

# ESG PORTFOLIO MANAGEMENT

Report August 2022



Source: Hewlett.org



## We welcome Sina Zach

Sina Zach joins ESG PM as a working student supporting our Research, Portfolio Management, Engagement and Reporting.

She earned a B.Sc. in Global Business Management with Major International Finance at the University of Augsburg and is now pursuing a Double Degree in International M.Sc. in Management with Major Strategy & Consulting at Católica Lisbon School of Business & Economics in Lisbon, Portugal and at BI Norwegian Business School in Oslo, Norway.

**Our Article 9 Fund SDG Evolution Flexible I positive in August and YTD**

**USA agrees to climate treaty!**

**Renewable energy shares in demand**

## OUR SUMMARY AND OUTLOOK

On August 12, the U.S. Congress approved the Inflation Reduction Act. This includes \$369 billion for climate and clean energy measures. This also helped our positions.

We bought First Solar shares on 6/14 and 7/27 at USD 63.85 and 75.50 and realized partial gains on 8/25 and 8/26 at USD 119 and 122.52. Positions in SMA Solar and Sunrun also outperformed.

The EU taxonomy alignment of our funds is 37% for SDG Evolution Flexible and 42% for SDG Evolution Bonds. Out of 31,000 funds, only 7% have a "green return" of more than 10% according to the EU taxonomy (source: Clarity AI).

The effects of the Ukraine war, such as sharply rising energy and food prices, weighed on consumers in August, but also on the equity and bond markets.

In August, the DAX fell from 13,484 to 12,800 (minus 4.8%) and the 10-year Bund future even lost 6%.

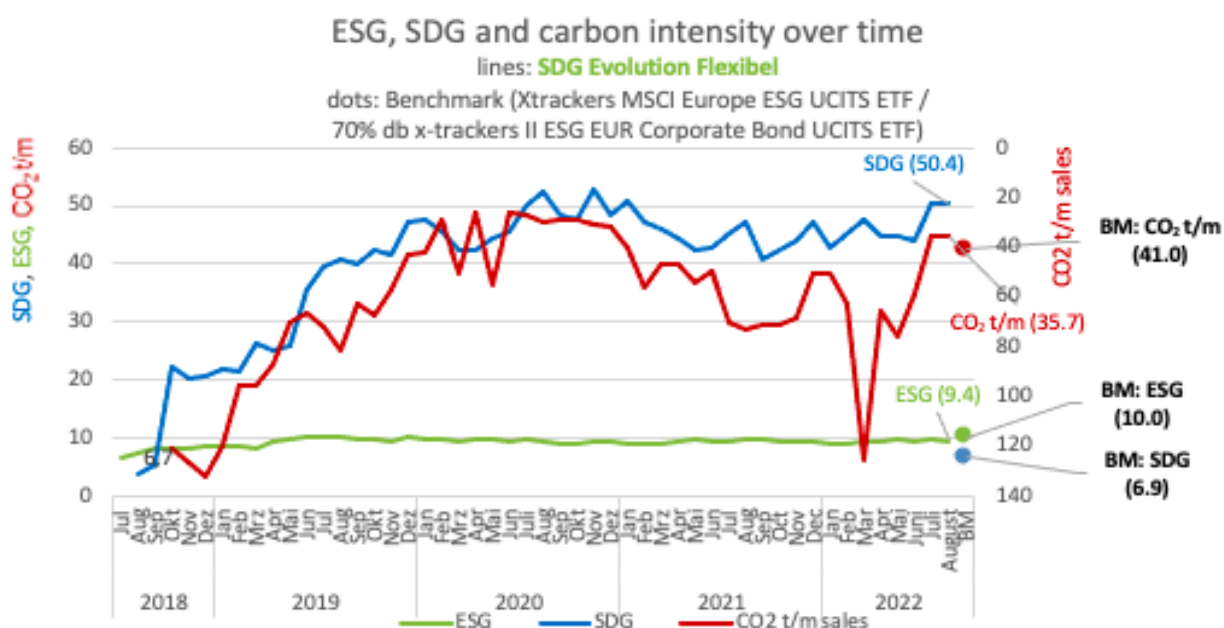
SDG Evolution Flexibel I achieved a positive performance through successful selection and active hedging strategies. On August 15 and 17, we bought DAX Puts 13,000 December 2022 at EUR 437 and 425 and were able to reduce them on August 29 at EUR 800. The reduction of interest rate risks also helped.

Expectations of significant interest rate hikes led to yield increases and widening of credit spreads worldwide in August. Our bond fund SDG Evolution Bonds was unable to escape these factors. There were hardly any new issues in the vacation month of August and thus few performance opportunities from bond selection.

## SDG EVOLUTION FLEXIBEL I (WKN: A1W9AZ)

In August, the unit price of SDG Evolution Flexible I increased by 0.55% despite falling shares and rising yields. We bought shares in Ballard Power and realized partial gains on our DAX puts and First Solar shares. On the other hand, we increased our exposure to salmon farmer Mowi ASA.

The SDG Evolution Flexibel achieves an overall ESG score of 9.4 (maximum 10). 9% of our positions got an ESG rating upgrade and none a downgrade. For E, we achieved a score of 7.1, for S 5.8, and for G 7.1. Carbon emissions, at 35.7 t CO<sub>2</sub> per USD million of sales are above the benchmark (30% Xtrackers MSCI Europe ESG UCITS ETF / 70% db x-trackers II ESG EUR Corporate Bond UCITS ETF: 41t) as we focus more on transition and increased our holdings in industrial companies which actively reduce their emissions. The SDG score is 50.4 % (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, September 1<sup>st</sup>, 2022

## 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
<b>2014</b>			-0.48	0.75	0.68	-0.05	-0.25	1.08	0.30	-1.30	2.11	-1.20	1.60
<b>2015</b>	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
<b>2016</b>	-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
<b>2017</b>	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
<b>2018</b>	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
<b>2019</b>	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
<b>2020</b>	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
<b>2021</b>	0.03	-1.67	0.85	-0.19	-0.31	-0.05	-0.40	-0.57	-2.15	1.44	-1.27	1.53	-2.81
<b>2022</b>	-3.35	2.92	1.51	-1.26	-2.80	-2.41	5.26	0.55					0,11

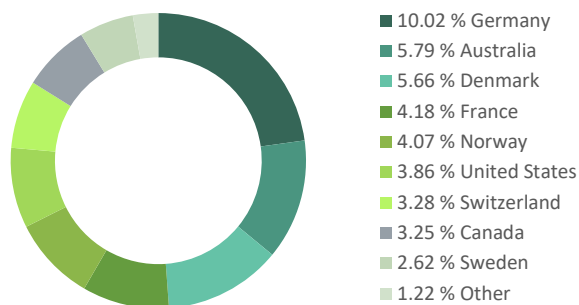
Source: Universal-Investment, August 31<sup>st</sup>, 2022

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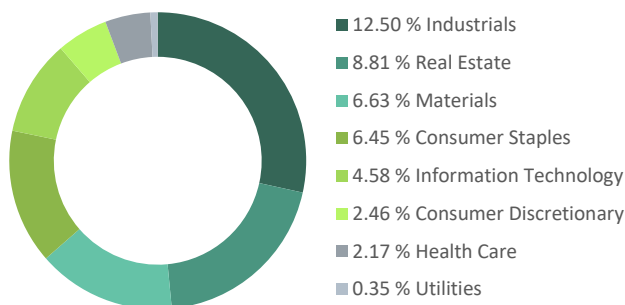
**Portfolio statistics:** as of August 31<sup>st</sup>, 2022 (Source: Universal Investment)

(net) Asset Allocation		Risk measurement		Bond Ratings		Top Equity Holdings
<b>Equities</b>	49.5% (-3.8%)	Risk-return profile	4 (max.7)	AAA/AA	1.9%	FCR Immobilien
<b>Bonds</b>	50.1% (38.2%)	Vola / SharpeR 3 y	6.21 / 0.27	A	31.5%	Sims Ltd.
<b>Gold</b>	0%	Ø Credit-Rating	BBB+	BBB	56.8%	Vestas Wind
<b>Cash</b>	1.0%	(net) Interest duration	(316) 5.15	BB	3.1%	Ballard
		Spread duration	5.18	NR	6.8%	Mowi

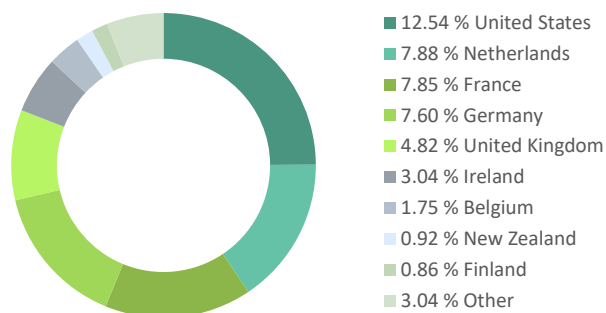
**Equities by country**



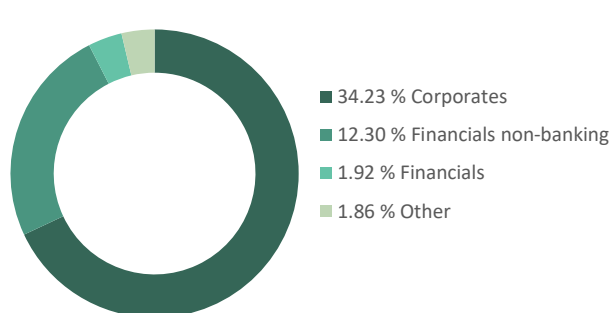
**Equities by industry sectors**



**Fixed Income by country**



**Fixed Income by industry sectors**



**Product details:** as of August 31<sup>st</sup>, 2022 (Source: Universal Investment)

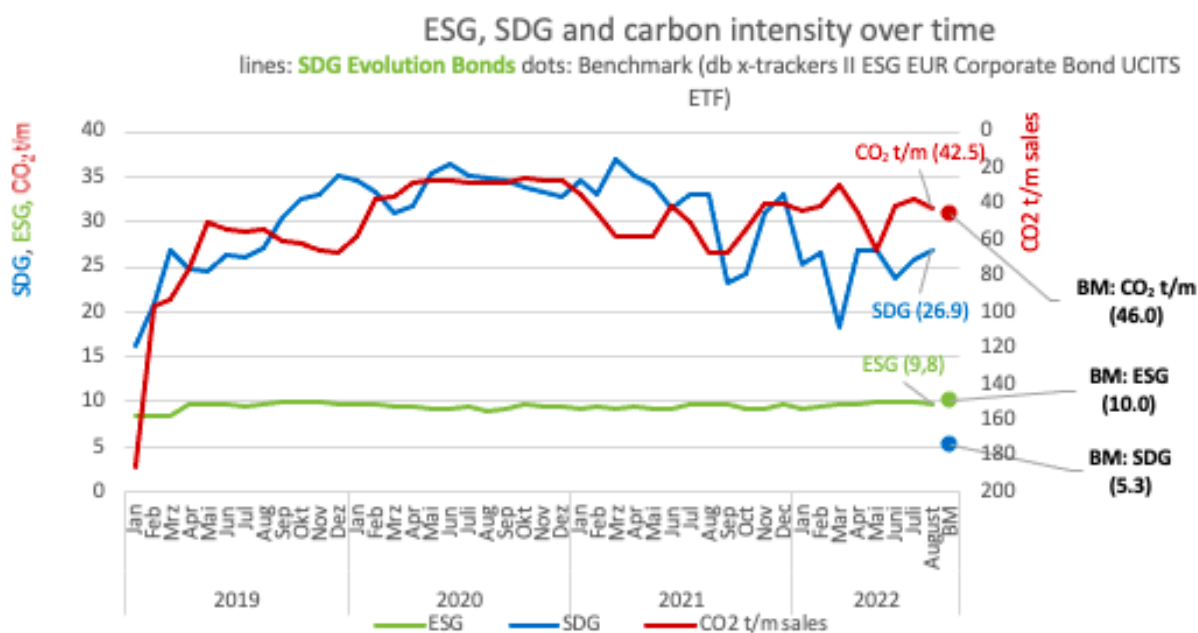
	WKN	ISIN	TER	AuM	Min. Investment
<b>SDG Evolution Flexibel I</b>	A1W9AZ	DE000A1W9AZ5	1.35%	8.4	100,000 EUR
<b>SDG Evolution Flexibel R</b>	A1W9AA	DE000A1W9AA8	1.63%	1.2	100 EUR

## SDG EVOLUTION BONDS (WKN: A2AQZE)

In August, the value of our bond fund fell by 3.1% due to rising yields and a widening of credit spreads. During the quiet vacation month of August, we invested in NKT's subordinated bond. NKT is a global electrical and industrial group based in Denmark.

The fund has a very high ESG score of 9.8 (max.10). 14% of our positions received an ESG rating upgrade and none a downgrade. For E, we get 7.1 for S, 6.0, and for G 7.2. The SDG impact is 26.9. We aim to improve the SDG impact. The CO<sub>2</sub> emissions of the companies in the portfolio amount to 42,5 t CO<sub>2</sub> per million USD of sales (benchmark: db x-trackers II ESG EUR Corporate Bond: 46 t) (sources: MSCI ESG).

The following chart shows the fund's performance in terms of ESG quality, SDG impact, and CO<sub>2</sub> emissions:



Source: MSCI ESG, September 1<sup>st</sup>, 2022

## 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
<b>2017</b>	-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
<b>2018</b>	-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
<b>2019</b>	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
<b>2020</b>	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
<b>2021</b>	0.02	-0.64	-0.13	0.29	-0.26	0.04	0.51	-0.37	-0.52	-0.96	-0.93	-0.53	-3.43
<b>2022</b>	-1.30	-2.30	-1.70	-2.37	-2.04	-3.60	4.04	-3.14					-11.94

Source: Universal Investment, August 31<sup>st</sup>, 2022

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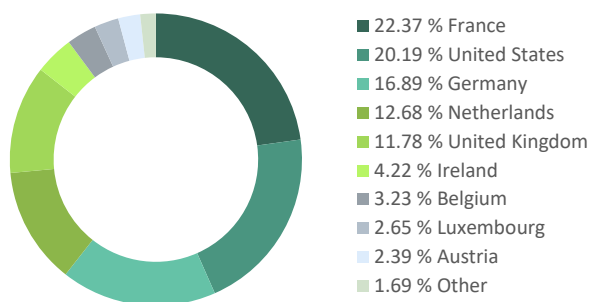
**Portfolio statistics:** as of August 31<sup>th</sup>, 2022 (Source: Universal Investment)

Rating Distribution	
AAA/AA	3.2 %
A	32.9%
BBB	55.6%
BB	0%
NR	8.3%

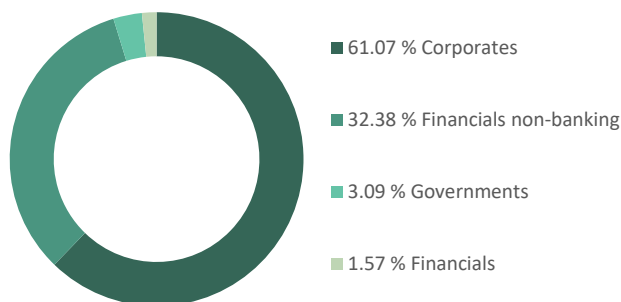
Risk measurements	
Risk-return profile	3 (max. 7)
Vol. / SharpeR 3 y.	3.21% / -1.39
Ø Credit-Rating	A-
(net) Interest duration	(3.79) 5.88
Spread duration	5.70

Top Holdings
Vestas Wind
Covivio
Pearson Funding
Klépierre
Edwards Life Science

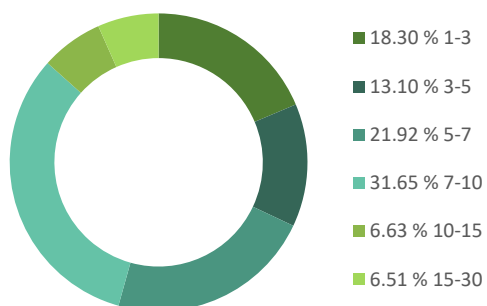
**Fixed Income by country**



**Fixed Income by industry sectors**



**Fixed Income by maturity profile**



**Product details:** as of August 31<sup>th</sup>, 2022 (Source: Universal Investment)

	WKN	ISIN	TER	AuM	Min. Investment
<b>SDG Evolution Bonds</b>	A2AQZE	DE000A2AQZE9	1.17%	5.8	100 EUR

## Our exclusion criteria

### Companies:

We exclude companies with violations against the UN Global Compact Principles and companies with activities in the following business areas:

Exclusion criterion	Maximum share of turnover
- Weapons of mass destruction and controversial weapons	
- Coal mining, processing & services	
- High risk oil & gas (Fracking, Arctic Drilling, Oil Sands, Services)	0%
- Nuclear power generation	
- Uranium mining	
- Embryonic stem cell research and cloning technology	
- Coal-fired power generation	
- Oil extraction, processing and power generation	
- Production and distribution of key components for nuclear power plants	
- Biocides	5%
- Animal testing	
- Genetic engineering in food production	
- Civilian weapons	
- Conventional tobacco products and alcohol	
- Entertainment media (gambling, gaming, pornography)	

### Countries:

Countries are excluded in case of serious controversies, death penalty, human rights violations, lack of labour rights, child labour, corruption (according to Transparency International), violation of the Nuclear Non-Proliferation Treaty, high military budget, authoritarian regime (according to Freedom House Ranking), non-ratification of the Biosafety Protocol.

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)

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 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/en> The result: **The positions of the SDG Evolution Flexibel and of the SDG Evolution Bonds are causing a warming of less than 2 degrees. We support climate transition!**

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 Xtrackers MSCI Europe ESG UCITS Class 1C (reflecting our average equity allocation of 30%).

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