

# ESG PORTFOLIO MANAGEMENT

Report January 2023



Award for the SDG Evolution Flexibel



## We welcome Dr. Linn Karstadt

Linn joins ESG Portfolio Management as expert for Corporate Strategy & Business Development.

Linn has vast capital market experience having worked for Bloomberg, Citi Bank Global Markets and Jefferies International. Linn is a member of the advisory board at Davigo Invest.

Linn earned an MBA at University of Flensburg and a PhD in Business Administration at the College of Management and Technology, Walden University, MI, USA.

**Good performance for our funds  
SDG Evolution Flexibel and  
SDG Evolution Bonds  
as markets recover - despite central  
banks increasing interest rates**

## OUR SUMMARY AND OUTLOOK

Inflation rates have been falling worldwide in recent weeks. This is increasingly giving rise to expectations that central banks will have to raise interest rates less sharply than previously feared. This led to significant recoveries on the bond, credit, and equity markets in January.

Our equity positions First Solar, Geberit, Grieg Seafood, Sims Ltd. and SMA Solar performed particularly well in January. Ballard Power Systems and Plug Power shone with over 30 percent performance. Our overweight in the renewable energy sector paid off. On the other hand, the biotechnology company Genmab lagged behind with a monthly loss of almost ten percent.

We are now becoming a little more cautious overall and are slowly reducing our equity allocation in the mixed fund in small steps by taking profits. We are also reducing the spread duration in SDG Evolution Bonds.

Energy and food prices could remain high, and wages could now rise more strongly. For these reasons, we cannot imagine inflation falling to two percent. We therefore expect the ECB to raise interest rates more significantly than many market participants expect.

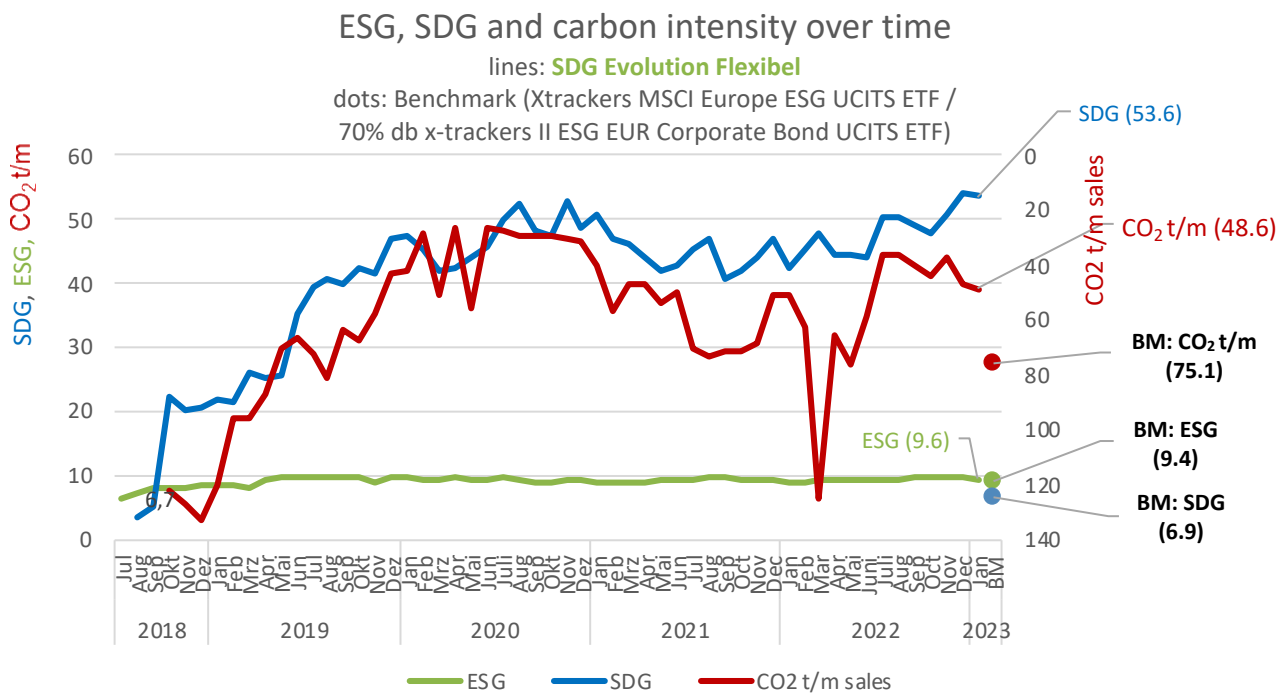
At the same time, we see larger job losses in the technology sector and weaker sales and earnings expectations in the retail sector. Margins and profits could decline and weigh on share prices.

Following the sharp rise in market yields and the widening of credit spreads in 2022, we continue to see good credit quality corporate bonds as attractive. We like to invest in mid-maturity (green) new issues from companies with high ESG qualities, positive impacts on sustainability targets, and credible efforts to reduce their climate risks and PAIs.

## SDG EVOLUTION FLEXIBEL I (WKN: A1W9AZ)

In January, the unit price of SDG Evolution Flexible I increased by 3.8% due to positive equity markets and declining yields. As described above, some positions out-performed. In January, we subscribed to the green bonds of Elia, Red Electrica and Telefonica. In contrast, we halved our Vonovia position.

The SDG Evolution Flexibel achieves an overall ESG score of 9.6 (maximum 10). 10% of our positions got an ESG rating upgrade and 3,3% a downgrade. For E, we achieved a score of 7.3, for S 6.0, and for G 6.9. Carbon emissions, at 48.6 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) as we focus more on transition and increased our holdings in industrial companies which actively reduce their emissions. The SDG score is 53.6 % (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, January 31<sup>st</sup>, 2023

## EU Taxonomy Alignment

Company	Eligible	Aligned
MSCI ESG Data	64%	47%

Source: MSCI ESG, 31. Januar, 2023

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 this.

## PERFORMANCE

### Monthly Returns (in %):

#### ESG Portfolio Management advises since July 2018 (green fields)

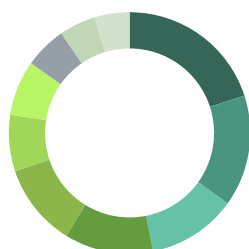
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dez	YTD
<b>2014</b>			-0.48	0.75	0.68	-0.05	-0.25	1.08	0.30	-1.30	2.11	-1.20	1.60
<b>2015</b>	3.23	2.58	0.63	-0.49	-0.38	-2.49	1.52	-4.97	-1.13	4.00	1.90	-1.86	2.19
<b>2016</b>	-3.02	-2.12	1.21	-0.19	-0.17	-1.83	0.64	0.50	-0.47	-0.37	-0.93	1.41	-5.32
<b>2017</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
<b>2023</b>	3.82												3.82

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

### Portfolio statistics: as of January 31<sup>st</sup>, 2023 (Source: Universal Investment)

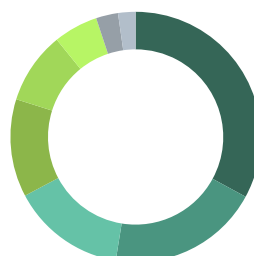
(net) Asset Allocation		Risk measurement		Bond Ratings		Top Equity Holdings	
<b>Equities</b>	45.6% (31.8%)	Risk-return profile	4 (max.7)	AAA/AA	0%	Sims Ltd.	
<b>Bonds</b>	51.3% (41.4%)	Vola / SharpeR 3 y	6.8 / -0.07	A	24.1%	FCR Immobilien	
<b>Gold</b>	0%	Ø Credit-Rating	BBB+	BBB	66.9%	Vestas Wind	
<b>Cash</b>	1.3%	(net) Interest duration	(3.53) 5,14	BB	5.5%	SMA Solar	
		Spread duration	5.25	NR	3.5%	Gecina	

#### Equities by country



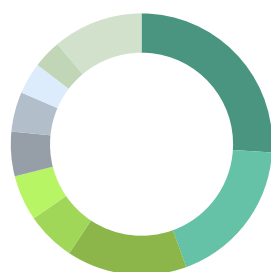
9.13 % Germany
6.81 % France
5.46 % United States
5.44 % Australia
5.07 % Denmark
3.44 % Switzerland
3.37 % Norway
2.57 % Sweden
2.23 % Canada
2.14 % Other

#### Equities by industry sectors



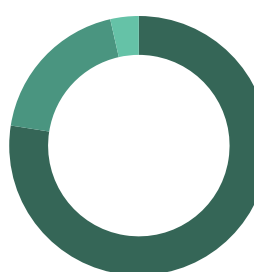
15.03 % Industrials
8.96 % Real Estate
6.71 % Materials
5.77 % Consumer Staples
4.24 % Information Technology
2.62 % Health Care
1.30 % Consumer Discretionary
1.03 % Utilities

#### Fixed Income by country



13.34 % United States
9.46 % Netherlands
7.63 % France
3.13 % United Kingdom
2.89 % Belgium
2.82 % Germany
2.52 % Sweden
2.00 % Denmark
1.80 % Spain
5.71 % Other

#### Fixed Income by industry sectors



39.77 % Corporates
9.74 % Financials non-banking
1.82 % Financials

### Product details: as of January 31<sup>st</sup>, 2023 (Source: Universal Investment)

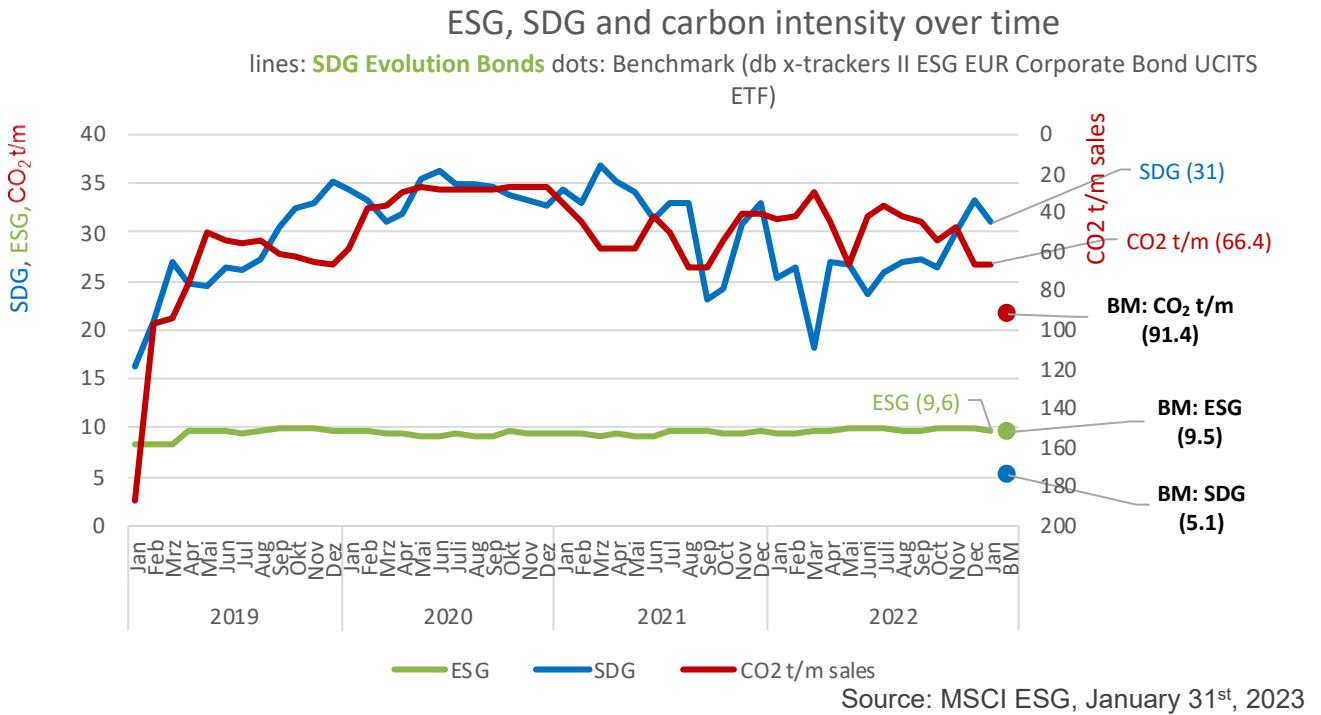
	WKN	ISIN	TER	AuM	Min. Investment
<b>SDG Evolution Flexibel I</b>	A1W9AZ	DE000A1W9AZ5	1.49%	7.8	100,000 EUR
<b>SDG Evolution Flexibel R</b>	A1W9AA	DE000A1W9AA8	2.22%	1.2	100 EUR

## SDG EVOLUTION BONDS (WKN: A2AQZE)

In January, the value of our bond fund increased by 1.86% due to falling yields and narrowing credit spreads. We also subscribed to Schneider Electric in addition to the bonds already described.

The fund has a 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 7.4 for S, 6.0, and for G 6.9. The SDG impact is 31 with the highest exposure to renewable energy. The CO<sub>2</sub> emissions of the companies in the portfolio amount to 66.4 t CO<sub>2</sub> per million USD of sales (benchmark: db x-trackers II ESG EUR Corporate Bond: 91 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:



## EU Taxonomy Alignment

Company	Eligible	Aligned
MSCI ESG Data	58%	34%

Source: MSCI ESG, January 31, 2023

## 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
2023	1.86												1.86

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

### Portfolio statistics: as of January 31<sup>st</sup>, 2023 (Source: Universal Investment)

#### Rating Distribution

AAA/AA	0 %
A	39.6%
BBB	54.3%
BB	2.0%
NR	4.1%

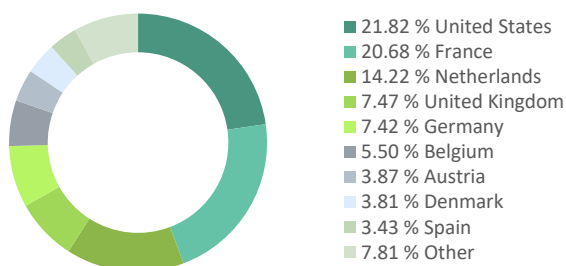
#### Risk measurements

Risk-return profile	3 (max. 7)
Vol. / SharpeR 3 y.	3.61% / -1.57
Ø Credit-Rating	BBB+
(net) Interest duration	(3.9) 5.76
Spread duration	5.88

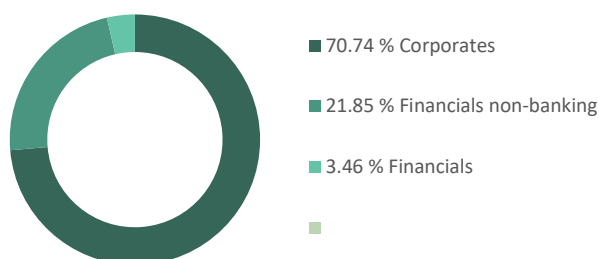
#### Top Holdings

Edwards Lifesciences
Vestas Wind
Covivio
Klepierre
Gecina

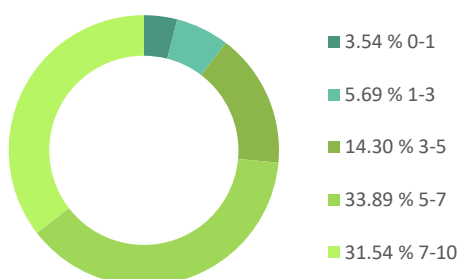
#### Fixed Income by country



#### Fixed Income by industry sectors



#### Fixed Income by maturity profile



### Product details: as of January 31<sup>st</sup>, 2023 (Source: Universal Investment)

	WKN	ISIN	TER	AuM	Min. Investment
SDG Evolution Bonds	A2AQZE	DE000A2AQZE9	0.96%	5.3	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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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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