Q2 2021

U ACCESS – CHINA CONVERTIBLE BOND

Quarterly Comment

For Professional Investors in Switzerland or Professional Investors as defined by the relevant laws. The classification of the fund(s) as per the Sustainable Finance Disclosure Regulation (SFDR) is available on ubp.com or in the latest prospectus.

Market Comment

- **During the quarter ended 30 June 2021, the China A-share market progressed by 5.50%** (CSI 800). For purpose of comparison, over the same period, Hong-Kong listed Mainland securities (the Hang Seng Index) progressed by 1.35% and global equities (MSCI World) by 6.30% (all performance expressed in CNY, total return).
- Over the past three months, the top 5 performing sectors of the China's A-share market were the Electrical Equipment (+33.3%), Electronics (+21.9%), Car (+19.0%), Chemical Industry (+16.1%) and Medical Biology (+14.6%). At the opposite-end were Non-bank Financials (-3.8%), Utilities (-4.9%), Leisure Services (-7.1%), Household Appliances (-7.6%) and Agriculture/Forestry/Animal Husbandry & Fisheries (-8.2%) (ShenYin WanGuo Classification).
- At June-end, they were 398 convertible bonds (incl. exchangeable) in the Chinese onshore market, for a total outstanding amount of CNY 646 billion. This represents a growth of +6.3% q/q (market size). Sector wise, the financial sector (banks and non-banks) remains the largest weight of the Chinese onshore convertible bond market.

Performance Review

- **For the quarter ended June 30, the strategy progressed by +7.21%,** outperforming its investment universe[1] ("the investment universe") by +4.26%.
- The outperformance of the strategy versus its investment universe over the period is explained by sector allocation for 2.32% and bond selection for 1.94%.
- Sector-wise, the alpha of the strategy in Q2 came primarily from the Textile & Apparel, Non-ferrous Metal, Auto & Parts, Electrical Equipment and Chemicals buckets. On the opposite-end, Banks, Light-industry Manufacturing and Steel detracted. Though we had an underweight positioning to the Steel sector (at a time when steel prices declined in response to the Government's efforts to curb their continuous rise of the past month) our security selection in the sector yet proved unfavourable.

Portfolio Activity

- Following a ramp-up phase in April, the investment level of the U Access – China Convertible Bond portfolio remained above 95% until the end of the period under review.
- In comparison to the investment universe, we have maintained an underweight exposure to the Financial sector, in accordance with our optimised allocation approach which aims to **ensure sufficient portfolio diversification, and avoid negative concentration effects**. Thus, the portfolio's highest monthly exposure level to the Financial sector was below 20%, compared to a minimum cumulative weight of 50% for the universe. Likewise, the top 10 holdings of the portfolio remained below 15% (vs. a minimum of 50% for the investment universe).
- In terms of risk profile, throughout the quarter, the portfolio maintained greater allocation to both the "balanced" and "higher equity sensitivity" segments than the investment universe, and an underweight positioning to the "bond-like" segment.
- **At June-end, the portfolio exhibits an average equity sensitivity of 65.6%** compared to 54.1% for the investment universe, and a yield to maturity of -0.23% (vs. -0.83%).

[1] Investment universe = internal indicator corresponding to all outstanding Chinese onshore convertible bonds eligible to the strategy's investment criteria, weighted by their outstanding size. For indicative purpose only, the strategy has no official benchmark.

All performance figures are given net of fees. Past performance is not a guide to current or future returns. See full disclaimer at the end of the document.

Outlook

- **China is where the growth is:** with gross domestic product expected to grow 8.6% this year (vs. 7.2% for the US and 4.2% for the Eurozone), China stands at the vanguard of 2021's global growth. As the country continues to make its way out of the covid-19 pandemic, firmer domestic demand, combined with resilient export levels and fierce technological innovation are fuelling robust forecasts.
- **Foreign and institutional investments in China are still early-stage**: although it is the world's second-largest economy, China's weight in major global benchmarks is still very limited. The gradual liberalisation and opening up of the Chinese onshore financial markets have attracted foreign capital inflows: from about 1.5% three years ago, these now account for about 4% of China's A-share market and this figure is expected to increase as further financial reforms continue to facilitate foreign investors' access to mainland Chinese markets.
- **In terms of valuation too, the Chinese market stands out**. At the end of June, the Price-to-Book ratio of the Shanghai Shenzhen CSI 300 index settles at 2.4, which compares to 4.6 for the US S&P 500 index, and 3.2 for the MSCI World index.
- **An appealing yet volatile market.** Still today**,** more than 75% of China's A-share market participants are retail investors with a typically higher turnover rate, creating a challenging backdrop for long-term, conviction-driven management. Though financial reforms have paved the way for greater foreign and institutional ownership, a larger share of "buy & hold" investment will take years.
- Thanks to their dual nature, convertible bonds give investors **access to A-shares with lower volatility and reduced drawdown risk**.
- From RMB 50 billion in 2018, **the Chinese onshore convertible market has grown exponentially to reach RMB 646 billion today through close to 400 issues**, making it deep and diversified enough to provide investors with a valuable alternative to direct – and volatile – A-share investment.
- In comparison to Hong-Kong -listed ("H") or Chinese ADRs (American Depositary Receipts) convertible bonds, the onshore convertible bond market ("A-convertible") gives investors access to a **distinct and complementary opportunity set**. As of today, the two markets have no overlap and, while the "H" and Chinese ADRs convertibles are biased towards large-cap companies in the communication services or consumer discretionary sectors, onshore-listed convertibles give access to all the spectrum of sectors (incl. financials, materials, industrials) and market cap segments (including small and mid-cap names).

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