

# ESG PORTFOLIO MANAGEMENT

Report February 2023



Source: The Canadian Business Journal

## Longer at a high level

**Inflation remains sticky and more interest rate increases are expected leading to higher market yields and lower bond prices**

## OUR SUMMARY AND OUTLOOK

Global food prices remain high and wages are rising. For these reasons, we cannot imagine inflation falling back to two percent in the foreseeable future. It is therefore to be expected that central banks will continue to raise interest rates.

This has led to rising market yields and losses on bonds. Our two funds are also affected by this, as they invest in corporate bonds.

We have slightly reduced the duration, i.e. the interest rate sensitivity, of our funds in recent weeks.

After the massive increase in yields and the widening of credit spreads in 2022 and again in February 2023, we would like to see the current level of yields on corporate bonds with solid credit ratings as attractive in the long term.

Our SDG Evolution Bonds fund currently has an average credit rating of BBB+, a net interest duration of 4.1, and offers a current yield of 4.68%. This risk-return combination is much more attractive compared to low interest rates prior to 2022.

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

As we actively used MSCI's new EU screening tool, we sold e.g. some telecom companies and invested in particularly sustainable renewable energy producers and industrial companies. As a result, the CO2 intensity of both funds increased month-on-month.

## ESG Investing Awards: Second price for SDG Evolution Flexibel

### ESG Investing Awards

### Winners & Finalists | 2023

2020 | 2021 | 2022 | 2023



#### BEST ESG INVESTMENT FUND: MULTI-ASSET

Finalists: Columbia Threadneedle Investments • Ecofin • ESG Portfolio Management • Invesco • J.P. Morgan Asset Management • Joh. Berenberg, Gossler & Co. • Welton Investment Partners

Runner-up: ESG Portfolio Management

Winner: Welton Investment Partners

## New Tool:

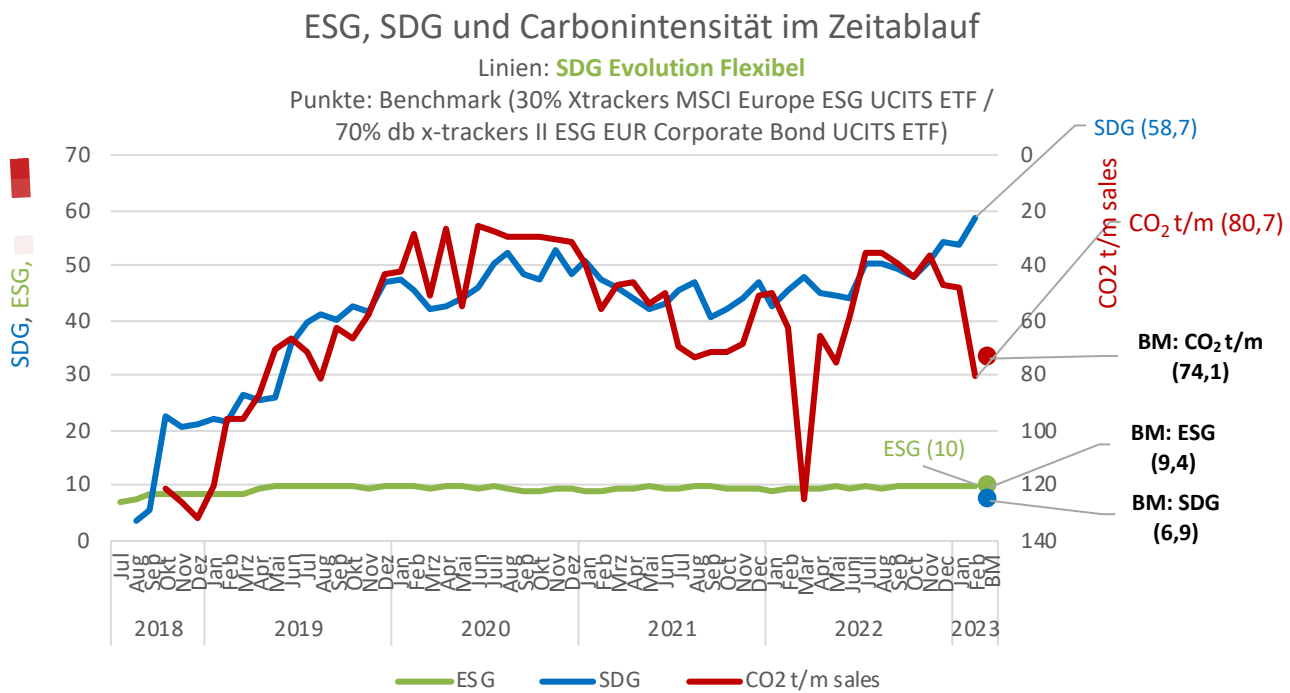
MSCI ESG developed an EU Sustainable Investment Screen, combining EU taxonomy alignment, controversies, do no significant harm, minimum social safeguards, and several exclusion criteria. With this additional methodology we improved our two article 9 funds further.

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## SDG EVOLUTION FLEXIBEL I (WKN: A1W9AZ)

In February, the unit price of SDG Evolution Flexible I declined 2.01% due to rising yields. Some equity positions such as Ballard Power, FCR Real Estate, Grieg and Sunrun suffered double-digit declines. We bought positions in Alstom, Orsted, Scatec and Schneider Electric.

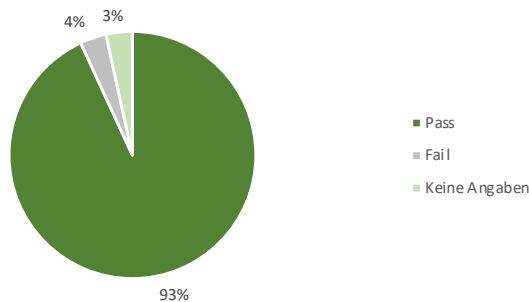
SDG Evolution Flexible achieved an ESG rating of 10 (maximum 10). 13.8% of our positions received an ESG rating upgrade and 0% a downgrade. We achieved a score of 7.4 for E, 5.7 for S, and 7.0 for G. CO2 intensity is now above benchmark (30% Xtrackers MSCI Europe ESG UCITS ETF / 70% db x-trackers II ESG EUR Corporate Bond UCITS ETF) at 80.7t CO2 per USD million of sales. We promote transition and invest in companies that reduce their emissions in the future. The SDG score is 58.7% (source: MSCI ESG). The chart shows the fund's ESG quality, SDG impact and CO2 intensity over time. The dots represent current benchmark data:



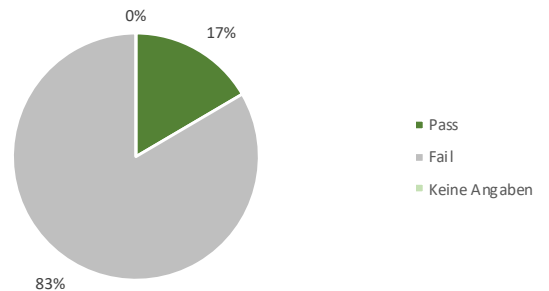
Source: MSCI ESG, February 28<sup>th</sup>, 2023

## MSCI EU Sustainable Investment Screening

SDG Flexibel - MSCI EU Sustainable Investment Screening



Benchmark SDG Flexibel - MSCI EU Sustainable Investment Screening



Source: MSCI ESG, February 28<sup>th</sup>, 2023

## PERFORMANCE

### Monthly Returns (in %):

ESG Portfolio Management advises since July 2018 (green fields)

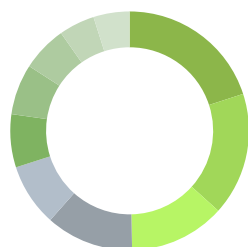
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dez	YTD
2014			-0.48	0.75	0.68	-0.05	-0.25	1.08	0.30	-1.30	2.11	-1.20	1.60
2015	3.23	2.58	0.63	-0.49	-0.38	-2.49	1.52	-4.97	-1.13	4.00	1.90	-1.86	2.19
2016	-3.02	-2.12	1.21	-0.19	-0.17	-1.83	0.64	0.50	-0.47	-0.37	-0.93	1.41	-5.32
2017	0.16	1.13	1.51	0.85	0.28	-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	-1.67	0.85	-0.19	-0.31	-0.05	-0.40	-0.57	-2.15	1.44	-1.27	1.53	-2.81
2022	-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
2023	3.82	-2.01											1.74

Source: Universal-Investment, February 28<sup>th</sup>, 2023

### Portfolio statistics: as of February 28<sup>th</sup>, 2023 (Source: Universal Investment)

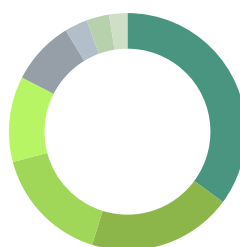
(net) Asset Allocation		Risk measurement		Bond Ratings		Top Equity Holdings	
<b>Equities</b>	43.7% (27.8%)	Risk-return profile	3 (max.7)	AAA/AA	3.7%	Sims Ltd.	
<b>Bonds</b>	50.4% (40.3%)	Vola / SharpeR 3 y	6.85 / -0.20	A	13.3%	Vestas Wind	
<b>Gold</b>	0%	Ø Credit-Rating	BBB+	BBB	72.3%	FCR Immobilien	
<b>Cash</b>	4.3%	(net) Interest duration	(3.21) 4.87	BB	7.8%	SMA Solar	
		Spread duration	4.91	NR	3.2%	Gecina	

#### Equities by country



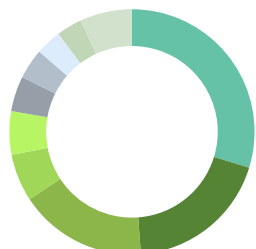
8,74 % Bundesrep. Deutschland
7,29 % Frankreich
5,68 % Australien
5,20 % Dänemark
3,71 % USA
3,14 % Norwegen
3,00 % Schweiz
2,69 % Schweden
2,12 % Canada
2,14 % Sonstige

#### Equities by industry sectors



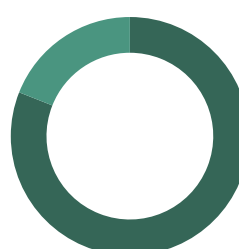
15,35 % Industrials
8,62 % Real Estate
7,02 % Materials
5,10 % Consumer Staples
3,82 % Information Technology
1,37 % Utilities
1,35 % Consumer Discretionary
1,09 % Health Care

#### Fixed Income by country



14,97 % USA
9,62 % Frankreich
8,51 % Niederlande
3,15 % Großbritannien
2,88 % Belgien

#### Fixed Income by industry sector



40,78 % Corporates
9,57 % Financials non-banking

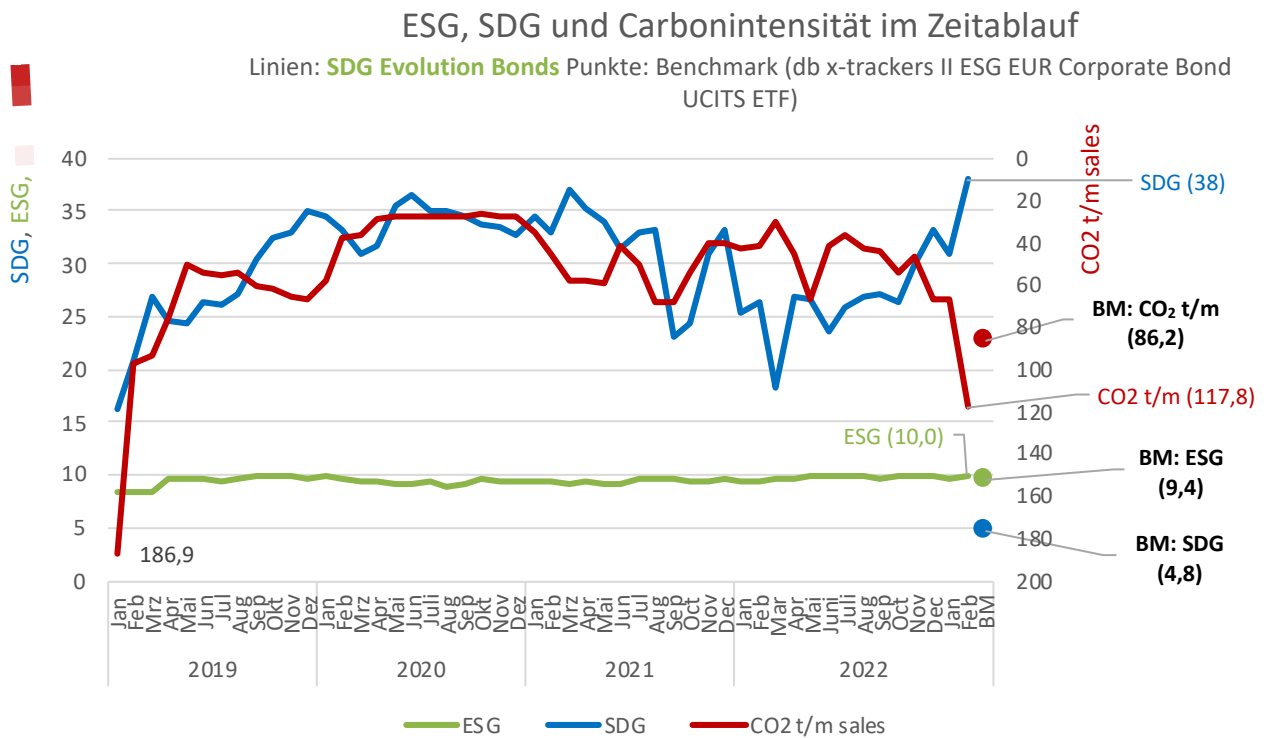
### Product details: as of February 28<sup>th</sup>, 2023 (Source: Universal Investment)

	WKN	ISIN	TER	AuM	Min. Investment
<b>SDG Evolution Flexibel I</b>	A1W9AZ	DE000A1W9AZ5	1.49%	7.6	100,000 EUR
<b>SDG Evolution Flexibel R</b>	A1W9AA	DE000A1W9AA8	2.22%	1.1	100 EUR

## SDG EVOLUTION BONDS (WKN: A2AQZE)

In February, the value of our bond fund fell by 1.91% due to rising yields. We also subscribed to Kellogg Co. in addition to the bonds already described before.

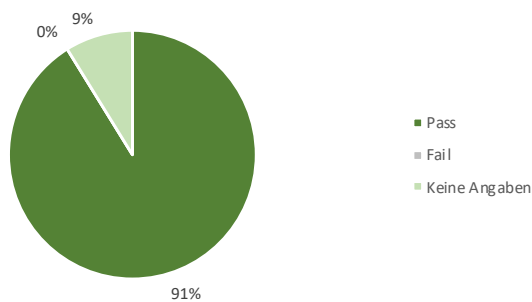
The fund has a high ESG rating of 10 (max 10). 11.8% of our positions received an ESG rating upgrade and 0% received a downgrade. We receive 7.4 for E, 5.9 for S and 7.0 for G. SDG Evolution Bonds achieves an SDG impact of 38%. The CO2 emissions of the companies in the portfolio increased to 117.8t CO2 per million USD sales as we switched out of telecom companies into renewable energy producers and sustainable industrials (benchmark: db x-trackers II ESG EUR Corporate Bond: 86.2t) (source: MSCI ESG). The following chart shows the performance of the fund in terms of ESG quality, SDG impact and CO2 emissions:



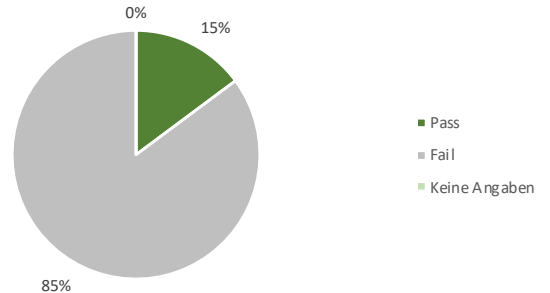
Source: MSCI ESG, February 28<sup>th</sup>, 2023

## MSCI EU SUSTAINABLE INVESTMENT SCREENING

SDG Bonds - MSCI EU Sustainable Investment Screening



Benchmark SDG Bonds - MSCI EU Sustainable Investment Screening



Source: MSCI ESG, February 28<sup>th</sup> 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	-1.91											-0.09

Source: Universal Investment, February 28th, 2023

### Portfolio statistics: as of February 28th, 2022 (Source: Universal Investment)

#### Rating Distribution

AAA/AA	3.6 %
A	25.9%
BBB	58.5%
BB	5.9%
NR	6.0%

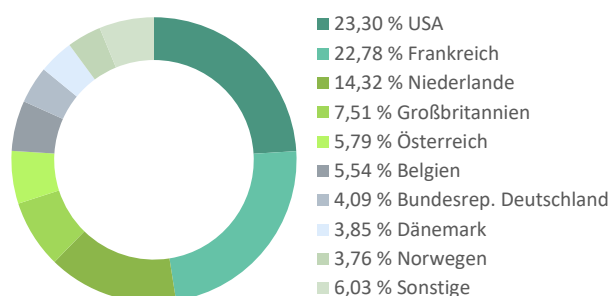
#### Risk measurements

Risk-return profile	2 (max. 7)
Vol. / SharpeR 3 y.	3.64% / -1.78
Ø Credit-Rating	BBB+
(net) Interest duration	(4.1) 5.5
Spread duration	5.56

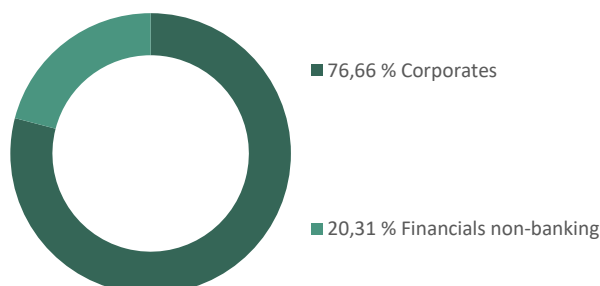
#### Top Holdings

Edwards Lifesciences
Vestas Wind
Covivio
Klepierre
Gecina

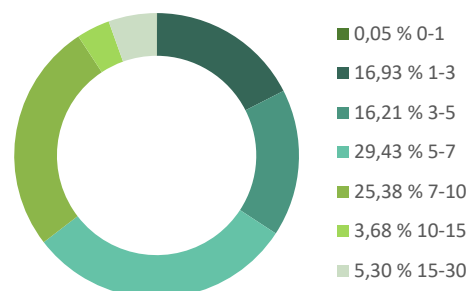
#### Fixed Income by country



#### Fixed Income by industry sectors



#### Fixed Income by maturity profile



### Product details: as of February 28th, 2023 (Source: Universal Investment)

	WKN	ISIN	TER	AuM	Min. Investment
SDG Evolution Bonds	A2AQZE	DE000A2AQZE9	0.96%	5.1	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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