BankInvest Equity Income Strategy

<u>May 2022 – Performance review</u> *(all returns are gross of fees in DKK and are not audited).*

May 2022 was a month of poor performance. The absolute return was negative by -0.68%, and the relative return was negative by -23bp. Year-to-date, the absolute return is positive by +1.42%, while the relative return is negative by -252bp.

At sector level, the highest contributions in May 2022 came from Communication Services (+29bp), Consumer Discretionary (+10bp) and Financials (+6bp), while Energy (-14bp), Information Technology (-13bp) and Real Estate (-13bp) showed the largest negative sector contributions.

Absolute Performance, May 2022					
Company	**Sector**	**+ Return**	**Company**	**Sector**	**- Return**
ING Group	Financials	18,3%	S&P Global	Financials	-8,3%
Comcast	Communication Services	9,9%	Ahold Delhaize	Consumer Staples	-8,5%
Verizon	Communication Services	9,1%	Procter & Gamble	Consumer Staples	-9,3%
Deutsche Telekom	Communication Services	8,8%	Cisco Systems	Information Technology	-9,4%
Amdocs	Information Technology	7,4%	Roche	Health Care	-10,2%
Average, Top-5		**10,7%**	**Average, Bottom-5**		**-9,1%**

Relative Performance, May 2022					
Company	**Sector**	**+ Contribution**	**Company**	**Sector**	**- Contribution**
ING Group	Financials	0,30%	TAG Immobilien	Real Estate	-0,12%
Deutsche Telekom	Communication Services	0,21%	AT&T (BM)	Communication Services	-0,13%
Comcast	Communication Services	0,17%	S&P Global	Financials	-0,14%
Lyondellbasell	Materials	0,13%	Ahold Delhaize	Consumer Staples	-0,16%
Amdocs	Information Technology	0,13%	Pfizer (BM)	Health Care	-0,17%
Sum, Top-5		**0,94%**	**Sum, Bottom-5**		**-0,71%**

BM = Benchmark stock

ING (INGA NA) reported better than expected Q1-22 results, with a beat on underlying pre-provision profit. The beat was driven by higher net interest income and fees as well as lower costs. Loan losses were higher than expected, but mainly due to Russia. Additionally, ING announced EUR 1.25bn of additional capital return through a combination of dividends and share buybacks. ING's CET1 ratio of 14.9% is well-above its 12.5% target, leaving EUR ~7bn in excess capital or ~15% of market cap, which can be distributed to shareholders. The combination of large capital distributions, higher eurozone interest rates and ING trading at ~8x P/E in 2023, leaves an attractive risk/reward. The company will host a capital markets day on June 13th.

Deutsche Telekom (DTE GY) delivered a solid beat-and-raise Q1-22 report, with all divisions growing EBITDA ahead of expectations. In the US, concerns on competitive intensity may be easing due to a more benign pricing outlook, and T-Mobile US (TMUS US) posting strong postpaid net adds. Despite outperformance YTD, we continue to see a positive risk/reward with catalyst of T-Mobile share buybacks to come.

After months of poor performance, we saw a re-rating in both Comcast (CMCSA US) and AT&T (T US) in May, outperforming the market. However, AT&T (T US) is a benchmark stock, contributing negatively to the relative performance.

End of April, Lyondellbasell (LYB US) delivered a solid Q1-22 report. Later in May, LYB's new CEO announced a special dividend (~4% yield), while raising regular dividends by 5% and announcing a new share repurchase authorization of up to 10% of shares through November 2023. The announcement signals that the new CEO is committed to maintain the company's historically strong cash return framework, with excess cash flow being returned to shareholders. The stock increased +5% on the capital allocation news.

Amdocs (DOX US) delivered a solid beat-and-raise Q2-22 report and reiterated its long-term revenue guidance of 6-10% CAGR through 2024. Amdocs is seeing strong momentum in 5G rollouts, journey to the cloud and digital transformation. We continue to view Amdocs as well-positioned to capitalize on the telecom/cable industries' move to 5G and digital transformation.

The large benchmark stock, Pfizer (PFE US), delivered a Q1-22 beat, primarily reflecting higher COVID-19 vaccine sales, while core sales were largely in-line with expectations. The focus is on the core pipeline progression as both we and the market are questioning the long-term sustainability of COVID-19 sales. Pfizer's strong performance contributed negatively to the relative return in May.

The Dutch retailer Ahold Delhaize (AD NA) delivered a mixed set of Q1-22 results. The big concerns were over European demand & margins, hit by cost inflation, as well as fears over the Bol.com IPO amid market uncertainty. To offset the cost pressure, Ahold will initiate cost savings and just started passing on cost inflation to customers. We see Ahold's valuation as undemanding as the company is now trading at 4.7x EV/EBITDA in 23E (a substantial discount to Kroger), with a ~4% dividend yield.

S&P Global (SPGI US) performed poorly in May, following a guidance downgrade with its Q1-22 report. Ratings revenue declined -15% y/y, due to reduced debt issuance activity, although ahead of Moody's (MCO US) ratings revenue (-20% y/y). However, S&P's non-ratings businesses (comprising ~70% of group revenue) are performing well, offsetting the weakness in ratings. We continue to expect solid growth in S&P's non-ratings businesses, as it is exposed to high growth markets with leading positions in each. S&P currently trades in-line with Moody's, despite much lower exposure to ratings.

TAG Immobilien (TEG GY) saw poor performance in May, despite delivering good Q1-22 results and confirming full-year guidance. The market was likely surprised by TAG's higher loan-to-value ratio (LTV) of 47% (target 45%), following the acquisition of the Polish developer ROBYG, and that a capital increase might be considered in 2023 to deleverage. However, 1) a capital increase has already been actively communicated by TAG; 2) the LTV covenants are at ~60%, well-above the current LTV of 47%; 3) the financial leverage will also be reduced by selling residential portfolios; 4) the expansion into Poland is highly accretive. Thus, in our view, the leverage is not a concern.

Buying, selling, and other matters

No changes to the portfolio in May.

Valuation of the asset class

According to MSCI, dividend stocks are cheaper (P/E Fwd) than the broader world index (MSCI World). Dividend stocks naturally also carries a higher dividend yield. Data is from April 2022 as data from May 2022 is not yet available.

	Div Yld (%)	P/E	P/E Fwd	P/BV
MSCI World HDY	3.52	14.79	13.24	2.66
MSCI World	1.97	18.92	16.23	2.96

Source: MSCI.

Kindly,

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