black hole might not be enough in the long run to absorb a record supply at these yield levels.

SDG EVOLUTION FLEXIBEL I (WKN: A1W9AZ)

In January, the SDG Evolution Flexibel I gained 0.03%. Our put options helped to mitigate weak equity performance (EuroStoxx -2.13%). We sold Vestas Wind bonds and equities completely as we did not receive any response when engaging regarding social improvements. At the end of the month, we added to our positions in Orkla and Scatec Solar and reduced our DAX put options.

The SDG Evolution Flexibel achieves an ESG score of 9.0 (maximum 10). 5% of our positions got an ESG rating upgrade and 1% a downgrade. For E we get 6.8, for S 5.9 and for G 6.2. Carbon emissions, at 39.8 t CO₂ per USD million of sales, are below the benchmark (30% iShares MSCI Europe ESG Screened / 70% db x-trackers II ESG EUR Corporate Bond UCITS ETF: 85.7 t). The SDG score is 50,9% (source: MSCI ESG). The graph presents the fund's ESG quality, SDG impact and carbon emissions over time. The dots represent current benchmark data:



Source: MSCI ESG, February 1st 2021

PERFORMANCE

Monthly Returns (in %):

ESG Portfolio Management advises since July 2018 (green fields)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dez	YTD
2014			-0.48	0.75	0.68	-0.05	-0.25	1.08	0.30	-1.30	2.11	-1.20	1.60
2015	3.23	2.58	0.63	-0.49	-0.38	-2.49	1.52	-4.97	-1.13	4.00	1.90	-1.86	2.19
2016	-3.02	-2.12	1.21	-0.19	-0.17	-1.83	0.64	0.50	-0.47	-0.37	-0.93	1.41	-5.32
2017	0.16	1.13	1.51	0.85	0.28	-1.33	0.34	-0.72	2.96	0.84	-0.62	-0.32	5.12
2018	0.92	-1.36	-1.01	1.38	-1.23	-0.53	1.16	-0.84	-0.12	-1.57	0.42	-2.09	-4.84
2019	1.78	1.65	0.44	1.17	-1.07	-1.13	0.03	-1.22	-0.83	-0.08	1.18	0.68	2.55
2020	0.32	0.52	-6.43	2.72	0.20	3.22	0.53	0.63	-0.81	0.53	2.86	1.30	5.37
2021	0.03												0.03

Source: Universal Investment, February 1st 2021

Portfolio statistics: as at January 31th 2021 (Source: Universal Investment)

(net) Asset Allocation		Risk measurement		Bond Ratings		Top Equity Holdings
Equities	39.3% (7.4%)	Risk-return profile	4 (max.7)	AAA/AA	0%	Scatec Solar
Bonds	53.1% (29.5%)	Volatility 3 years	5.15	A	25.7%	Mowi
Gold	0%	Ø Credit-Rating	BBB+	BBB	58.8%	Bell Food
Cash	2.9%	(net) Interest duration	0.80	BB	3.4%	Amgen Inc
		Spread duration	5.75	NR	12.1%	Alstom

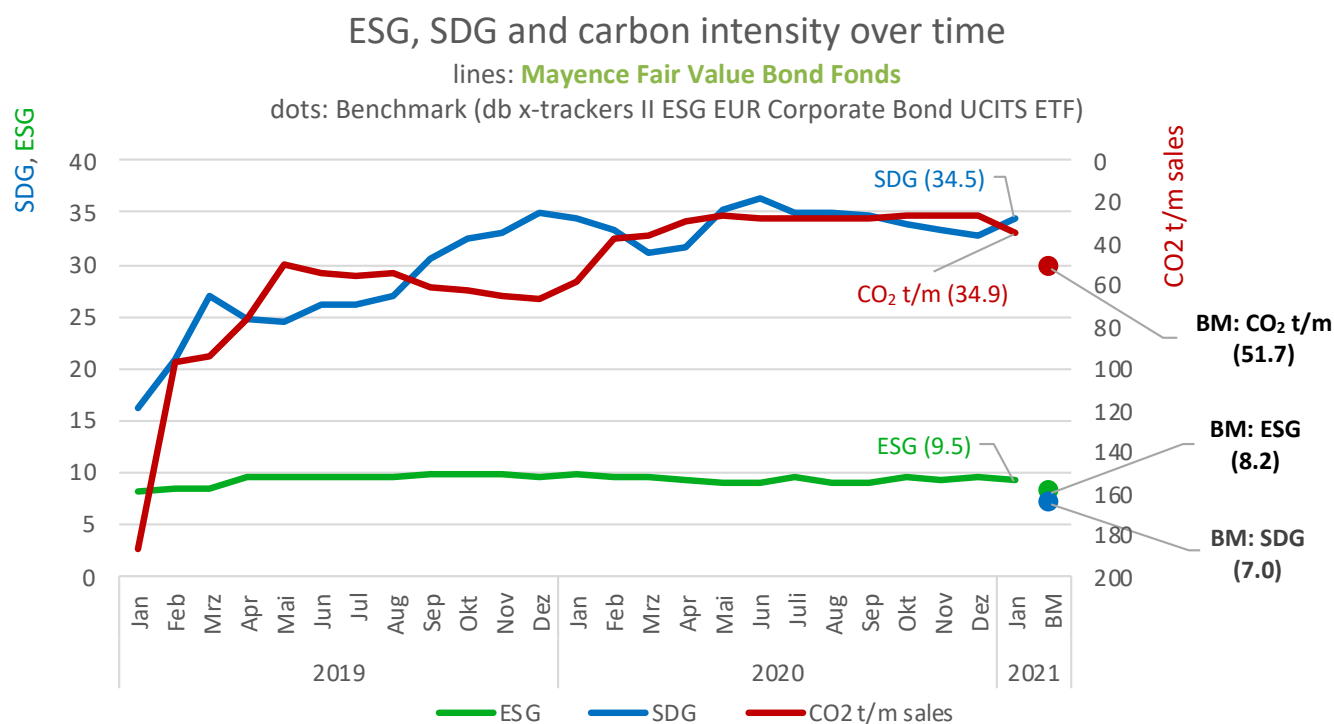
Product details: as at January 31th 2021 (Source: Universal Investment)

	WKN	ISIN	TER	AuM	Min. Investment
SDG Evolution Flexibel I	A1W9AZ	DE000A1W9AZ5	1.14%	9.1	100,000 EUR
SDG Evolution Flexibel R	A1W9AA	DE000A1W9AA8	1.85%	0.2	100 EUR

MAYENCE FAIR VALUE BOND FONDS (WKN: A2AQZE)

In January, our bond fund increased 0.02%. We bought Elia 28, given their strong ESG, SDG and climate credentials. At the month's end we reduced our BUXL short slightly. The fund has a very high ESG score of 9.3 (max. 10). 7% of our positions received an ESG rating upgrade and none a downgrade. For E we get 6.8, for S 6.3 and for G 5.9. The Mayence achieves an SDG impact of 34.5%. The CO₂ emissions of the companies in the portfolio amount to 34.9 t CO₂ per million USD of sales (benchmark: db x-trackers II ESG EUR Corporate Bond: 51,7 t) (sources: MSCI ESG).

The following chart shows the fund's performance in terms of ESG quality, SDG impact and CO₂ emissions:



Source: MSCI ESG, February 1st 2021

PERFORMANCE

Monthly Returns (in %):

ESG Portfolio Management GmbH advises since February 2019 (green fields)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dez	YTD
2017	-0.54	1.62	-0.15	1.04	-0.20	-0.35	-0.46	0.09	0.39	0.79	-0.66	0.03	1.58
2018	-0.55	0.07	-0.66	0.61	-0.41	-1.75	1.31	-0.56	0.81	-0.68	-0.73	-0.52	-3.07
2019	1.06	0.63	-0.37	0.68	0.01	-0.30	0.07	-0.98	-0.72	0.12	-0.29	0.04	-0.06
2020	0.41	0.45	-3.93	0.65	0.75	1.55	0.95	0.16	0.00	0.56	0.34	-0.14	1.65
2021	0.02												0.02

Source: Universal Investment, February 1st 2021

Portfolio statistics: as at January 31th 2021 (Source: Universal Investment)

Rating Distribution		Risk measurements		Top Holdings
AAA/AA	2.88%	Risk-return profile	3 (max. 7)	Amgen
A	28.16%	Volatility 3 years	2.67%	Signify
BBB	58.63%	Ø Credit-Rating	BBB+	ASML
BB	3.87%	(net) Interest duration	3.36	Alstom
NR	6.32%	Spread duration	6.23	Nvidia

Product details: as at January 31th 2021 (Source: Universal Investment)

	WKN	ISIN	TER	AuM	Min. Investment
Mayence Fair Value Bond	A2AQZE	DE000A2AQZE9	1.11%	20.3	25,000 EUR

Strong measures and rules seem to be successful in limiting the spread of Covid-19.

ESG PORTFOLIO MANAGEMENT ordered the production of these masks (see picture). They are made from 100% bio cotton and can be cleaned and reused. For every ordered mask the producer <https://good-give.com/> donates one mask to Africa.

If you are interested, please email klein@esg-pm.com



The ESG score is calculated by MSCI ESG

The ESG scores is based on the ESG ratings of the portfolio positions but also on the ratio of ESG rating upgrades to downgrades. Our target ESG score is at least 9.0 (maximum 10)
<https://www.msci.com/esg-fund-ratings/funds/sdg-evolution-flexibel-ak-i/68243264>

The SDG impact is calculated by MSCI ESG

The SDG impact is measured by the companies' turnover which can clearly be attributed to a theme. We translate these MSCI ESG themes in specific SDG impacts without changing the portfolio impact number.

The Carbon intensity is also calculated by MSCI ESG

The Carbon intensity is measured in t CO₂ divided by sales for every company and aggregated for the funds.

We measure our portfolios' climate risk with the support of the company right. based on science.
<https://www.right-basedonscience.de/> The result: **The positions of the SDG Evolution Flexibel and of the Mayence Fair Value bond fund cause warming of less than 1.75 degrees.**

For our bond fund we use for comparison the db x-trackers II ESG Corporate Bond UCITS ETF

For our balanced fund we use 70% of the Corporate Bond ETF mentioned above and 30% of the equity ETF iShares MSCI Europe ESG Screened (reflecting our average equity allocation of 30%)

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ESG Portfolio Management GmbH, headquartered in Frankfurt am Main, is an owner-managed company with core competence in bank-independent advice on capital market products. It develops tailor-made solutions for professional investors in order to generate sustainably adequate income despite rather low risk budgets. ESG Portfolio Management is initiator and advisor to the funds Skalis Evolution Flex and Mayence Fair Value Bond Fonds.

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