
# UBAM - POSITIVE IMPACT EMERGING EQUITY

Quarterly Comment

For Professional Investors in Switzerland or Professional Investors as defined by the relevant laws.
Fund classification under Sustainable Financial Disclosure Regulation (SFDR): Article 9

## *Market Comment*

- The financial markets continued to reflect investor optimism about the upturn in economic output and corporate earnings. For the first quarter of 2021, the S&P 500* posted a return of 6.05% and hit new all-time highs. The technology sector underperformed, which meant that European markets fared even better: the MSCI Europe* returned 8.35% with strong gains for both cyclical and defensive stocks. However, many emerging markets lost ground in March, usually for country-specific reasons. For example, the Chinese and Turkish markets both fell 6% during the month and the MSCI Emerging Markets* in USD finished the quarter with a performance of 2.29%.
- Investors were very optimistic **at the turn of the year**, but quickly saw several risks appear on their radar screens. Investor sentiment deteriorated from mid-January onwards because of the spread of new coronavirus variants, slow vaccination roll-outs in Europe and the possibility that the new US president's stimulus package would be reduced in size. Observers were also concerned about extreme price movements in some stocks, driven by hordes of retail investors. In the end, most equity markets fell slightly during January, although some large Asian markets strongly outperformed.
- **In February**, in the US, many economic indicators exceeded expectations, reflecting the rebound in activity. Generally, as the vaccination roll-out progressed and economies started opening up again. In the eurozone, indicators ticked up. While consumer confidence was being undermined by the slow progress of the vaccination campaign and the protracted lockdown, the industrial sector took heart from the prospect of economies reopening. The UK remained resilient despite the strict lockdown, and sentiment indicators recovered with the promise of a gradual lifting of restrictions. As for China, while it remained ahead of developed economies in terms of economic recovery, the traditional lunar new year volatility caused a dip in manufacturing and services sentiment.
- **In March**, the economic outlook continued to improve in the US, with sharp increases in business confidence – in both manufacturing and services – and consumer sentiment. Joe Biden's USD 1.9 trillion stimulus plan, which includes extensive support for households, was finally passed and a USD 2.25 trillion infrastructure plan was presented at the end of the month. In the eurozone, confidence levels in manufacturing and services rebounded even though tougher restrictions on people's movements were introduced during the month. In the UK, confidence increased sharply because of the rapid vaccine rollout and the plan to reopen the economy. In China, the authorities announced a minimum growth target of 6% along with a medium-term strategy that emphasises consumer spending and self-sufficiency in high-tech sectors. China's dialogue with the US remained tense, and the US kept its sanctions in place.

** net total return index*

*Sources: UBP, Bloomberg Finance LP.*



## Performance Review

- The strong start to the year was quickly followed by a market-wide rotation which weighed on equity returns throughout the second half of the quarter. Resulting performance was -1.19% (net of fees, IC USD class) for the UBAM Positive Impact Emerging Equity fund and +2.29% for MSCI Emerging markets*.
  ** net total return index*

- On the one hand, the difference was caused by the hangover created by some of the eye-catching equity returns generated in 2020, in areas like renewable energy, electric vehicles, batteries, etc, particularly in China. Companies like Xinyi Solar and Wuxi Lead are down on a year-to-date basis, but it must not be forgotten that their stock prices were up significantly last year, 275% and 88% respectively.

- The rising yield environment led by US bonds and the implications for future levels of inflation are influencing market leadership. Value sectors have outperformed during Q1, with MSCI EM Value* returning 4.11% versus 0.59% for MSCI EM Growth*. Due to the growth bias which is inherent to Positive Impact companies, the funds performance should be examined in the context of this rotation.

- Thematically, Sustainable Communities was the strongest contributor. Notable performer was Ilin Materials, a company that we sold during the quarter.

| Themes | Portfolio weight (average)% | Portfolio contribution % |
|---|---|---|
| Sustainable Communities | 24.07 | 0.83 |
| Health & Well-Being | 8.67 | -0.14 |
| Basic Needs | 13.29 | -1.30 |
| Climate Stability | 31.59 | -0.39 |
| Inclusive & Fair Economies | 15.90 | 0.26 |
| Healthy Ecosystems | 0.77 | 0.01 |

*Sources: UBP, Bloomberg Finance LP ; contribution based on gross return*

- As highlighted above, the negative contributors belong mainly to the Basic Needs theme with Bandhan Bank but also companies involved in education like YDUQS, China education and Laureat education.

## Portfolio activity:

- Ming Yang Smart Energy was a new addition to the portfolio. The company is the third largest WTG manufacturer in China with a leading position in offshore wind. Its major customers include the domestic top five power companies and private power groups. The company's main positive impact is its contribution to energy transition by enabling cost reduction and clean energy production in onshore and particularly offshore wind where it is a leader in blade and deep water technology. Furthermore, we prefer offshore to onshore wind in China due to differences in subsidy system that currently favour offshore.


- There were two exits from the portfolio. The first was Iljin materials, a Korean battery material maker. We decided to take profits after a strong performance made valuation less attractive. The second name was Bumrungrad Hospital in Thailand. After a review of the impact case, we concluded that affordability was not as significant a priority for the company as we would have liked and decided to use our capital to support companies providing more affordable products or services in healthcare.

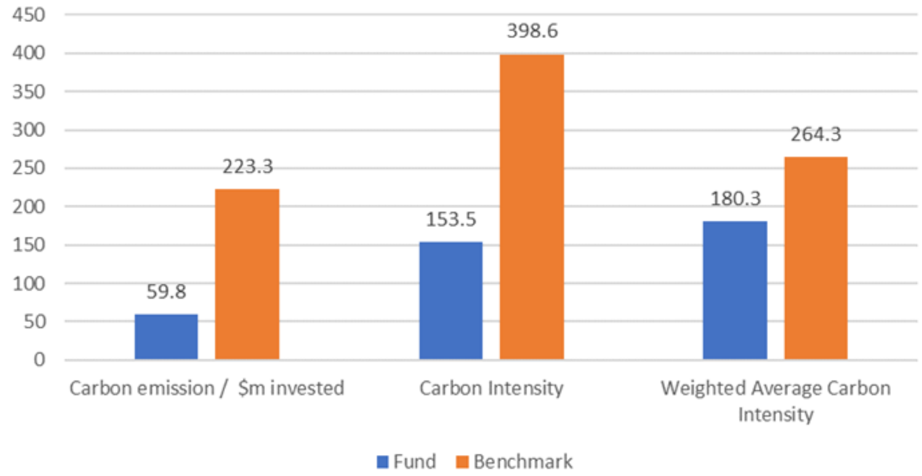
- We took some profits in some of the best performing names in renewable energy equipment and electric vehicle supply chain. This was due to stretched valuations in this space combined with a general rotation in markets from growth towards value. We invested the proceeds in areas like microfinance, education and healthcare which offer better value and are likely to benefit from the style rotation and post Covid reopening.

## *ESG Monitoring*

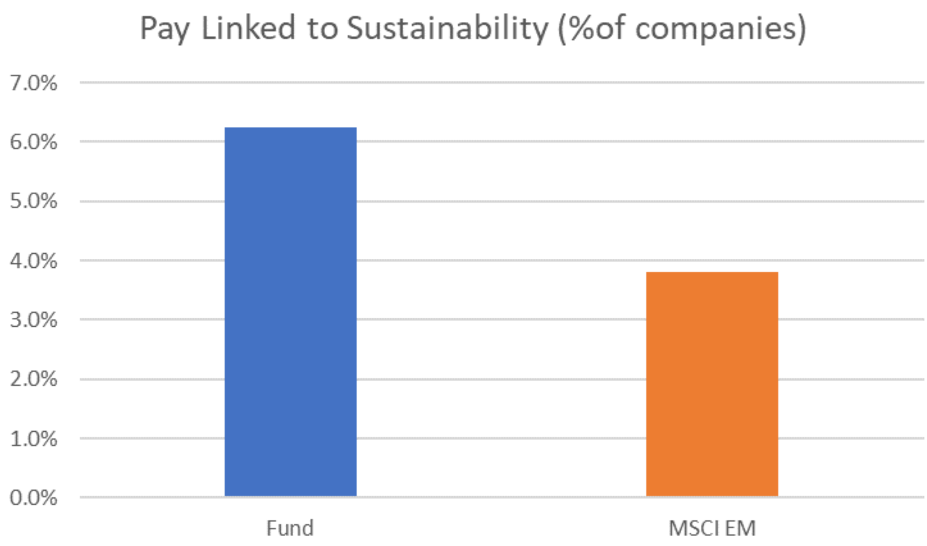
### Human rights

| | UN Global Compact | | | Human Rights Compliance | | | Labor Compliance Core | | | Labor Compliance Broad | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Pass | Watch | Fail | Pass | Watch | Fail | Pass | Watch | Fail | Pass | Watch | Fail |
| Fund | 39 | 0 | 0 | 39 | 0 | 0 | 39 | 0 | 0 | 39 | 0 | 0 |
| MSCI EM | 1356 | 26 | 9 | 1363 | 21 | 7 | 1386 | 3 | 2 | 1379 | 7 | 5 |
| Fund | 100% | 0% | 0% | 100% | 0% | 0% | 100% | 0% | 0% | 100% | 0% | 0% |
| MSCI EM | 97.5% | 1.9% | 0.6% | 98.0% | 1.5% | 0.5% | 99.6% | 0.2% | 0.1% | 99.1% | 0.5% | 0.4% |

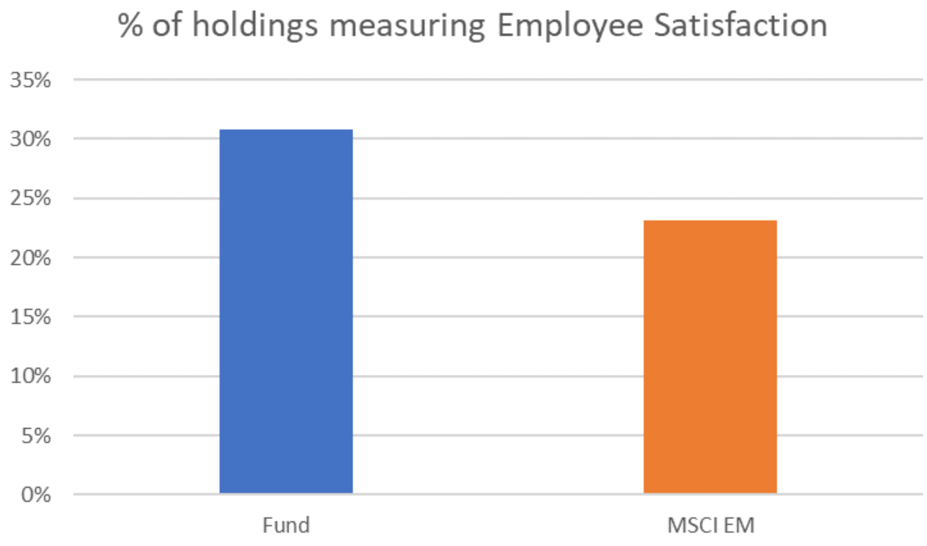
### Environment




- **Governance**




- **Labour**





*Outlook*

- The US should lead the rebound expected in Q2 thanks to a strong vaccination roll out and the reopening of the economy. US consumers are in the driving seat of recovery:
  - US growth should strongly rebound from Q2 after a firmer than expected Q1; direct payments to households thanks to fiscal support should boost consumption, which also benefits from a positive wealth effect and large savings.
  - Consumption and investment should lead a strong 2021 recovery, where we revised up our GDP forecasts from 6.2% to 6.8%. Strong domestic demand should support inflation and trigger a decline in unemployment, the latter also being targeted by monetary and budgetary policy.
- In the eurozone, slow vaccination rollouts has contributed to the 3rd wave of the pandemic in progress. After contracting in Q1, only modest growth is expected in Q2 and a more significant rebound is postponed to Q3, when more vaccines will become available.
- Fiscal support should serve as the primary economic policy driver, though with ongoing support from monetary policy. We expect central bank strategies to begin diverging more meaningfully.
  - The Fed is seeking for strong growth and high inflation, but will not act to curb rising bond yields, except if financial conditions deteriorate.
  - The ECB increased its bond purchases to decorrelate European bond yields from US ones, due to delayed recovery and moderate medium-term inflation prospects.
  - The Chinese PBOC has adopted a tighter stance, while in Turkey and Brazil banks may hike rates further.
- Overall, we expect more modest equity returns ahead, but the risk of a big drawdown looks limited at present. In addition, we'll need to watch closely the effects of Biden's tax proposal and its impact on specific sectors.

We remain constructive on Chinese equities, which underprice the cyclical recovery ahead, even though the Chinese equity market has recently been under pressure. Still, we believe that authorities have little reason to tighten aggressively. Regulatory concerns also weigh on investors' sentiment, but the potential negative impact of anti-trust measures (which are positive in the long-term) look increasingly priced in among China Big Tech stocks. Domestic consumption, technological innovation and further financial reform should create opportunities for investors looking to benefit from China's long-term growth prospects.

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