

# ESG PORTFOLIO MANAGEMENT

Report December 2022

**We wish everyone a happier 2023**

From January 2023 rules will strengthen the reporting for sustainable funds. We already measure, manage, and report ESG qualities, SDG impact, Principle Adverse Impacts (PAIs) and EU taxonomy alignments.

As an example, we would like to analyse one of our favourite investments Sims Ltd, a global metal recycling specialist.

MSCI ESG assigns an AAA ESG rating and estimates a very high SDG impact and an EU taxonomy alignment of 98%. Our second data provider Clarity AI estimates an EU taxonomy eligibility of 0% and an EU taxonomy alignment of 0% (In Clarity AI's view recycling activities are not yet EU taxonomy eligible).

Certainly, Sims Ltd. passes all our exclusion criteria (see page 6).

Looking at the 14 mandatory PAIs measured by MSCI ESG and Clarity AI we see weaknesses in the dimensions GHG emissions and board gender diversity. We will engage with Sims Ltd. to push for improvements.

On the other hand, we will sell companies which do not deliver PAI data despite our repeated requests.

**War and inflation caused a weak 2022: Euro Stoxx 50 fell 11%, NASDAQ 33% and several IG Corporate Bonds indices lost more than 13%.**

**We expect a recovery in H2 2023.**

## OUR SUMMARY AND OUTLOOK

Putin's war caused deaths, destruction, famine, inflation, recession and weak equity and credit markets.

Global energy and food prices could remain elevated, and wages are increasing. For these reasons, we cannot imagine that inflation will decline to two percent in 2023. The ECB is expected to raise interest rates further.

In late 2021 and early 2022, we bought DAX put options and took profits in market weakness. Our bond futures (hedges) were also helpful. Several renewable energy stocks, such as Nordex, SMA Solar and First Solar, performed excellently.



SDG Evolution Flexibel I attribution analysis 2022. Source: Universal Investment

After the massive increase of yields and the widening of credit spreads in 2022, we want to highlight the current yield level achieved by corporate bonds with solid credit ratings.

Our SDG Evolution Bonds currently has an average credit rating of A-, a net interest duration of 5.02 and offers a running yield of 4.64%. This risk-return combination is far more attractive compared to the beginning of 2022.

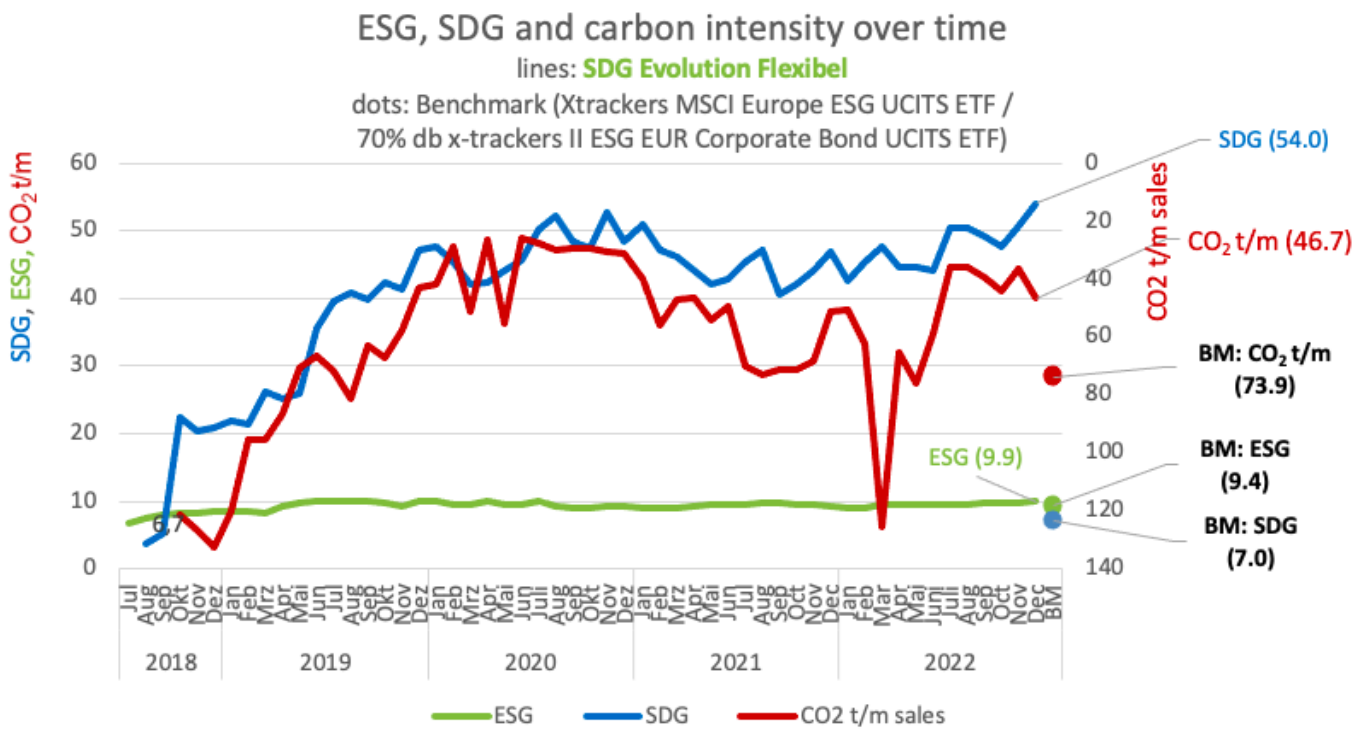
We like to invest in new (green bond) issues from companies with high ESG qualities, positive SDG impacts which are working hard to reduce their climate risks and PAIs.

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## SDG EVOLUTION FLEXIBEL I (WKN: A1W9AZ)

In December, SDG Evolution Flexible I lost 1.6% due to rising yields and weaker equity markets. Unfortunately, we reduced our interest rate hedges too quickly and too much in recent weeks. At the end of December, we added shares in the renewable energy companies Boralex, ITM, Plug Power and Sunrun.

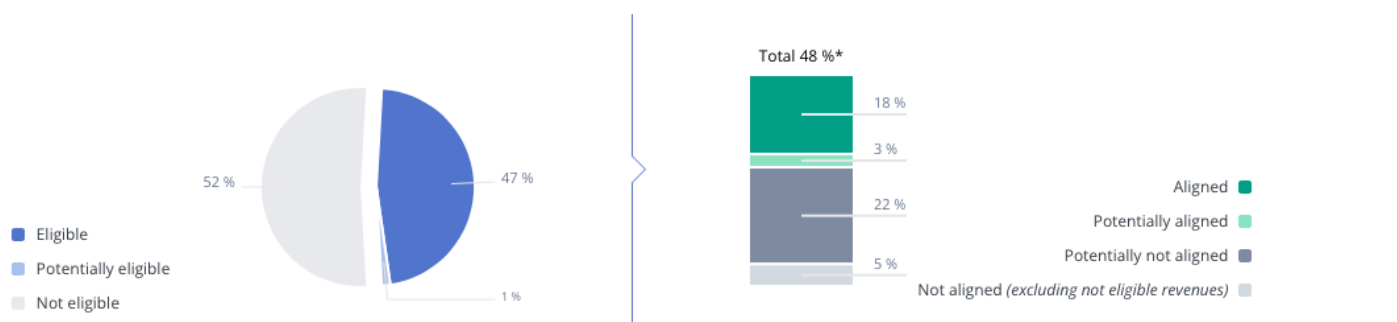
The SDG Evolution Flexibel achieves an overall ESG score of 9.9 (maximum 10). 11.7% of our positions got an ESG rating upgrade and none a downgrade. For E, we achieved a score of 7.2, for S 5.9, and for G 7.0. Carbon emissions, at 46.7 t CO<sub>2</sub> per USD million of sales are below the benchmark (30% Xtrackers MSCI Europe ESG UCITS ETF / 70% db x-trackers II ESG EUR Corporate Bond UCITS ETF) although we focus more on transition and increased our holdings in industrial companies which actively reduce their emissions. The SDG score is 54.0 % (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, December 31<sup>st</sup>, 2022

## EU Taxonomy Alignment

Data provider	Eligible	Aligned
Clarity AI	47%	18%
MSCI ESG Data	63%	46%



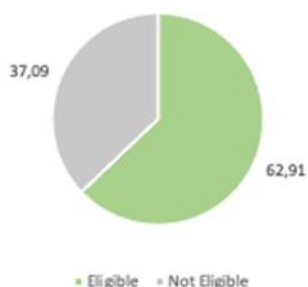
\*Only revenues that are eligible or potentially eligible can be assessed for EU Taxonomy alignment: 47% + 1% = 48%

Source: Clarity AI, December 31<sup>st</sup>, 2022

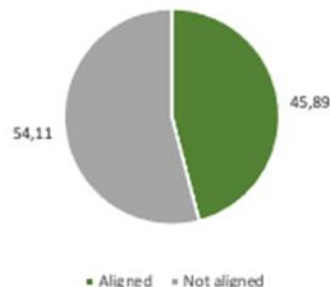
Out of 31,000 funds, only 7% have more than 10% "green returns" according to EU taxonomy (source: Clarity AI)

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Taxonomy Eligible SDG Evolution Flexibel  
(Daten in %)



Taxonomy Alignment\* SDG Evolution Flexibel  
(Daten in %)



Source: MSCI ESG, December 31<sup>st</sup>, 2022, \*potentially aligned

We are waiting for the EU Commission to introduce the social taxonomy. As we invest in the environmental sustainability goals "Affordable and clean energy", "Sustainable consumption and production" and "Climate action", we also invest in the social SDGs "No hunger", "Health and well-being" and "Quality education". We currently do not receive credit for those social investments.

## Principle Adverse Impact Indicators (PAIs)

Expand all <a href="#">Close all</a>		Coverage	Total	Units
Categories <a href="#">↑</a>		SFDR profile <a href="#">↓</a>	SFDR profile <a href="#">↓</a>	SFDR profile <a href="#">↓</a>
<b>COMPANIES</b> Calculated from 52 out of 52 <a href="#">ⓘ</a>		-	-	-
<b>Environmental</b>		-	-	-
<b>M1 - Total GHG emissions</b>		93.24 %	257,726.58	tons CO2e
M1.1 - Scope 1 GHG emissions		97.49 %	73.79	tons CO2e
M1.2 - Scope 2 GHG emissions		97.49 %	51.42	tons CO2e
M1.3 - Scope 3 GHG emissions		95.46 %	257,625.72	tons CO2e
M2 - Carbon footprint		93.24 %	29,610.60	tons CO2e / EUR...
M3 - GHG intensity of investee companies		93.24 %	13,863.01	tons CO2e / EUR...
M4 - Exposure to companies active in the fossil fuel sector		85.84 %	0.00	%
<b>M5 - Share of non-renewable energy consumption and production</b>		0.00 %	-	-
M5.1 - Share of non-renewable energy consumption		86.01 %	61.31	%
M5.2 - Share of non-renewable energy production		100.00 %	1.40	%
<b>M6 - Energy consumption intensity per high impact climate sector</b>		93.29 %	0.23	GWh / EUR M re...
M6.1 - Energy consumption intensity per high impact climate sector A		100.00 %	5.80	GWh / EUR M re...
M6.2 - Energy consumption intensity per high impact climate sector B		93.44 %	0.10	GWh / EUR M re...
M6.3 - Energy consumption intensity per high impact climate sector C		93.82 %	0.10	GWh / EUR M re...
M6.4 - Energy consumption intensity per high impact climate sector D		100.00 %	0.68	GWh / EUR M re...
M6.6 - Energy consumption intensity per high impact climate sector F		100.00 %	0.08	GWh / EUR M re...
M6.7 - Energy consumption intensity per high impact climate sector G		100.00 %	0.03	GWh / EUR M re...
M6.9 - Energy consumption intensity per high impact climate sector L		88.88 %	0.10	GWh / EUR M re...
M7 - Activities negatively affecting biodiversity sensitive areas		92.42 %	0.00	%
M8 - Emissions to water		3.86 %	0.01	tons / EUR M in...
M9 - Hazardous waste		76.63 %	0.24	tons / EUR M in...
<b>Social</b>		-	-	-
M10 - Violations of UN Global Compact principles and OECD Guidelines for Multinational Enterprises		92.42 %	0.00	%
M11 - Lack of processes and compliance mechanisms to monitor compliance with UNGC and OECD-GME		90.42 %	0.86	%
M12 - Unadjusted gender pay gap		43.86 %	6.73	%
M13 - Board gender diversity		94.64 %	34.72	%
M14 - Exposure to controversial weapons		85.84 %	0.00	%

Source: Clarity AI, December 31<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	-6.34	-3.21	3.28	-1.60	-7.77

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

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

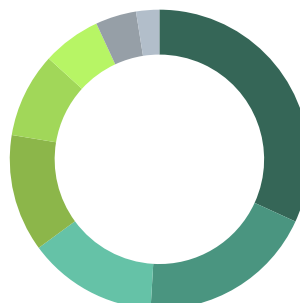
(net) Asset Allocation		Risk measurement		Bond Ratings		Top Equity Holdings	
<b>Equities</b>	45.5% (30.2%)	Risk-return profile	4 (max.7)	AAA/AA	2.9%	Sims Ltd.	
<b>Bonds</b>	53.2% (48.3%)	Vola / SharpeR 3 y	6.67 / -0.23	A	27.4%	FCR Immobilien	
<b>Gold</b>	0%	Ø Credit-Rating	BBB+	BBB	64.5%	Vestas Wind	
<b>Cash</b>	-0.3%	(net) Interest duration	(4.78) 5,55	BB	5.4%	SMA Solar	
		Spread duration	5.29	NR	3.7%	Bell Food	

#### Equities by country



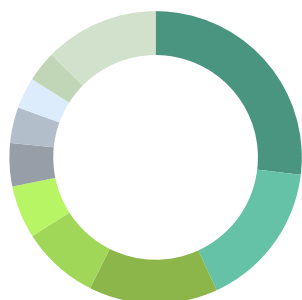
10.78 % Germany
6.19 % France
5.43 % Denmark
5.15 % Australia
4.74 % United States
3.40 % Switzerland
3.28 % Norway
2.47 % Sweden
2.07 % Canada
2.04 % Other

#### Equities by industry sectors



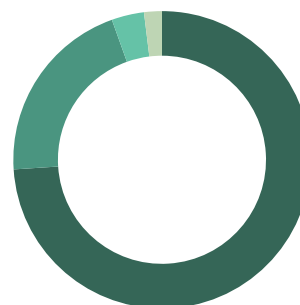
14.49 % Industrials
8.70 % Real Estate
6.37 % Materials
5.77 % Consumer Staples
4.17 % Information Technology
2.88 % Health Care
2.01 % Consumer Discretionary
1.14 % Utilities

#### Fixed Income by country



14.31 % United States
8.64 % Netherlands
7.58 % France
4.56 % Germany
3.11 % Denmark
2.54 % Sweden
2.11 % United Kingdom
1.83 % Spain
1.82 % Belgium
6.70 % Other

#### Fixed Income by industry sectors



38.95 % Corporates
10.83 % Financials non-banking
1.86 % Financials
1.02 % Sovereigns

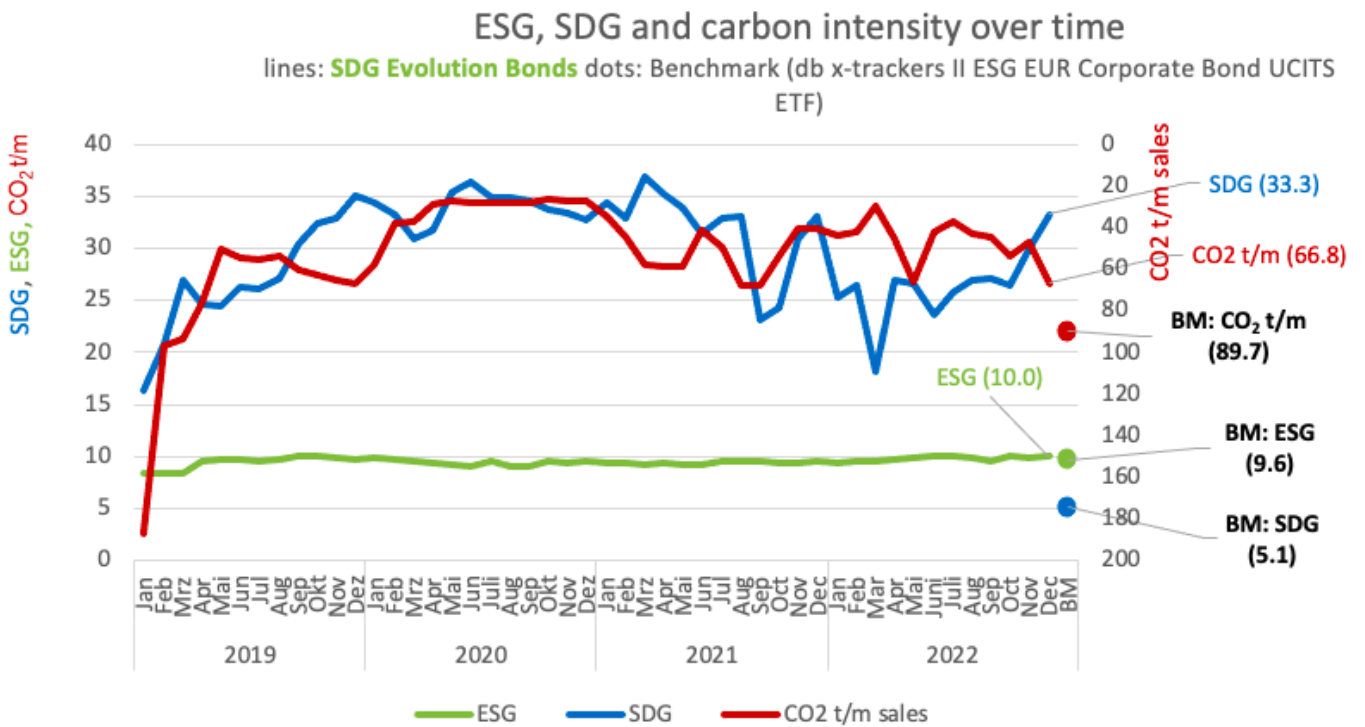
	WKN	ISIN	TER	AuM	Min. Investment
<b>SDG Evolution Flexibel I</b>	A1W9AZ	DE000A1W9AZ5	1.49%	7.5	100,000 EUR
<b>SDG Evolution Flexibel R</b>	A1W9AA	DE000A1W9AA8	2.22%	1.2	100 EUR

## SDG EVOLUTION BONDS (WKN: A2AQZE)

In December, the value of our bond fund decreased by 1.55% driven by widening credit spreads and increasing yields. We reduced our interest rate hedges too early! The new issue market was very quiet.

The fund has a high ESG score of 10 (max. 10). 11.8% of our positions received an ESG rating upgrade and none a downgrade. For E, we get 7.2 for S, 6.0, and for G 7.0. The SDG impact is 33.3 with the highest exposure to renewable energy. The CO<sub>2</sub> emissions of the companies in the portfolio amount to 66.8t CO<sub>2</sub> per million USD of sales (benchmark: db x-trackers II ESG EUR Corporate Bond: 89.7t) (sources: MSCI ESG).

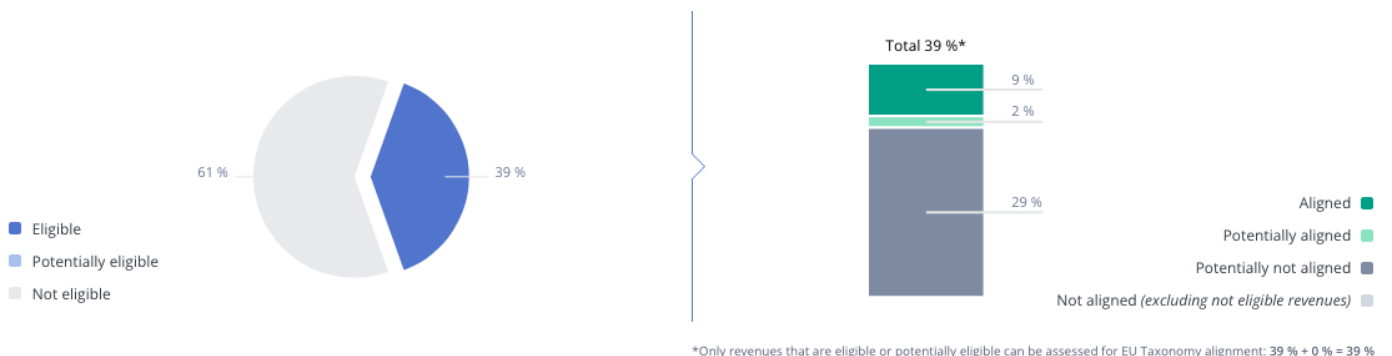
The following chart shows the fund's performance in terms of ESG quality, SDG impact, and CO<sub>2</sub> emissions:



Source: MSCI ESG, December 31<sup>st</sup>, 2022

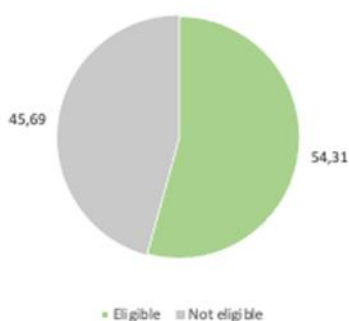
## EU Taxonomy Alignment

Company	Eligible	Aligned
Clarity AI	39%	9%
MSCI ESG Data	54%	32%

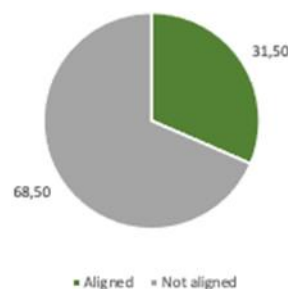


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Taxonomy Eligible SDG Evolution Bonds  
(Daten in %)



Taxonomy Alignment\* SDG Evolution Bonds  
(Daten in %)



Source: MSCI ESG, December 31<sup>st</sup>, 2022, \*potentially aligned

## PRINCIPLE ADVERSE IMPACT INDICATORS (PAIS)

Expand all <a href="#">Close all</a> Categories <a href="#">⌵</a>	Coverage	Total <a href="#">?</a>	Units
	SFDR profile <a href="#">⌵</a>	SFDR profile <a href="#">⌵</a>	SFDR profile <a href="#">⌵</a>
✓ COMPANIES Calculated from 31 out of 31 <a href="#">?</a>	-	-	-
✓ Environmental	-	-	-
✓ M1 - Total GHG emissions	83.11 %	8,195.85	tons CO2e
M1.1 - Scope 1 GHG emissions	95.79 %	25.12	tons CO2e
M1.2 - Scope 2 GHG emissions	95.79 %	18.81	tons CO2e
M1.3 - Scope 3 GHG emissions	88.11 %	8,151.44	tons CO2e
M2 - Carbon footprint	83.11 %	2,134.37	tons CO2e / EUR...
M3 - GHG intensity of investee companies	83.11 %	2,662.79	tons CO2e / EUR...
M4 - Exposure to companies active in the fossil fuel sector	81.22 %	0.00	%
✓ M5 - Share of non-renewable energy consumption and production	0.00 %	-	-
M5.1 - Share of non-renewable energy consumption	89.76 %	61.89	%
M5.2 - Share of non-renewable energy production	100.00 %	2.39	%
✓ M6 - Energy consumption intensity per high impact climate sector	86.27 %	0.25	GWh / EUR M re...
M6.2 - Energy consumption intensity per high impact climate sector B	100.00 %	0.08	GWh / EUR M re...
M6.3 - Energy consumption intensity per high impact climate sector C	88.05 %	0.07	GWh / EUR M re...
M6.4 - Energy consumption intensity per high impact climate sector D	100.00 %	0.92	GWh / EUR M re...
M6.9 - Energy consumption intensity per high impact climate sector L	72.60 %	0.22	GWh / EUR M re...
M7 - Activities negatively affecting biodiversity sensitive areas	83.14 %	0.00	%
M8 - Emissions to water	5.41 %	0.01	tons / EUR M in...
M9 - Hazardous waste	71.60 %	0.22	tons / EUR M in...
✓ Social	-	-	-
M10 - Violations of UN Global Compact principles and OECD Guidelines for Multinational Enterprises	83.14 %	0.00	%
M11- Lack of processes and compliance mechanisms to monitor compliance with UNGC and OECD-GME	90.79 %	0.00	%
M12 - Unadjusted gender pay gap	56.37 %	7.76	%
M13 - Board gender diversity	97.72 %	38.06	%
M14 - Exposure to controversial weapons	81.22 %	0.00	%

Source: Clarity AI, December 31<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
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	-0.64	-0.13	0.29	-0.26	0.04	0.51	-0.37	-0.52	-0.96	-0.93	-0.53	-3.43
2022	-1.30	-2.30	-1.70	-2.37	-2.04	-3.60	4.04	-3.14	-3.39	-3.20	2.97	-1.55	-16.52

Source: Universal Investment, December 31<sup>st</sup>, 2023

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

#### Rating Distribution

AAA/AA	5.2 %
A	35.6%
BBB	50.3%
BB	4.0%
NR	4.0%

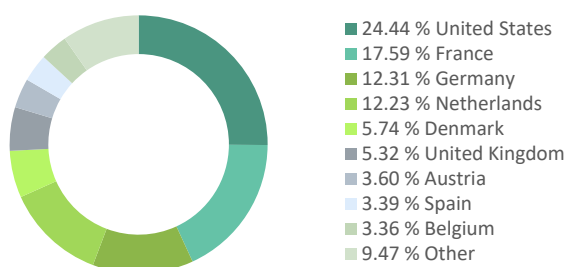
#### Risk measurements

Risk-return profile	3 (max. 7)
Vol. / SharpeR 3 y.	3.54% / -1.71
Ø Credit-Rating	A-
(net) Interest duration	(5.02) 6.01
Spread duration	5.81

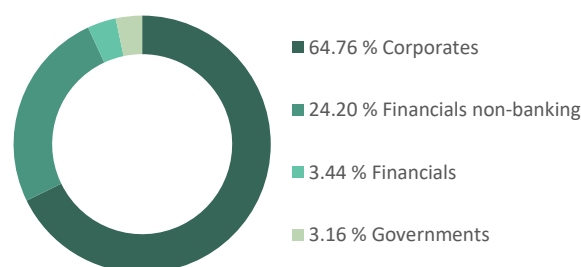
#### Top Holdings

Klépierre
Edwards Lifesciences
Vestas Wind
Covivio
Gecina

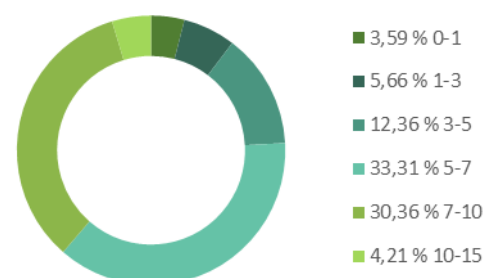
#### Fixed Income by country



#### Fixed Income by industry sectors



#### Fixed Income by maturity profile



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

	WKN	ISIN	TER	AuM	Min. Investment
SDG Evolution Bonds	A2AQZE	DE000A2AQZE9	1.17%	5.4	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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The fund has increased volatility due to its composition and investment policy, which means that unit prices may be subject to significant upward and downward fluctuations within a short period of time. Calculations or yield data are not to be understood as a yield commitment; they are purely indicative and based on data and assumptions that may possibly not be realized in practice, only in a different form or at different times. As a result, there is a risk that, in reality, lower returns or even losses, even total loss, will be achieved. Past performance is no indication of future performance.

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 SDG Evolution Flexibel and SDG Evolution Bonds.

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