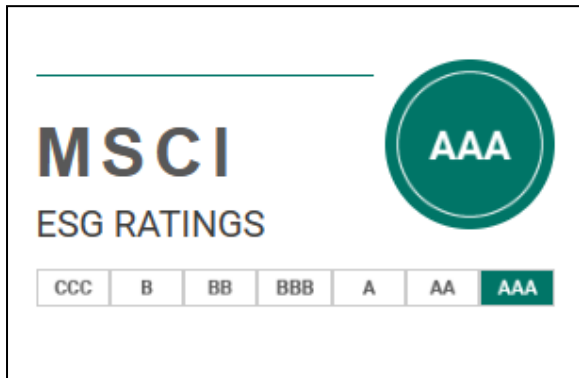


# ESG PORTFOLIO MANAGEMENT

Report April 2023



## MSCI ESG just changed the methodology for their fund ESG ratings.

Now the ESG Quality Score equals the weighted average ESG score of the fund's holdings.

We regret that the adjustment factor is now abolished. The ESG rating momentum has been part of the overall rating. When a fund had more ESG rating upgrades than ESG rating downgrades, the overall ESG fund rating improved. This was another motivation to perform active engagement to improve ESG qualities and impact and reducing controversies.

The ESG tail risk factor never mattered to us as our minimum ESG rating is BBB. Currently, our "worst" positions have MSCI ESG ratings of AA.

Source: R. Mahmood, Enhancements to MSCI's Fund ESG Ratings, March 2023.

**Both our funds retain their**

**AAA fund rating from MSCI ESG**

**and are in the top percentile of all funds**

After Silicon Valley Bank and Credit Suisse, First Republic Bank is now also losing its independence. The bank was placed under the US Deposit Insurance Fund and has now been taken over by JP Morgan. Shareholders at First Republic Bank also suffered significant losses.

Although some instruments of strong financial institutions are attractively valued due to uncertainty, we do not hold any bank stocks and bank bonds as we cannot yet sufficiently analyse their climate risk. Stricter reporting requirements may help in the longer term.

An important meeting between US President J. Biden and Republican Speaker K. McCarthy will take place on May 9th. An agreement is needed to achieve an increase in the federal debt limit and prevent a default on U.S. government debt. Kevin McCarthy had to make some concessions to hardliners in his party to win the election as Speaker. Therefore, we see the risk of failure as low - but not at zero. For this reason, we have increased our hedges via equity puts in recent weeks. We will reduce these countercyclically in weak market phases.

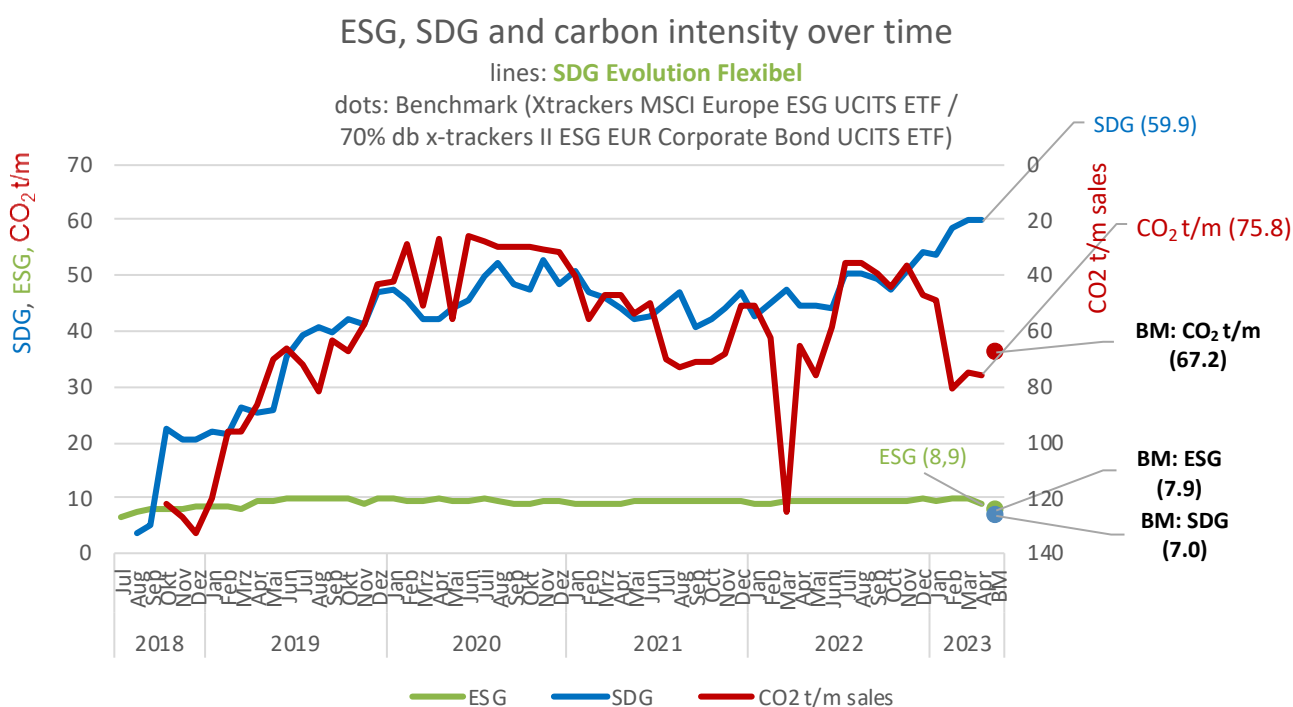
In April, some stocks such as Grieg Seafood and Genmab performed very well, while Vestas, First Solar, Sunrun and Ballard suffered heavier price losses. We were able to sell Nordex completely before their price dropped.

We continue to see corporate bonds with good credit ratings and medium maturities as attractive. Our SDG Evolution Bonds fund currently has an average credit rating of A-, a net interest duration of 3.79, and offers a current yield of 4.26%. We like to invest in attractive new issues, with a preference for green bonds.

## SDG EVOLUTION FLEXIBEL I (WKN: A1W9AZ)

In April, the unit price of SDG Evolution Flexible I fell by 1.5% due to the weak performance of some stocks in the renewable energy sector. As already described, we have increased the positions of our stock index put options and will reduce them in weak market phases.

The SDG Evolution Flexibel achieves an overall ESG score of 8.9 (maximum 10). 15.8% of our positions got an ESG rating upgrade and none a downgrade. For E, we achieved a score of 7.3, for S 5.7, and for G 6.9. Carbon emissions, at 75.8 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: 67.2t) as we focus more on transition and increased our holdings in industrial companies which actively reduce their emissions. The SDG score is 59.9 % (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, April 28<sup>th</sup>, 2023

## PERFORMANCE

### Monthly Returns (in %):

ESG Portfolio management advises since July 2018 (green fields)

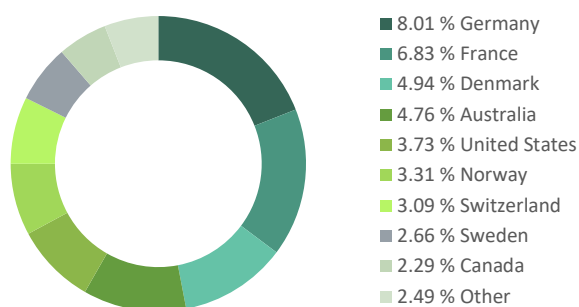
|             | Jan   | Feb   | Mar   | Apr   | May   | Jun   | Jul   | Aug   | Sep   | Oct   | Nov   | Dez   | YTD   |
|-------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>2014</b> |       |       | -0.48 | 0.75  | 0.68  | -0.05 | -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  | -2.01 | 1.31  | -1.51 |       |       |       |       |       |       |       |       | 1.52  |

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

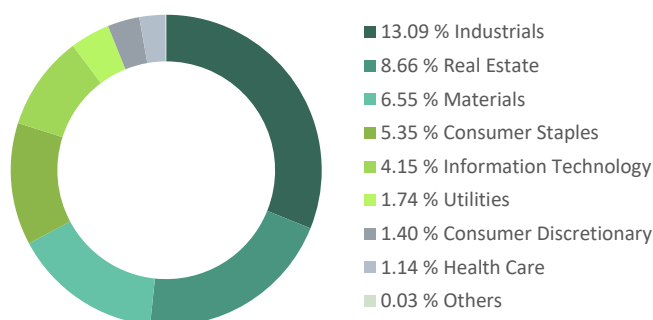
**Portfolio statistics:** as of April 28<sup>th</sup>, 2023 (Source: Universal Investment)

| (net) Asset Allocation |               | Risk measurement        |              | Bond Ratings |       | Top Equity Holdings  |  |
|------------------------|---------------|-------------------------|--------------|--------------|-------|----------------------|--|
| <b>Equities</b>        | 42.1% (9.5%)  | Risk-indicator          | 3 (max.7)    | AAA/AA       | 3.5%  | Sims Ltd.            |  |
| <b>Bonds</b>           | 52.3% (44.8%) | Vola / SharpeR 3 y      | 6.34 / -0.05 | A            | 14.4% | FCR Immobilien       |  |
| <b>Gold</b>            | 0%            | Ø Credit-Rating         | BBB+         | BBB          | 75.4% | Vestas Wind          |  |
| <b>Cash</b>            | 2.4%          | (net) Interest duration | (4.78) 5.55  | BB           | 1.8%  | Edwards Lifesciences |  |
|                        |               | Spread duration         | 5.29         | NR           | 4.9%  | SMA Solar            |  |

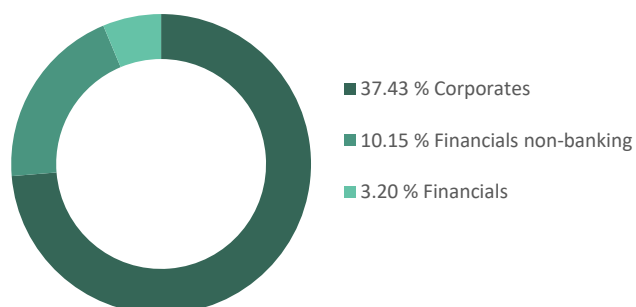
**Equities by country**



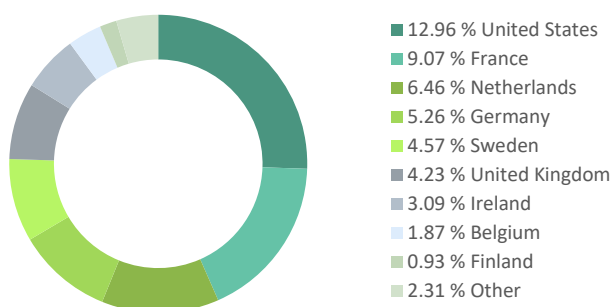
**Equities by industry sector**



**Fixed Income by country**



**Fixed Income by industry sector**



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

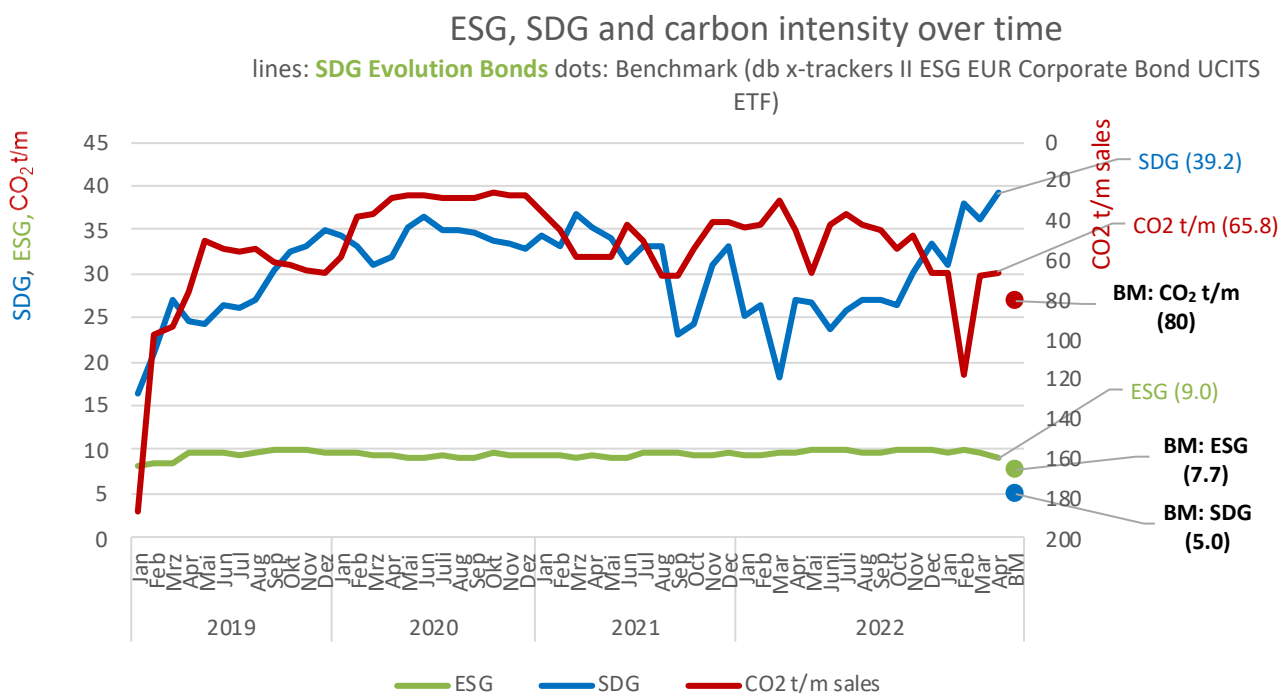
|                                 | WKN    | ISIN         | TER   | AuM | Min. Investment |
|---------------------------------|--------|--------------|-------|-----|-----------------|
| <b>SDG Evolution Flexibel I</b> | A1W9AZ | DE000A1W9AZ5 | 1.49% | 7.6 | 100,000 EUR     |
| <b>SDG Evolution Flexibel R</b> | A1W9AA | DE000A1W9AA8 | 2.22% | 1.2 | 100 EUR         |

## SDG EVOLUTION BONDS (WKN: A2AQZE)

In April, the value of our bond fund increased by 0.36% due to slightly lower yields and tighter credit spreads. We bought Essity 2030 and sold Bund 2031.

The fund has a high ESG score of 9.0 (max. 10). 6.7% of our positions received an ESG rating upgrade and none a downgrade. For E, we get 7.3 for S, 6.0, and for G 7.0. The SDG impact is 39.2 with the highest exposure to renewable energy. The CO<sub>2</sub> emissions of the companies in the portfolio amount to 65.8 t CO<sub>2</sub> per mio. USD of sales (benchmark: db x-trackers II ESG EUR Corporate Bond: 80 t) (source: 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, April 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    |
|-------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| <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 | -3.20 | 2.97  | -1.55 | -16.52 |
| <b>2023</b> | 1.86  | -1.91 | 0.82  | 0.36  |       |       |       |       |       |       |       |       | 1.09   |

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

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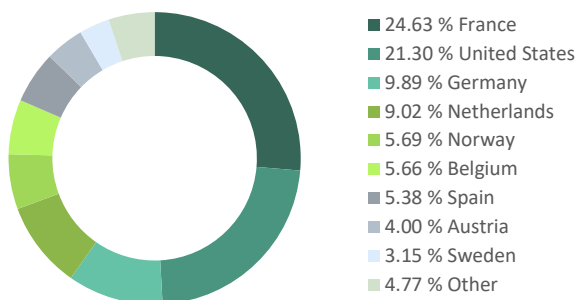
**Portfolio statistics:** as of April 28th, 2023 (Source: Universal Investment)

| Rating Distribution |        |
|---------------------|--------|
| AAA/AA              | 10.9 % |
| A                   | 23.6%  |
| BBB                 | 58.4%  |
| BB                  | 0%     |
| NR                  | 7.0%   |

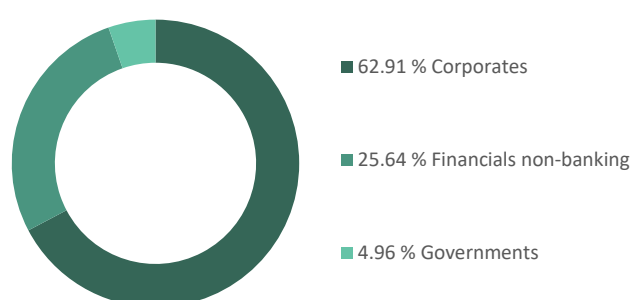
| Risk measurements       |               |
|-------------------------|---------------|
| Risk-category           | 2 (max. 7)    |
| Vol. / SharpeR 3 y.     | 3.67% / -1.43 |
| Ø Credit-Rating         | A-            |
| (net) Interest duration | (3.79) 5.26   |
| Spread duration         | 4.97          |

| Top Holdings           |
|------------------------|
| Vestas Wind            |
| Bundesrep. Deutschland |
| Covivio                |
| Klépierre              |
| Gecina                 |

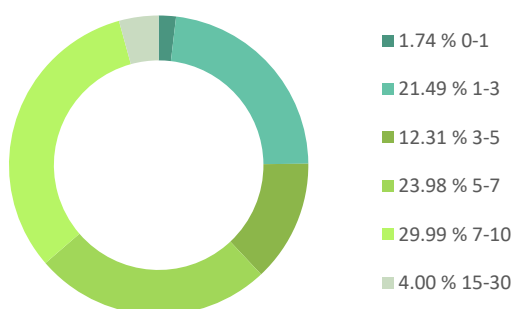
**Fixed Income by country**



**Fixed Income by industry sectors**



**Fixed Income by maturity profile**



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

|                            | WKN    | ISIN         | TER   | AuM | Min. Investment |
|----------------------------|--------|--------------|-------|-----|-----------------|
| <b>SDG Evolution Bonds</b> | A2AQZE | DE000A2AQZE9 | 0.96% | 5.2 | 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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