

# ESG PORTFOLIO MANAGEMENT

Report September 2022



Source: reuters, beamstart.com

## In focus: First Solar Inc.

First Solar Inc. has an ESG rating of AA and a SDG impact and EU taxonomy alignment of 100%. But the carbon intensity is high (source: MSCI ESG).

We engage with First Solar Inc. to achieve a reduction of GHG emissions by investing in production technologies.

We bought First Solar Inc. shares in June and July at USD 63.85 and USD 75.50 and profited from the significant US climate deal in August. First Solar Inc. managed to outperform also during the weak September. The YTD Performance is +55%. We see further upside.



Source: Bloomberg

## Central banks continue hiking

## Significant political instability

**The market reaction in September:**  
Dow Jones -9,2%, S&P 500 -10%,  
EuroStoxx50 -5,7%, Bund-Future -4,9%

## OUR SUMMARY AND OUTLOOK

On September 8<sup>th</sup> the ECB raised rates by 75 bp. and on September 21<sup>st</sup> the FED increased rates by another 75 bp. and pledges more hikes to fight inflation.

The effects of the Ukraine war, such as sharply rising energy and food prices, continued to put pressure on consumers in September, but also on the equity and bond markets with increasing yields and widening credit spreads.

In UK the new prime minister Liz Truss and chancellor Kwasi Kwarteng proposed to cut the top rate of tax from 45 percent to 40 percent. This led to such market turmoil that the BoE had to step in buying long term gilts to rescue several pension funds. This “reverse Robin Hood tax” also caused a backlash from the public who faces a cost-of-living crisis.

In Brazil, the presidential election is a close race between Lula da Silva and the rainforest burner Jair Bolsonaro. In US the important midterm elections are approaching fast.

SDG Evolution Flexibel I suffered from the very weak equity and credit market losing 6.34% in September despite active hedging strategies.

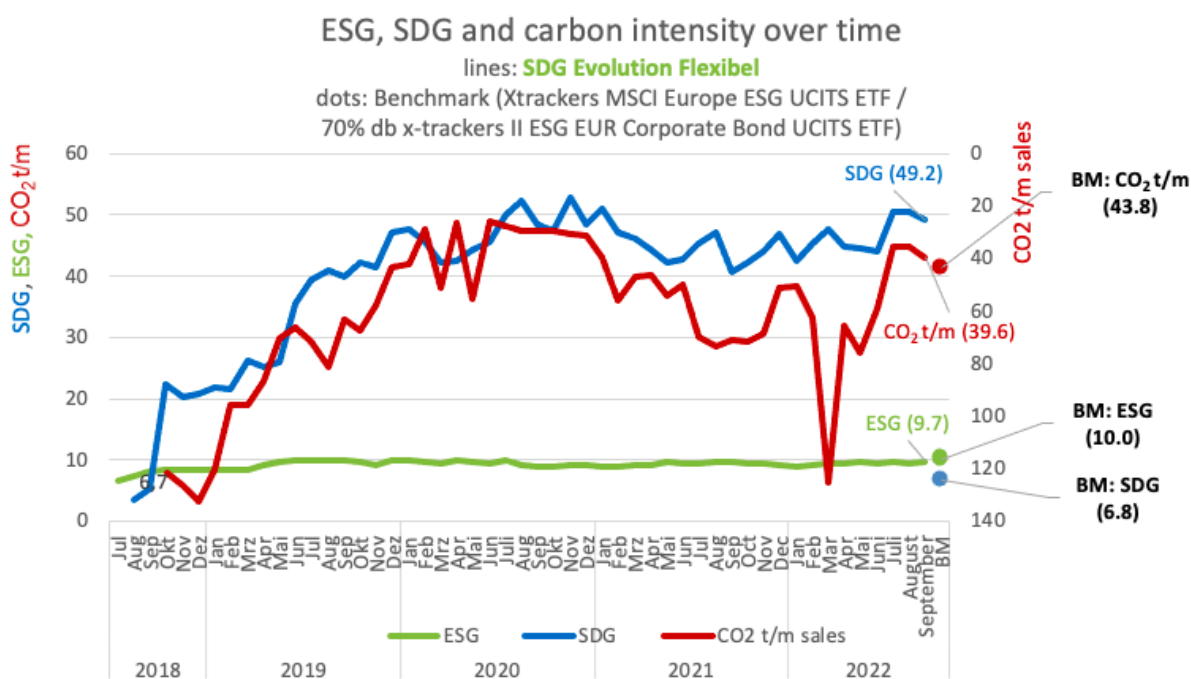
Also, our bond fund SDG Evolution Bonds was unable to escape these developments and lost 3.39%. There were not many attractive new issues in September and thus only few performance opportunities from bond selection.

The EU taxonomy alignment of our funds is 39% for SDG Evolution Flexible and 29% 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).

## SDG EVOLUTION FLEXIBEL I (WKN: A1W9AZ)

In September, the unit price of SDG Evolution Flexible I decreased by 6.34% driven by falling shares, rising yields and widening credit spreads. We bought the green bond new issues of Statkraft, Orsted, KPN and realized partial gains on our DAX puts – a bit too early.

The SDG Evolution Flexibel achieves an overall ESG score of 9.7 (maximum 10). 11% of our positions got an ESG rating upgrade and none a downgrade. For E, we achieved a score of 7.2, for S 5.9, and for G 7.0. Carbon emissions, at 39.6 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: 43.8t) as we focus more on transition and increased our holdings in industrial companies which actively reduce their emissions. The SDG score is 49.2 % (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, October 4<sup>th</sup>, 2022

## PERFORMANCE

Monthly Returns (in %):

ESG Portfolio Management advises since July 2018 (green fields)

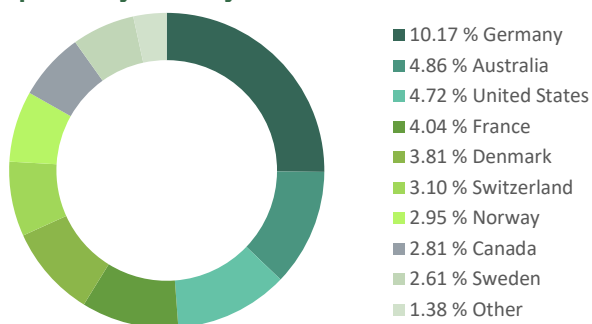
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dez	YTD
<b>2014</b>			-0.48	0.75	0.68	-0.05	-0.25	1.08	0.30	-1.30	2.11	-1.20	1.60
<b>2015</b>	3.23	2.58	0.63	-0.49	-0.38	-2.49	1.52	-4.97	-1.13	4.00	1.90	-1.86	2.19
<b>2016</b>	-3.02	-2.12	1.21	-0.19	-0.17	-1.83	0.64	0.50	-0.47	-0.37	-0.93	1.41	-5.32
<b>2017</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	-6.34				-6.24

Source: Universal-Investment, September 30<sup>th</sup>, 2022

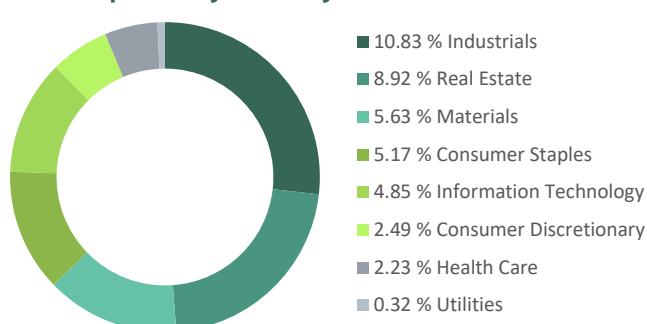
**Portfolio statistics:** as of September 30<sup>th</sup>, 2022 (Source: Universal Investment)

(net) Asset Allocation		Risk measurement		Bond Ratings		Top Equity Holdings
<b>Equities</b>	40.4% (5.8%)	Risk-return profile	4 (max.7)	AAA/AA	1.8%	FCR Immobilien
<b>Bonds</b>	53.3% (42.3%)	Vola / SharpeR 3 y	6.35 / -0.04	A	27.0%	Sims Ltd.
<b>Gold</b>	0%	Ø Credit-Rating	BBB+	BBB	60.6%	Amgen Inc.
<b>Cash</b>	2.0%	(net) Interest duration	(3.53) 5.07	BB	4.9%	Edwards Lifesciences
		Spread duration	5.0	NR	6.7%	SMA Solar

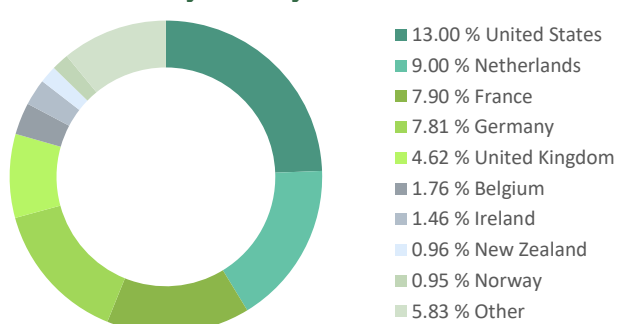
**Equities by country**



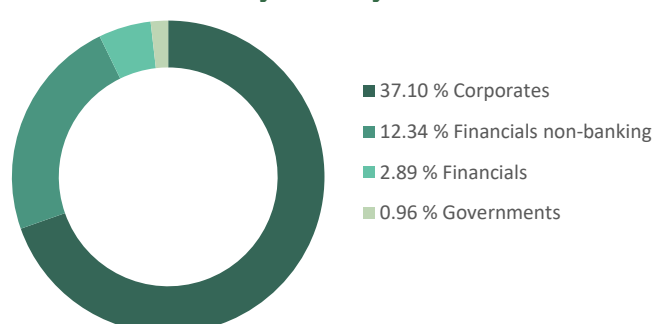
**Equities by industry sectors**



**Fixed Income by country**



**Fixed Income by industry sectors**



**Product details:** as of September 30<sup>th</sup>, 2022 (Source: Universal Investment)

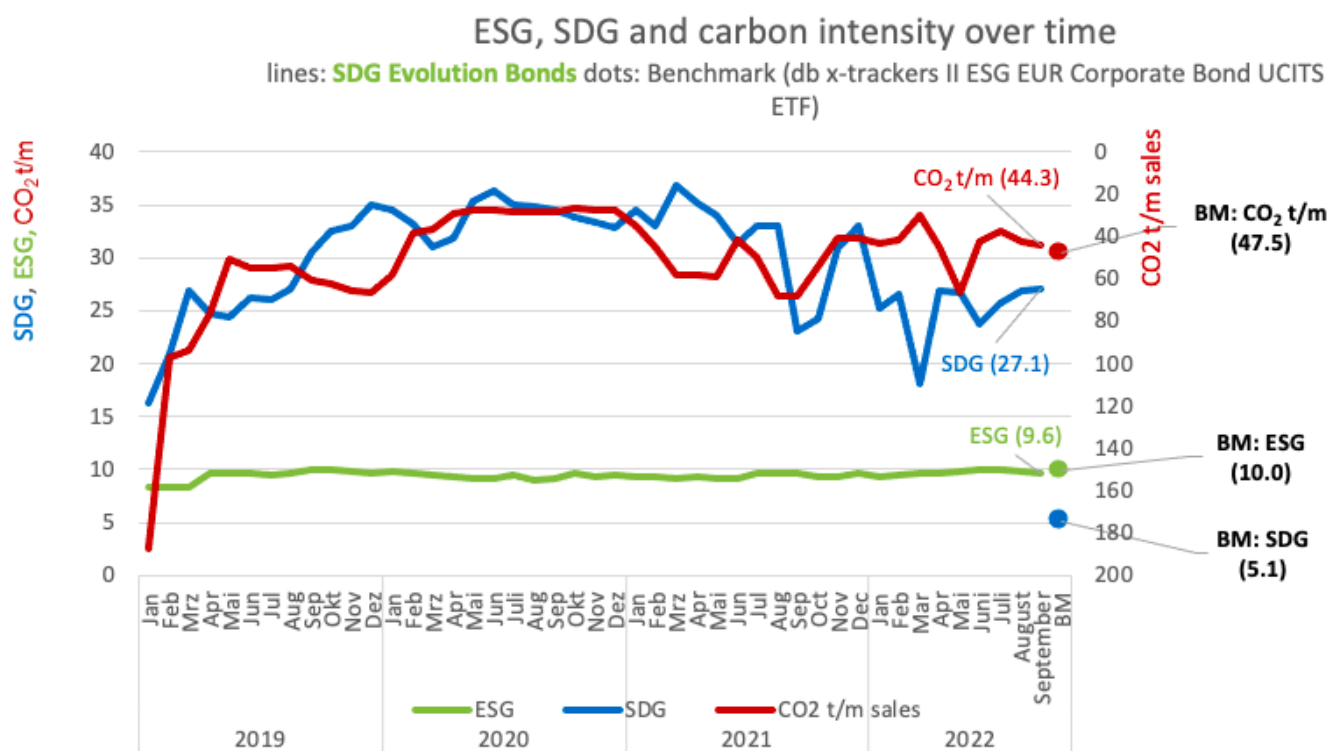
	WKN	ISIN	TER	AuM	Min. Investment
<b>SDG Evolution Flexibel I</b>	A1W9AZ	DE000A1W9AZ5	1.35%	7.9	100,000 EUR
<b>SDG Evolution Flexibel R</b>	A1W9AA	DE000A1W9AA8	1.63%	1.2	100 EUR

## SDG EVOLUTION BONDS (WKN: A2AQZE)

In September, the value of our bond fund fell by 3.39% due to rising yields and the widening of credit spreads. During September, we invested in the green bond new issues of Statkraft, Orsted and KPN hybrid.

The fund has a very high ESG score of 9.6 (max.10). 11% of our positions received an ESG rating upgrade and none a downgrade. For E, we get 7.1 for S, 6.3, and for G 7.2. The SDG impact is 27.1. We aim to improve the SDG impact. The CO<sub>2</sub> emissions of the companies in the portfolio amount to 44,3 t CO<sub>2</sub> per million USD of sales (benchmark: db x-trackers II ESG EUR Corporate Bond: 47,5 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, October 4<sup>th</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	-3.39				-14.93

Source: Universal Investment, September 30<sup>th</sup>, 2022

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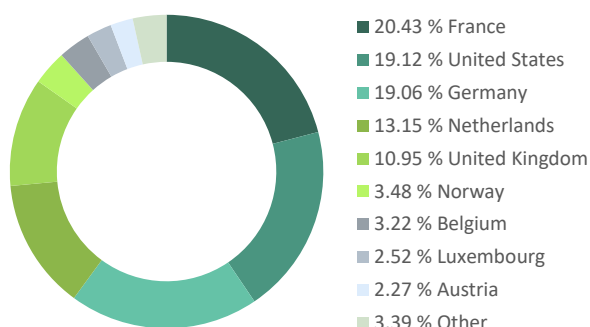
**Portfolio statistics:** as of September 30<sup>th</sup>, 2022 (Source: Universal Investment)

Rating Distribution	
AAA/AA	5.0 %
A	25.2%
BBB	59.3%
BB	1.8%
NR	8.8%

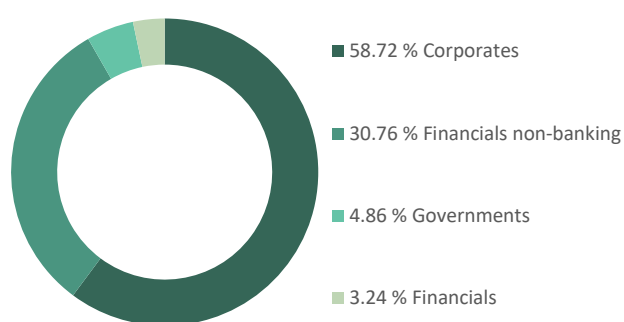
Risk measurements	
Risk-return profile	3 (max. 7)
Vol. / SharpeR 3 y.	3.24% / -1.65
Ø Credit-Rating	A-
(net) Interest duration	(3.88) 5.64
Spread duration	5.35

Top Holdings
Vestas Wind
Covivio
Gilead Sciences
Edwards Lifesciences
Pearson Funding

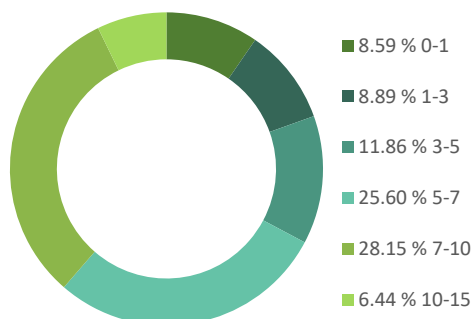
**Fixed Income by country**



**Fixed Income by industry sectors**



**Fixed Income by maturity profile**



**Product details:** as of September 30<sup>th</sup>, 2022 (Source: Universal Investment)

	WKN	ISIN	TER	AuM	Min. Investment
<b>SDG Evolution Bonds</b>	A2AQZE	DE000A2AQZE9	1.17%	5.5	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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