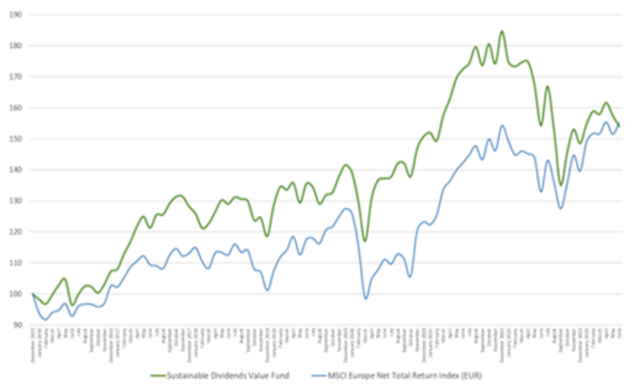
SUSTAINABLE DIVIDENDS VALUE FUND

QUARTERLY REPORT SECOND QUARTER 2023

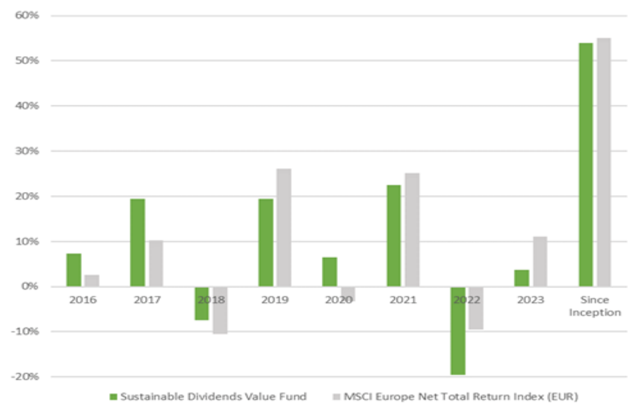
Main data

Current price	120.13
Price last quarter	123.21
Result quarter (net)	-2.5%
Result since inception (net)	+53.9%
ISIN Code	NL0012907976
Inception date	January 2016

Return (net %)



Annual return (net %)



Risk - Return characteristics

Total Return	53.9%
Average annual return	5.9%
Standarddeviation return	14.3%
Sharpe Ratio	0.45
Total 'Outperformance'	-0.7%
Average annual 'Outperformance'	-0.1%
Tracking Error	7.5%
Information Ratio	-0.01
Correlation Coëfficiënt	0.86
Best Month (April 2020)	+11.7%
Worst month (September 2022)	-11.5%
Maximum drawdown	-26.8%

Investment goal

The fund's objective 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

After a strong first quarter, our investors saw the fund's share price take a step back in the second quarter. The return of -2.5% over the past three months results in a price increase of 3.4% for the first half of the year. While most companies' first-quarter results were well received by the equity markets, the economic environment deteriorated as interest rates continued to rise and business sentiment declined in most European countries. Nevertheless, we expect most of the companies in our fund to show further growth in revenue and profit this year. The valuation of the shares in our fund is still very low. On average, less than 7 times the expected cash flow for 2023 is currently being paid for our diversified portfolio of sustainable companies. The dividend yield of the stock is now about 4%, which is historically quite high. All in all, this creates good prospects for our investors.

Strategy

In the fund, we choose 20 to 25 stocks of companies with a predictable and profitable business model, committed management and regular dividend payments. The selected companies strive to make a positive contribution to making our society more sustainable. 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, we look to the future with confidence. Since its inception in 2016, our fund has now generated nearly 54% returns (+5.9% per annum, after fees).

Sustainable Dividends

Website: www.sustainabledividends.nl
Email: info@sustainabledividends.com
Telefoon: +31 20 244 3654

Focus stock: SKF

Like every quarter, in this newsletter we discuss one of the stocks in the fund. This time we look at the Swedish SKF. This stands for Svenska Kullager Fabriken, or the Swedish Ball Bearing Factory. SKF makes standard ball bearings for cars or bicycles, but distinguishes itself mainly by the larger industrial variants, with a diameter of up to several meters, which are used for windmills or turbines of power stations. This last category is the most complex, but of course also produces the highest profit margins. Examples of SKF's technological achievements can be found on the company's website. Or if you happen to be near Gothenburg, Sweden, in the small museum at SKF's headquarters. For anyone with an interest in technology, this is well worth a visit!

Market leader

There are only a few major players in this niche market worldwide. In addition to market leader SKF, these are the German Schaeffler, the American Timken and three Japanese manufacturers. Is this a product that is needed sustainably? I would think so. All rotating parts, for example of machines or motors, require ball bearings. So, also in the long term there will be a demand for SKF products. The growth in demand for ball bearings is also reflected in recent figures for the first quarter of this year, in which the company's sales increased by 16% and profits by 14% compared to a year earlier. Management raised profit expectations for the remainder of the year. We also expect a further increase in the demand for ball bearings in the longer term. SKF is well positioned to benefit from this.

Financial health and dividends

In order to make an assessment of SKF's financial health, we look, among other things, at the relationship between net debt and cash flow. In this case, the debt is less than twice the cash flow. That means a strong balance sheet. SKF's management has set itself the target of returning approximately half of its profits to shareholders in the form of dividends. Over the past few years, this policy has on average resulted in a nice annual increase of the dividend.

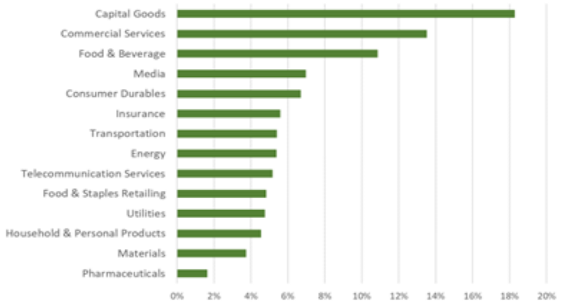
Sustainability

In terms of sustainability, SKF's efficient products reduce friction, thereby reducing energy consumption. Innovative ball bearings ensure that increasingly larger wind turbines can be built, for example. SKF thus makes an active contribution to the transition to a sustainable generation of our energy. In addition, SKF takes the environment into account as much as possible in its own production process. The amount of CO_2 released per manufactured ball bearing decreases every year and will be further reduced in the coming years. Remaining materials are reused as much as possible, and the amount of waste is minimized.

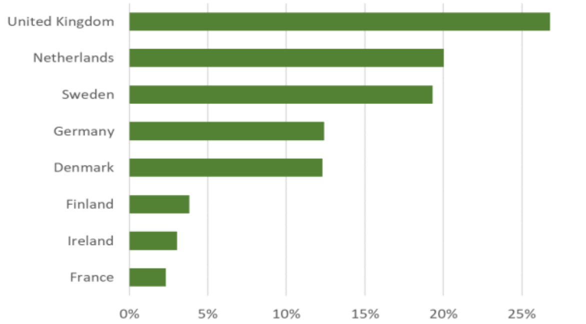
Risks and valuation

Admittedly, SKF is a cyclical company. Despite the fact that ball bearings will stay in demand for a very long time, the sales of them moves in parallel with the state of the economy. Demand is currently growing under the influence of global economic growth. But if economic growth levels off, SKF will also notice this in the order book. Another risk comes from the pricing of raw materials. An increase in metal prices will be detrimental to SKF. The latter was the case last year. But in most cases SKF will be able to pass on such a cost increase in the prices of its products. The share's valuation - at about seven times the expected cash flow for next year - can be called low, both in a historical perspective and compared to acquisitions in the sector. This gives room for further price appreciation in the coming quarters. The expected dividend yield on the stock is now four percent.

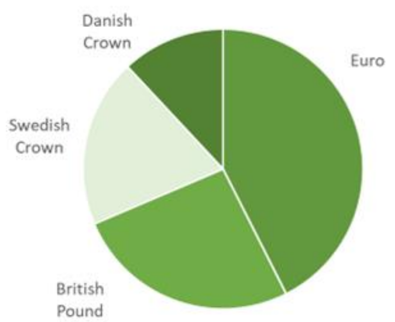
Sector allocation



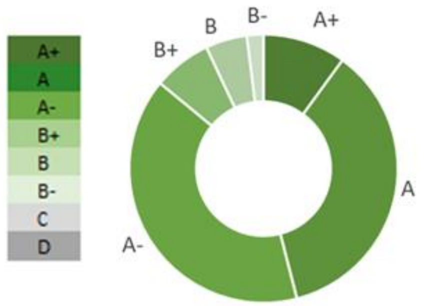
Geograpical allocation



Currency allocation



ESG ratings allocation



Fund information

NAV	Maandelijks
Minimum investment	€ 100,000
Management fee	1%
Administration fee	0.15%
Performance fee	10%
Manager	Sustainable Dividends
Administrator	AssetCare
Custodian	Interactive Brokers/Saxo Bank
Bank	ABN AMRO

Ascenders in the portfolio

The best performing stock in the past quarter was the Danish Ørsted. The world market leader in the development and operation of offshore wind farms saw its share price rise by 11%. The company announced new financial targets at its recent Capital Markets Day. For example, the company expects the capacity of renewable energy to grow to 50 GigaWatt in 2030. The annual cash flow will grow from 20 billion kroner to 50 to 55 billion kroner in 2030. This means an annual growth of 13 to 14% for the next eight years. This growth in cash flow will also lead to further growth in the dividend. The predictable growth for the coming years makes Ørsted an attractive stock for our fund. Another well-performing stock in the past quarter was UK Treatt with a total return of 9%. The producer of natural flavors and fragrances for the food and beverage industry published a positive trading update for the first half of the 2022/2023 financial year. This prompted analyst upgrades and increased investor interest in the stock.

Descenders in the portfolio

Just like every quarter, there were a number of decenders in the fund this time too. Corrected for the dividend paid, we achieved a return of minus 11% on our investment in Villeroy & Boch. The German ceramics producer reported a slight decline in turnover and a virtually unchanged first-quarter profit compared to a year earlier. This stock was a strong ascender in the first quarter (+30%) and the decline in the second quarter is therefore not a cause for concern. Another descender was Stora Enso. This company announced the closure of three factories in Sweden, the Netherlands and Poland. In the short term, this entails the necessary reorganization costs. In the slightly longer term, the closure of loss-making factories will actually lead to a significant increase in profit and margins for the entire organization. Despite this, the share price fell 11% in the last quarter. We expect that the higher margins will eventually generate more interest from investors and share performance.

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 21 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 stricter capital requirements, increasing regulatory pressure and the fear of write-offs has increased now that the chance of a recession is increasing. Technology companies have a high valuation, especially after the rapid price increase this year, and therefore often a low dividend yield. It may be unnecessary to say, but unsustainable companies are excluded from our selection process in advance. All stocks in the fund therefore have an ESG score of A or B on a scale from A to D. The vast majority of companies currently score an A rating.

Sustainable Dividends Investor Event

On May 15, we welcomed approximately 50 investors and interested parties to our annual event. The former work theater on the Oostenburgergracht turned out to be an excellent location with ditto catering for the interesting presentations of our portfolio companies Alfa Laval and Vopak. Alfa Laval is a global leader in three essential industrial technologies: Heat exchangers for heating and cooling, separation of substances and handling of liquids in industrial processes. Head of investor relations Johan Lundin traveled from Stockholm to explain the company's rapid growth and investments in the energy transition, hydrogen, LNG, clean water, CO_2 storage and meat substitutes. This bodes well for Alfa Laval's potential. Rotterdam-based Vopak has 78 storage tank locations in strategic locations worldwide. Valuable substances are carefully stored and transshipped here for industrial use and energy supply. For Vopak, rapid growth and investment in the energy transition means focusing on: biofuels, hydrogen, CO_2 storage and electric batteries. A good example of a company with a credible sustainable transition agenda.

"At a time when stock market returns are mainly driven by technology stocks and the progress of AI is making headlines, it is good to see that our portfolio is in line with the sustainability growth themes for the coming decades."

Simon and Jasper presented how we assess these companies and their investment potential. We do this on the basis of the six fundamental criteria from our investment process, which we ultimately implement in our portfolio on the basis of three different axes. Our enthusiastic but also realistic description of our views resulted in a productive discussion with the public and the companies present. We can talk about this for hours and of course have our extensive investment cases available. But please do keep in mind that these are high-quality companies that have been pre-sorted for a sustainable long-term future in both the financial and the broader "right to exist" sense of the word. They fit very well with five of the nine themes for sustainable development identified by the World Business Council. With our diversified portfolio of currently twenty-one stocks, we are of course in line with all nine themes.

At a time when stock market returns are mainly driven by technology stocks and the progress of AI is making headlines, it is good to see that our portfolio is in line with the sustainability growth themes for the coming decades. In recent years, we have shifted more towards sustainable energy due to the enormous, expected growth of, for example, battery storage and the lower valuation of shares in this sector. Our low-valued stocks offer a lot of potential to investors right now. Please contact us at info@sustainabledividends.com and we will be happy to tell you more about this.