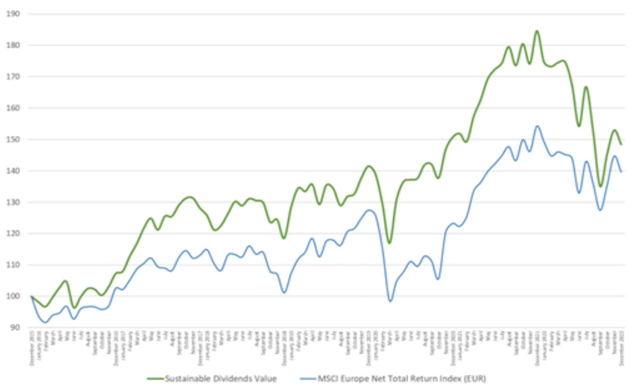
# SUSTAINABLE DIVIDENDS VALUE FUND

## QUARTERLY REPORT FOURTH QUARTER - 2022

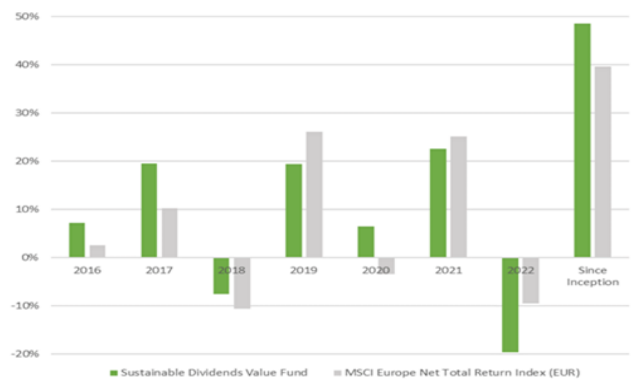
### Main Data

| | |
|---|---|
| Current price | 115.88 |
| Price last quarter | 105.45 |
| Result quarter (net) | +9.9% |
| Result since inception(net) | +48.5% |
| ISIN Code | NL0012907976 |
| Inception date | January 2016 |

### Return (net %)




### Annual return (net %)




### Risk - Return Characteristics

| | |
|---|---|
| Total Return | 48.5% |
| Average Annual Return | 5.8% |
| Standarddeviation Return | 14.6% |
| Sharpe Ratio | 0.43 |
| Total 'Outperformance' | 6.4% |
| Average 'Outperformance' per year | 0.9% |
| Tracking Error | 7.5% |
| Information Ratio | 0.12 |
| Correlation Coëfficiënt | 0.87 |
| Beste Month (April 2020) | +11.7% |
| Worst Month (September 2022) | -11.5% |
| Maximum drawdown | -26.8% |

### Investment Goal

The objective of the fund is to grow capital over the long term. The fund is expected to outperform the market over an entire economic cycle, often a period of 5 to 7 years. For a good comparison, it is important to choose a period with both up and down markets.

### Fund performance

The fourth quarter was by far the best quarter of the past year. With an almost 10% price increase, the recovery has clearly started. Most of the companies in the fund reported good third-quarter numbers and the full-year outlooks were revised upwards several times. Despite the nice price increases in the past quarter, the valuations of the shares in our fund are still very low. On average, less than 7 times the expected cash flow for 2023 is currently being paid for our sustainable and growing companies. The dividend yield of the shares is now close to 5%, which is an unprecedented high level. As a result, we see a huge potential for the stocks in our fund going forward and this offers good prospects for our investors. A decline in inflation in both the US and Europe caused the share prices of large European companies in the quarter to rise by an average of 9.6% (MSCI Europe Index). Both medium and small companies saw a share price increase of 10.9% (MSCI Europe Mid Cap Index and MSCI Europe Small Cap Index).

### Strategy

We choose 15 to 25 stocks in the fund from companies with a predictable and profitable business model, committed management and regular dividend payments. The balance sheet ratios of the companies in our fund are strong. Most companies have only modest debt and some even have a net cash position. They therefore have little to fear from rising interest rates. Partly for this reason, despite the difficult stock market year 2022, we look to the future with confidence. Since its inception in 2016, our fund has now returned over 48% (+5.8% per year, after fees), versus 39% for the MSCI Europe (+4.9% per year).

## Focus stock: Stora Enso

Like every quarter, in this newsletter we discuss one of the stocks in the fund. This time we want to highlight the Swedish-Finnish Stora Enso. The forestry companies Stora from Sweden and Enso from Finland merged in the late 1990s to form one of the largest paper companies in the world. The combination Stora Enso owns extensive forests in Sweden and Finland. Partly due to digitization, the heyday of paper is now behind us. But there are plenty of alternative options to use the wood from the forests in a value craeting way. For example, in making packaging materials for all kinds of consumer goods, wood fibers and cardboard are increasingly being used. In supermarkets, for example, plastic is slowly but surely being replaced by paper-based packaging. More and more consumer goods can also be partly made on the basis of wood fibers. Think of plates, bowls, cups and other objects in the house. But also in construction, wood and wood-based products are occupying an increasingly prominent place. This ensures lighter constructions, making it possible to build faster and cheaper. The resin of the coniferous trees is used for all kinds of chemicals, which are often a good substitute for oil-based liquids. Finally, Stora Enso has developed a hard carbon based on residual material from trees that can serve as a cheap alternative to graphite in batteries.

## From paper to sustainable packages

In recent years, Stora Enso has undergone a transformation. The traditional factories for newsprint, for example, have been divested or converted for the production of cardboard and packaging materials. The European Union has recently launched new ambitious targets for reducing the use of plastic. Paper and cardboard packaging is a good and environmentally friendly alternative. Partly because of this, the demand for Stora Enso products will increase considerably in the coming years.

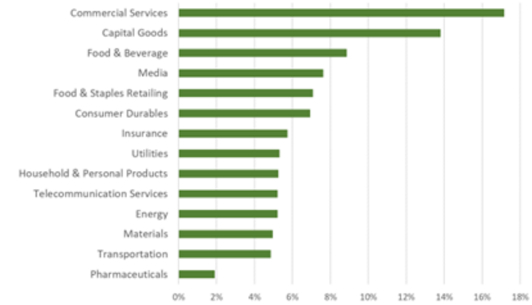
## A strong Balance sheet, dividends and governance

A socially relevant, sustainable company with expected growing cash flows are good starting points, but more is needed for a good investment case. For example, we also like to see healthy balance sheet ratios. The net outstanding debt is well below the maximum set by the company of twice the annual cash flow. Next, we look at the dividends. Stora Enso's policy is to distribute approximately half of its annual profits to shareholders. Over the past 13 years, Stora Enso has increased its dividend by an average of 8% per year. A further increase in the dividend is also expected for the coming year. The Swedish Wallenberg family, together with the Finnish government, holds a majority of the voting rights in the company. This ensures a stable shareholder structure and a clear long-term vision for Stora Enso.

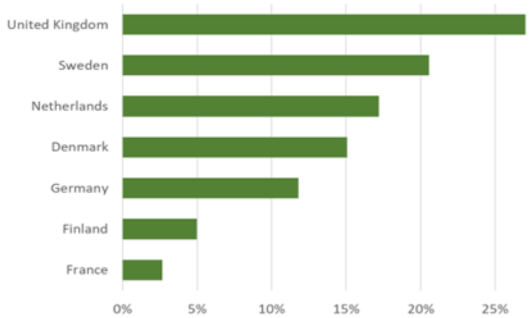
## Risks and valuation

No investment case without looking at the risks. Naturally, at Stora Enso we also look at the main risks of the investment case. First of all, Stora Enso depends for large parts of its business on the growth of the world economy. If this is not the case, the demand for packaging materials and also for wood for the construction sector will fall. Seen in this way, the much-discussed approaching recession seems to be a dark cloud for Stora Enso. We ourselves think that after the recent price drop of more than 30% this year, a lot of negative news has been incorporated into the price. And that as a result of the increasing demand for sustainable packaging material, the company can grow structurally in the coming years. Another risk relates to the cost of converting existing paper mills into packaging materials plants. This can be more costly and take longer than initially thought. Finally, we look at valuation. At the moment, Stora Enso is valued at a little over five times the expected cash flow for next year, which is very cheap compared to the competition.

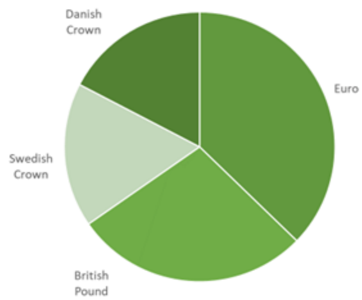
## Sector allocation




## Geographical allocation




## Currency allocation




## Fund information

| | |
|---|---|
| NAV | Monthly |
| Minimum investment | € 100,000 |
| Management fee | 1% |
| Administration fee | 0.15% |
| Performance fee | 10% |
| Manager | Sustainable Dividends |
| Administrator | AssetCare |
| Custodians | IB/Saxo Bank |
| Bank | ABN AMRO |

**Sustainable Dividends**
Website: www.sustainabledividends.com
Email: info@sustainabledividends.com
Telephone: +31 20 244 3654

## Ascenders in the portfolio

The best performing stock in the past quarter was storage and transshipment group Vopak. The company saw the share price rise by 48% after the publication of good figures for the third quarter and an increase in expectations for the whole of 2022. The management also expects to see revenue and profit grow in the coming years. To achieve this, they will invest two billion euros in new storage facilities by 2030, at least half of which will be used for sustainable solutions such as the storage of biofuels, $CO_2$, hydrogen and electricity in batteries. The share price of the Swedish Essity rose by 24%. The prices of pulp and energy – the main cost items for Essity – seem to be leveling off or even falling recently, while the company will continue to implement price increases for customers in the coming months. This means that Essity's margins will recover in 2023. We expect that the share price will then also show a further increase.

## Descenders in the last quarter

Despite the good return in the fund, there were a number of declining stocks. Airtel Africa disappointed with a share price drop of 13%. The market leader in mobile telephony in 15 African countries sees the purchasing power of many consumers in Africa under pressure due to the sharp rise in food and energy prices. This may result in a slowdown in growth for the company in 2023. In the somewhat longer term, we do expect further growth in the number of mobile telephony customers. In addition, the company is benefiting from the recent launch of an online bank in its key market, Nigeria. With this, Airtel Africa offers its customers a cheap alternative for money transfers. Another descender was DSM. In the run-up to the merger with the Swiss Firmenich, the share price fell by 3% in the past quarter. The company said that compensating for cost increases through price increases is taking longer than expected. We expect DSM's margins to increase again in 2023 once price increases have been implemented in all contracts. In addition, we expect synergy benefits from the merger with Firmenich.

## What does the fund currently look like?

At present, the Fund is invested - except for a limited cash position - in companies that are expected to generate growing profits and rising dividends in the coming years. The assets are divided over 19 different stocks in 7 European countries. By choosing companies in 14 different sectors, a sufficient degree of risk diversification has been ensured. There is a clear preference for sectors that provide stable cash flows. Several sectors are deliberately not included, or are limited, in the fund. For example, banks are suffering from low margins due to the slightly higher, but still low, interest rates. In addition, there is increasing regulatory pressure and the fear of write-offs has increased now that the chance of a recession is increasing. Despite the decline in the past year, technology companies often still have a high valuation, and therefore often a low dividend yield. Needless to say, but unsustainable companies are excluded from our selection process in advance.

SUSTAINABLE DIVIDENDS
value fund

## Turbulent times provide opportunities for investors

The 2022 stock market year is over, so it's time for the annual evaluation and outlook. Many people are hesitant to get into stocks because of the turbulent economic times. This period is perceived as threatening and that is understandable in a way. Yet it is a shame if this feeling becomes too dominant and we think it is unnecessary. The current economic conditions also bring opportunities.

With all the reports about Inflation, declining purchasing power and recession surrounding us, it can be explained that not everyone thinks it's a logical time to invest in shares. But the economy is always in motion and that is regularly accompanied by unrest. The winners are able to adapt the best and the losers drop out. This is no different in the transition to a sustainable economy.

As an investor you should not be afraid of this, but rather embrace it and ensure that you are among the winners. By carefully choosing what you invest in and giving it time to pay off, you have a lot of influence on that yourself. This is what we have been trying to do in our fund for seven years now.

***“Letting turbulent times keep you from investing in shares of good companies is a missed opportunity”***

The companies in our fund actually did very well in 2022. On average, they were able to increase their profits by more than 15% and their dividends by more than 20%. It turns out that they can generally let their prices move in line with inflation, without taking any hits themselves. This is due to their innovative products with solid revenue models. These are companies that are well managed by committed management teams and that play a leading role in making our society more sustainable. In the long term, all this goes hand in hand with a good return.

Because prices fell sharply this year, our fund is now valued about 30% cheaper than a year ago. So the long-term potential is great. Patience, combined with a well-balanced investment process, is often richly rewarded. Letting turbulent times keep you from investing in shares of good companies is a missed opportunity.

We invest in reasonably valued companies that are well managed. Profitable dividend payers who have a role to play in the sustainable transition. Relevant companies with a lot of future and growth opportunities. With more than 7000 European companies, we have a lot to choose from and 20 good companies is all we need.

We have been doing this for seven years now and it has yielded an average of almost 6% per year, which after costs is about 1% better than the average for European equities. Those yielded less than 5%, to be reduced with applicable fees. If we examine the valuations and price potential of our portfolio, we mainly see very attractive price levels. Due to increased uncertainty, our stocks have been valued as if they have no growth to offer. That is far from reality and promises a lot of potential in the longer term.