ALPINE FUND

NEWSLETTER

KOMMENTAR DES FONDSMANAGEMENTS

COMMENTARY OF THE PORTFOLIO MANAGER

ALPINE MULTIPLE OPPORTUNITIES FUND

wir freuen uns Ihnen, den Newsletter des Alpine Multiple Opportunities Fund für November zukommen lassen zu dürfen.

We are pleased to send you the newsletter of the Alpine Multiple Opportunities Fund for November.

Mit freundlichen Grüssen dankt für Ihr geschätztes Interesse

With kind regards we appreciate your interest.

Dr. Oliver Stolte
Senior Portfolio Manager,
Reuss Private Deutschland AG

PERFORMANCES

Die offensive Aufstellung des Alpine Multiple Opportunities Fund führte im vergangenen Monat zu einem weiteren Gewinn von +5,4%, womit im bisherigen Jahresverlauf 2021 eine Performance von +10,8% erzielt werden konnte.

The offensive line-up of the Alpine Multiple Opportunities Fund led to another profit of +5.4% whereas over the course of the year 2021 a performance of +10.8% could be achieved.

STATUS QUO

Die verlängerte Sommerflaute liegt hinter uns und die Aktienmärkte haben Fahrt für die Jahresendrallye aufgenommen. Charttechnisch sehen wir dies als Beginn der 3. Elliott-Welle. Wir haben unsere Aktienquote entsprechend unverändert bei ihrem Maximum von 70% belassen.

The prolonged summer slump is behind us and the stock markets are picking up speed for the year-end rally. On the charts we see this as the beginning of the 3rd Elliott wave. We have kept our stock quota unchanged at its maximum of 70%.

Gold notierte ebenfalls fester bis auf 1.870 US-$/Unze. Wir haben unsere Goldquote bei 15% unverändert belassen. Unsere Positionen in Wasser (5%) sowie Wasserstoff (2,5%) haben wir ebenfalls unverändert belassen.

Gold too, showed up stronger and noted up to 1,870 US-$/ounce. We have kept our gold quota unchanged at 15%. We keep our positions in water (5%) and hydrogen (2,5%) equally unchanged.

Der US-$ notiert nach dem begonnenen Tapering der FED deutlich fester bis auf 1,12 US-$/€.

Following the tapering of the FED, the US dollar traded significantly stronger at 1,12 US-$/€.

OUTLOOK

Wir sehen für die nächsten 3-4 Jahre zwei starke Antriebskräfte für die Aktienmärkte: Umstrukturierung der Unternehmen/Aktiengesellschaften zu tatsächlicher Nachhaltigkeit sowie steigende Bond-Renditen.

For the coming three to four years, we see two strong drivers for the stock markets: restructuring of businesses/-public companies towards true sustainability as well as rising yields on bonds.

Zum ersten, die Umstrukturierung zu tatsächlich nachhaltigen Geschäftsmodellen: Investoren fordern zunehmend green-investments bei mindestens gleicher Rendite und maximal gleicher Volatilität.

Firstly, the restructuring towards truly sustainable business models: Investors are increasingly asking for green investments with at least the same returns and the same maximum volatility.

Die Anlageentscheider / Vermögensverwalter / Portfolio Manager haben diese Aufträge verstanden und möchten diese umsetzen. Es fehlen zur Zeit noch einerseits eine ausreichende Anzahl von Unternehmen die tatsächlich nachhaltig ihr operatives Geschäft betreiben und vielmehr noch, fehlt es andererseits an einheitlichen Standards, wann und wie tief ein Unternehmen nachhaltig operiert.

The investment decision makers / asset managers / portfolio managers have understood these tasks and want to implement them. Currently, we are still missing a sufficient amount of companies that operate a truly sustainable business and even more so, there are no uniform standards, when and how deeply a company operates sustainably.

Die vier großen WP-Gesellschaften sind derzeit mit der Erstellung eines Standards befaßt. Hiernach wissen die Unternehmen, wie sie sich umstrukturieren müssen, um weiterhin am Kapitalmarkt Liquidität für weiteres Wachstum stabil aufnehmen werden zu können. Diese folgende massive Veränderung von Geschäftsmodellen sehen wir für die nächste Dekade als erste Antriebskraft.

The four large WP companies are currently working on establishing a set of standards. After that, companies know, how they need to restructure themselves, in order to be able to continue to assure liquidity on the capital market in a stable manner to ensure further growth. The resulting significant change of business models we see as the driving force for the next decade.

Zum zweiten, den steigenden Bond-Renditen: Wir gehen von steigenden Renditen – allerdings aufgrund der horrenden Staatsverschuldungen ohne Zinserhöhungen in USA, Europa und Japan – aus. Dies wird bei Bond-Investoren nach mehr als drei Dekaden erstmals zur Situation führen, dass die Kupons niedriger als die Kursverluste sein werden – und dies nicht nur als Effekt eines Jahres, sondern als stabiler Ausblick für die kommenden Jahre. Anleihen werden dadurch an Attraktivität verlieren und tendenziell eher verkauft werden.

Secondly, the rising yields on bonds: We assume increasing returns, although due to the horrendous national debt without interest rate hikes in the USA, Europe and Japan. For bond investors, this will lead to the fact that coupons will be lower than price losses after three decades – and this not only as an effect of the year but as a stable outlook for coming years. The attraction of the bond market will decrease and therefore will tend to be more likely to be sold.

Diese Liquidität muß – wenn auch nur zur Vermeidung von Negativzinsen seitens der Kontoführer – angelegt werden. Mit Blick auf alle möglichen Anlageklassen, wird maßgeblich die Aktie als Zufluchtsort dieser neuen Liquidität dienen. Die Bondmärkte haben weltweit das ca. 5-fache Volumen der Aktienmärkte. Eine mehrjährige Umschichtung aus Anleihen in Aktien wird starke Auswirkungen auf die deutlich kleinere Aktienmärkte haben – hierin sehen wir die zweite Antriebskraft.

This liquidity must be invested – if only to avoid negative interests for account holders. With a view towards all possible asset classes shares will serve largely as the safe haven for this new liquidity. The bond markets worldwide have five times the volume of stock markets. A multiannual shifting from bonds to equity stock will have a strong impact on the significantly smaller stock markets – this is where we see the second major driving force.

Wir erwarten eine Fortführung des sehr freundlichen Aktienverlaufs im 4Q21 für Aktien und Rohstoffe – u.a. mit einer klassischen Jahresendrallye, die sich anfangs des neuen Jahres fortsetzen wollte. Wir planen daher weiterhin voll investiert zu bleiben. Dies gilt insbesondere für Gold. Hier sollten wir von minimalen Renditen und potentiell steigender Inflation ohne Zinserhöhungen durch die Zentralbanvken profitieren, so dass wir uns das Erreichen und auch das Überspringen des All-time-highs von 2.060 $/Unze in den nächsten Monaten sehr gut vorstellen können.

We expect a continuation of the very positive share performance in 4Q21 for shares and commodities – i.a. with a classic year-end rally, which wanted to continue at the beginning of the new year. As such, we plan to remain fully invested. This is particularly true for gold. Here we should benefit from minimal returns and potentially rising inflation without interest rates hikes, and as a result we can very well imagine a further breakthrough and more all-time highs of 2,060 US-$/-Ounce over the coming months.

Wasser-Aktien werden durch die natürliche Knappheit dieses Rohstoffes als auch durch die Zugehörigkeit zum ESG-Anlagebereich weiter profitieren. Wasserstoff – legte in den vergangenen Wochen rund +10% zu – steht unseres Erachtens in den Startlöchern, wenn die technischen Nachteile von Elektro-PKWs und insbesondere Elektro-LKWs offenkundiger werden – wir halten diese kleinere Position entsprechend mit einem kleinen Anteil perspektivisch. Genauso können wir uns einen weiterhin festen US-$ sehr gut vorstellen.

Water stocks will continue to benefit due to the natural scarcity of this raw material and from being part of the ESG investment sector. Hydrogen – increased by about +10% in recent weeks - in our opinion is already on the starting block, as we hear more about the technical disadvantages of electric cars and especially electric trucks – we keep this smaller position therefore with a view to the future. Similarly, we can well imagine a firmer US-$.

Der Alpine Multiple Opportunities Fund ist entsprechend positioniert.

The Alpine Multiple Opportunities Fund is positioned accordingly.

Einen sehr interessanten Artikel: “Can executive bonuses help to reduce emissions” gab es diese Woche in der Financial Times zu lesen. Sie finden ihn auf der nächsten Seite.

A very interesting article: “Can executive bonuses help to reduce emissions” was featured in the Financial Times this week. *You can read it on the next page.*

WEITERE INFORMATIONEN

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WEBSITE

IHR ANSPRECHPARTNER

Alpine Trust Management GmbH
Am Südpark 45
D - 50968 Köln-Marienburg

Tel: 0049 221 250 80 987
Fax: 0049 221 250 80 988
Mail: info@alpinetrust.de

FT BIG READ. COP26

Can executive bonuses help to reduce emissions?

Senior executives' pay is increasingly linked to sustainability targets rather than solely financial performance. But critics are sceptical that vague, long-term goals will amount to meaningful change.

By Andrew Hill

The greening of Schneider Electric started in 2005. The French electrical equipment group announced it would review its "social and environment performance" and set up a "planet and society barometer". In 2008 it even rebranded itself in lurid green. "If you measure it, it happens," Jean-Pascal Tricoire explained to Les Echos, the French business newspaper, in 2007, a year after taking over as chief executive.

Tricoire's own pay packet also has an increasingly green tinge. In recent years, his bonuses and long-term share grants have been tied to goals based on the barometer or its successor programme — such as reducing carbon dioxide emissions — plus the group's performance on environmental, social and governance measures across a range of external indices. In 2020, a fifth of Tricoire's total incentive pay — some €1.6m, including the value of shares from his long-term incentive plan — was due to his efforts to hit such targets.

As climate change has advanced up the boardroom agenda, so, inexorably, it has started to find its way into the incentives of senior executives. That has raised questions, not only about the clarity and solidity of the underlying goals and the ease with which chief executives might hit them, but about the purpose and effectiveness of monetary rewards as a way of changing corporate behaviour.

For now absolute numbers of companies using climate targets to calculate chief executives' bonuses and long-term incentives remain low: just 28 companies in the FTSE 100, and only 36 in the S&P 500, according to ISS ESG, the responsible investment arm of proxy adviser Institutional Shareholder Services. But from a low base, the number of companies using climate pay targets more than doubled between 2019 and 2020.

Just 28 companies in the FTSE 100, and 36 in the S&P 500 are using climate targets to calculate chief executives' bonuses. Left, campaigners celebrate after a Dutch court ordered Royal Dutch Shell to cut its emissions faster than planned

FT montage

A survey by Deloitte in September suggested a further 24 per cent of companies polled expected to link their long-term incentive plans for executives to net zero or climate measures over the next two years.

"We have not seen that sort of increase since TSR became the measure in vogue" in the early 2000s, says Philippa O'Connor, a partner at PwC, who advises companies on executive rewards, referring to total shareholder return, the metric of choice for tying executives' incentives to financial performance.

The push to integrate climate goals, and wider ESG targets, into pay plans has been led by consumer companies such as Unilever. Investors have also intensified the pressure on oil and gas groups such as Royal Dutch Shell to follow suit. According to ISS ESG, 39 per cent of energy companies in the world's biggest indices had incorporated climate targets into their chief executives' pay by last year, the highest proportion of any sector.

Harlan Zimmerman, senior partner at Cevian Capital, an activist investment group, sees the introduction of targeted pay as a "forcing mechanism" to change mindsets about climate change.

Others are more sceptical. Alex Edmans, a finance professor at London Business School (LBS), favours paying chief executives with shares that they must hold after they leave to nudge them to take decisions in the longer-term interests of the company. "When you [set specific goals], you get this problem of hitting the target but missing the point," he says.

When earnings per share growth was popular as an executive goal, for instance, bonus-hunting managers tended to fixate on short-term expansion. Research also shows that when too many targets are added to incentive schemes, executives start to concentrate on the most obvious opportunities for reward — almost always financial growth, which carries the biggest weight in pay plans. Yet investors continue to add new targets to their wishlists.

Other studies have also suggested that executives receive more generous payouts on non-financial targets than they do when judged on precise financial achievements, perhaps because they are often harder to measure and are more subjective.

'A lot of [climate] targets we are seeing are still quite vague, and about "making progress towards [a goal]", as opposed to pinning yourself to a final number'

Climate targets also face an obvious snag not shared with shorter-term strategic goals. Companies' environmental goals often have an understandably long horizon — 2030, 2040, or even 2050 — but chief executives' tenure is much shorter. An S&P 500 chief executive holds office, on average, for less than 10 years.

"Like everything to do with executive remuneration, it isn't easy to get this right," says Edward Mason of Generation Investment Management, the sustainability-focused fund company with $36bn of assets under management. "There are risks of perverse incentives and easy remuneration that investors should be on the lookout for."

'Meaningful and measurable'

Some red flags are already flapping, according to pay analysts and investors. One is a concentration on tactical, short-term targets, such as operational efficiency, rather than more strategic, long-term goals such as emissions reductions. A second danger signal is a focus mainly on vaguer discretionary measures of progress, such as "improving sustainability" sometimes mixed with other qualitative goals. A third is the lack of transparency.

"A lot of targets we are seeing are still quite vague," says Tom Gosling, an executive fellow in the finance department at LBS, "and about 'making progress towards [a goal]', as opposed to pinning yourself to a final number."

Honeywell, for instance, has committed to become carbon neutral by 2035 in its core activities, yet progress towards these commitments is not linked in detail to its executive pay plan. The US industrial group paid its chief executive Darius Adamczyk an annual bonus of $2.5m for 2020, of which 20 per cent was based on the remuneration committee's assessment of a raft of goals including driving "a robust ESG programme".

ASML, the Netherlands-based semiconductor equipment group whose shares are quoted on Nasdaq, has promised to cut its direct and indirect greenhouse gas emissions from operations to zero by 2025 as part of the "climate and energy" criteria for executive bonuses. It benchmarks itself against other semiconductor companies in the Dow Jones Sustainability Index. But it refuses to reveal actual targets and achievement levels, saying they are "commercially or strategically sensitive". It is reviewing its policy following challenges from investors to improve transparency.

Angeli Benham, senior global ESG manager at Legal & General Investment Management, which has $1.8tn of assets under management, is among those calling for climate goals to be "meaningful, material, and measurable".

The two largest elements of performance pay are the annual bonus, and long-term incentive plan (LTIP), which typically runs for three years.

The level of enthusiasm within boards to attach more conditions to their chief executives' incentives varies. ISS ESG measured the highest impact of climate factors in pay at companies in the French and German benchmark indices, and the lowest in Asia and the US.

One size doesn't fit all

Not one of the attempts by US investors to tie executive pay to ESG measures attracted significant support at this year's annual meetings, according to Glass Lewis, another proxy adviser. It registered a drop in shareholder support for ESG targets in pay to 12 per cent, on average, compared with 17 per cent last year and 22 per cent in 2019.

Glass Lewis itself recommended support for just one proposal this year: that General Motors should report if and how the carmaker had met pay criteria laid down by Climate Action 100+, a network of investor organisations.

Lila Holzman, from the lobby group As You Sow, told GM's board meeting that shareholders wanted chief executive Mary Barra and her team "to focus their actions on quickly achieving Paris-aligned goals. But, her plea to embed climate change targets in executive pay fell on deaf ears.

Defending itself in the proxy statement issued to shareholders ahead of its annual meeting, GM said it had taken its sustainability performance into account in setting pay since 2017. Even though Glass Lewis judged the GM proposal "not to be overly burdensome", given the carmaker's existing commitments to climate goals, it was rejected with only 16.3 per cent of GM shares voting in favour.

The GM case highlights that every company is different when it comes to tying climate targets to pay, making a blanket approach unworkable. But successfully adopting bespoke plans can be arduous and complicated.

For instance, NatWest, the UK-based bank, has set conditions on its issue of stock to Alison Rose, chief executive, that include reducing carbon emissions from its direct operational footprint and increasing funding for clients' climate and sustainable finance initiatives. Helen Cook, NatWest's chief human resources officer, told a recent Deloitte webinar that adding climate conditions into executive pay was "a new frontier".

She said she and her team "probably had 10 iterations of conversations around climate before we got our first climate measures". They had to revisit those at least twice after the bank's remuneration committee had discussed them, "because people were trying to define and to discern what was measurable and importantly what is auditable".

'Like everything to do with executive [rewards], it isn't easy to get this right. There are risks of perverse incentives . . . that investors should be on the lookout for'

Advocates of linking climate targets to executive pay say, done well, it can pay off. Dutch and UK investors have in recent years pushed Shell, for example, to clarify its path to carbon reduction. Before a Dutch court ordered the group to increase its emissions cuts in May — a decision against which Shell is appealing — the group had strengthened its pay policy in line with the aim of limiting rises in global average temperature to 1.5C. Chief executive Ben van Beurden's annual bonus, for instance, will in future link to its greenhouse gas abatement target, and 20 per cent of his long-term incentive payout will be tied to Shell's energy transition, up from 10 per cent in previous years.

Schneider Electric is another example. Its 2005 commitment to "spotlight" corporate responsibility had evolved by 2012 into formal ESG targets within Tricoire's bonus and long-term share awards. The weighting of the sustainability targets in his annual bonus increased in recent years from 5 per cent, to 6 per cent, and then in 2019 to 20 per cent, the same as for his long-term rewards. That helped to double the total value of incentives he received by working towards sustainability targets from €851,840 in 2018 to €1.6m in 2020.

During that time, the board responded to shareholder pressure by tying the long-term incentive plan's sustainability targets to external measures and simplifying the number of criteria used overall. The group says it hit or surpassed two of its four climate targets set in 2018, en route to its overall aim of becoming carbon neutral in its operations by 2025.

Tricoire is receiving a higher overall payout partly because the portion attributed to non-financial measures has increased and because Schneider Electric's shares have performed well. But in a sign of how difficult it was to meet those non-financial targets as they became more "meaningful, material, and measurable", the rate at which he achieved those goals actually dropped.

Shell, Schneider Electric, Honeywell, General Motors, Unilever, NatWest, ASML: these are large companies that attract the attention of big institutional investors. As significant emitters, Unilever, GM and Shell are on Climate Action 100+'s list of "focus companies" that account for 80 per cent of global corporate industrial emissions and whose governance and executive pay policies will be scrutinised against their environmental commitments.

Small company syndrome

The danger, investors acknowledge, is that smaller companies, or companies for which climate change is less immediately significant, will reward their executives by implementing less rigorous programmes with easy-to-hit targets.

LGIM's Benham says she expects most smaller companies to take the lead from the improving practice of larger counterparts, but she admits: "Our focus tends to be with the largest companies where we devote a lot more engagement time. So there may be a multitude of smaller companies that put anything in there and get away with it."

A more fundamental criticism is that executive pay may not even be the right tool for encouraging this type of corporate change. Tax, regulation, and carbon pricing initiatives that can only come from governments, or, for that matter, high-profile court cases, could be more effective.

Investors argue, though, that challenges to executive rewards attract board attention.

US "say on pay" rules mandate a non-binding vote on remuneration. By using those rules to push for ESG targets in executive pay, investors say they can force the climate question on to the agenda of directors. Encouraging the incorporation of climate targets into senior executive pay also signals to more junior managers that it is important and trickles down to other staff. At Schneider Electric, 10 per cent of the bonus of all 58,000 staff has been tied to sustainability targets since 2019.

As for the criticism that traditional financial ambitions over-rule or contradict climate targets — which might, for instance, involve reducing output to cut emissions — Generation Investment Management's Mason says: "Good management is about reconciling the short term and the long term and understanding where things run up against each other and finding a path through that."

Gosling, of LBS, argues that if environmental measures — and, indeed, social and governance improvements — support longer-term shareholder value, there may be better ways to encourage executives than tweaking rewards. If, however, ESG initiatives conflict with long-term value, then "executive pay will never be the solution".

"We're kidding ourselves if we say we can solve a climate crisis without changing the economic guide rails for companies at all; I'm very sceptical about using executive pay to set climate targets that are sufficient," he says. "We hope for far, far too much from this intervention."

Green incentives

Mary Barra
Chief executive, General Motors
Climate actions linked to bonus:
Accelerated electric vehicle initiatives, committed to carbon neutrality in products and operations by 2040
Bonus structure:
75% financial; 25% strategic goals
Annual bonus, 2020:
$3.8m

Jean-Pascal Tricoire
Chief executive, Schneider Electric
Climate actions linked to bonus:
Reached goal of 80% renewable electricity, surpassed goal of 120m tonnes of carbon dioxide saved by customers by 2020
Bonus structure:
80% financial; 20% sustainability impact
Annual bonus, 2020:
€1.05m

Darius Adamczyk
Chief executive, Honeywell
Climate actions linked to bonus:
Drove a robust ESG programme, including improving sustainability of company operations
Bonus structure:
80% financial; 20% qualitative individual assessment
Annual bonus, 2020:
$2.5m