Q1 2023

# 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*

- Stock markets recorded broad gains over the first quarter of 2023, with the MSCI ACWI* climbing 7.3% over the period, but not without considerable volatility along the way as January started off very strong on the back of China re-opening optimism, while February saw increasing concern about further rate hikes as a result of very strong economic activity and higher than expected inflation figures. However, a sudden bank run at a regional US bank at the beginning of March quickly spread apprehension in the financial sector globally, completely shifting the market outlook for interest rates in the process and sending the markets into panic for two weeks. Fortunately, coordinated efforts by regulators and banks helped alleviate fears of a domino effect and prompted a rebound that extended through to the end of the quarter.

- The Fed’s governors still decided to increase the Fed funds rate by a further 25 basis points in March, taking the benchmark fed funds rate to a target range between 4.75%-5%, although they also suggested that the cycle of rate hikes is coming to an end.

- Emerging markets underperform the rally with a more limited 4.0% gain. Mexico, South Korea and Taiwan led the gains with double digit gains. But the Chinese market was more mixed (particularly in February) and bit markets such as India (-6.4%) and Brazil (-3.2%) lost significant ground.

- In terms of sectors, Communication (+12.6%) and Technology (+14.7%) were the clear leaders, pushed higher by better growth numbers and a relaxation of the regulatory environment in China. At the other end of the spectrum, Healthcare, Utilities and Financials ended the quarter in negative territory.

- In terms of sustainability regulation developments, the European Commission released a communication that outlines the actions that the Commission intends to take to stimulate investment in the “net-zero industry” within the EU. The Communication is a response to recent increases in state support outside the EU, most notably the US’ Inflation Reduction Act (IRA). Some may argue the IRA framework is wider and easier to access and navigate, but the implementation of this plan will certainly make the EU an attractive market for investors in the energy transition.

** net total return index*

*Sources: UBP, Bloomberg Finance LP.*

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.


## *Performance Review*

- The fund underperformed its benchmark by 5%, with a performance of -1.1% (net of fees, IC USD class) vs +3.95% for MSCI Emerging markets*.We started by a difficult January, followed by a significant catch-up in February but it's mainly in March that the bulk of the underperformance took place.
  
  * *net total return index*

- In Financials, Transaction Capital issued a profit warning due to ongoing business difficulties in their minibus financing business ("SA Taxi"). We subsequently exited this position (see portfolio activity). We also witnessed corrections in Gentera and Bandhan, which was to be expected in an era of high volatility for small financials but not justified by concrete news or earnings revisions. We think the underlying investment case is unchanged and have not reduced our exposure.

- In the Technology sector, we suffered from not owning Tencent, Alibaba and TSMC. But we were also disappointed by the share price reaction of Pinduoduo following its Q4 results.

- Finally, in the Renewables and Electric Vehicles sectors, there was a general lack of dynamism and negative sentiment due to protectionist regulation in US and Europe. We think this pressure is temporary as Chinese producers remain competitive and will not be completely excluded from the upcoming investment boom.

- Despite this difficult backdrop, we had some positive contributors particularly in our Sustainable Communities theme where some stocks linked to the electrification of transport performed well (Samsung SDI, Yadea, BYD), as well as in Healthcare & Wellbeing (Life Healthcare and JD Health).

## *Portfolio activity*

- After a busy Q4 2022, Q1 2023 was a relatively calm period for portfolio activity. Other than the usual profit taking and topping up of individual names, we made two major decisions:

- We divested from Transaction Capital (IMAP: 14) after an unexpected profit warning damaged both the positive impact case and the business outlook as well as eroding our confidence in the management. For us, out of the three business segments of TCP, the one with the main positive impact was its SA Taxi business which is about refurbishing and financing of used commercial vehicles. This contributes to job creation, public transport and circularity. However, in a very unexpected way, the management announced that this business was facing structural issues and decided to scale it down. The announcement also mentioned the step down of the CFO. While some of the issues around rising rates and higher fuel costs was within our expectations, other factors were news and significantly damaged the investment case. More importantly, the questions around the viability of SA Taxi business led to our conclusion of divesting from the company.

- We made a new investment in Wuxi Apptec (IMAP: 17): WuXi AppTec is a leading Chinese pharmaceutical and biopharmaceutical open-access capability and technology platform company. It provides a broad portfolio of R&D and manufacturing services that enable companies in the pharmaceutical, biotech and medical device industries worldwide to advance discoveries and deliver groundbreaking treatments to patients.

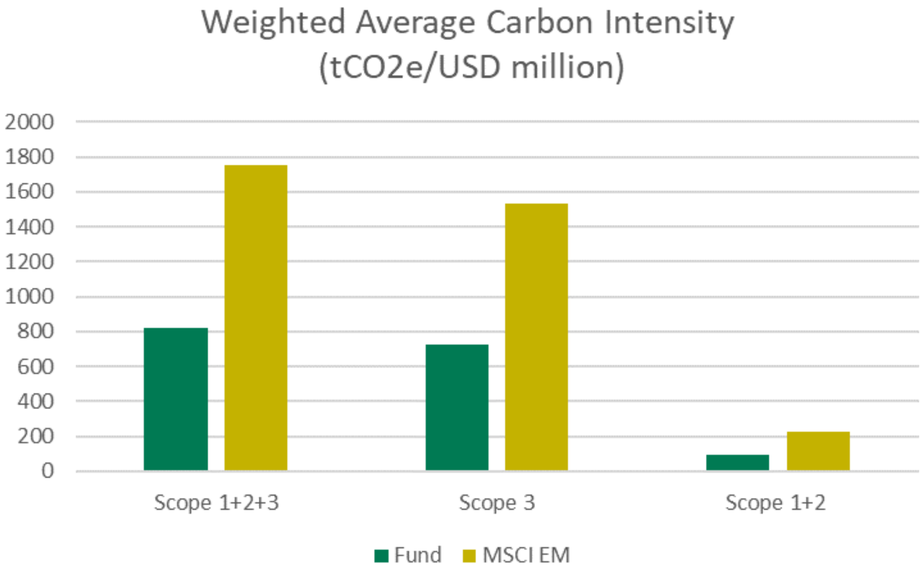

*ESG Monitoring*

➢ **Human rights and Social**

| | 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 | 1324 | 40 | 15 | 1323 | 41 | 15 | 1354 | 11 | 14 | 1344 | 20 | 15 |
| Fund | 100% | 0% | 0% | 100% | 0% | 0% | 100% | 0% | 0% | 100% | 0% | 0% |
| MSCI EM | 96.0% | 2.9% | 1.1% | 95.9% | 3.0% | 1.1% | 98.2% | 0.8% | 1.0% | 97.5% | 1.5% | 1.1% |

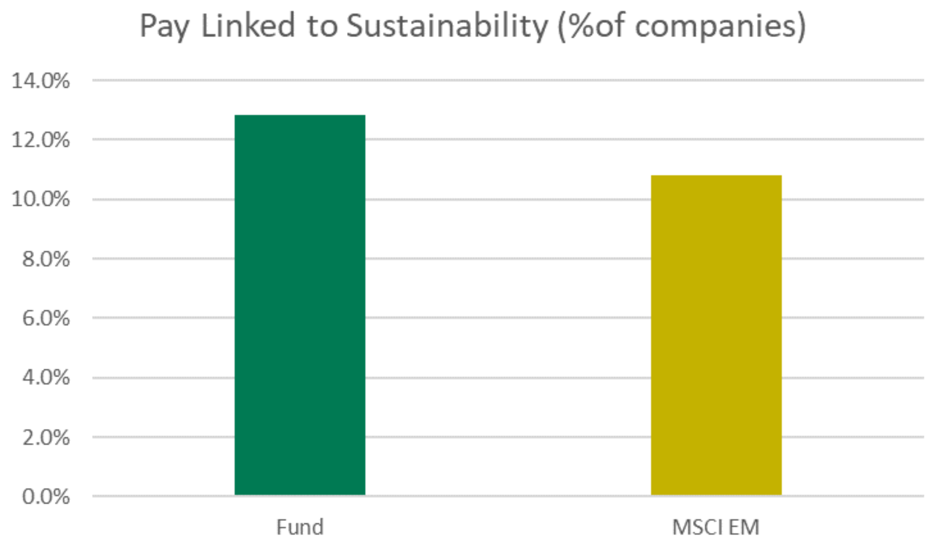
Coverage: 100% fund / 100% benchmark

➢ **Environment** (Public Disclosure: Fund 63% / Index: 76%, Including estimates: Fund 100% / Index 99%)

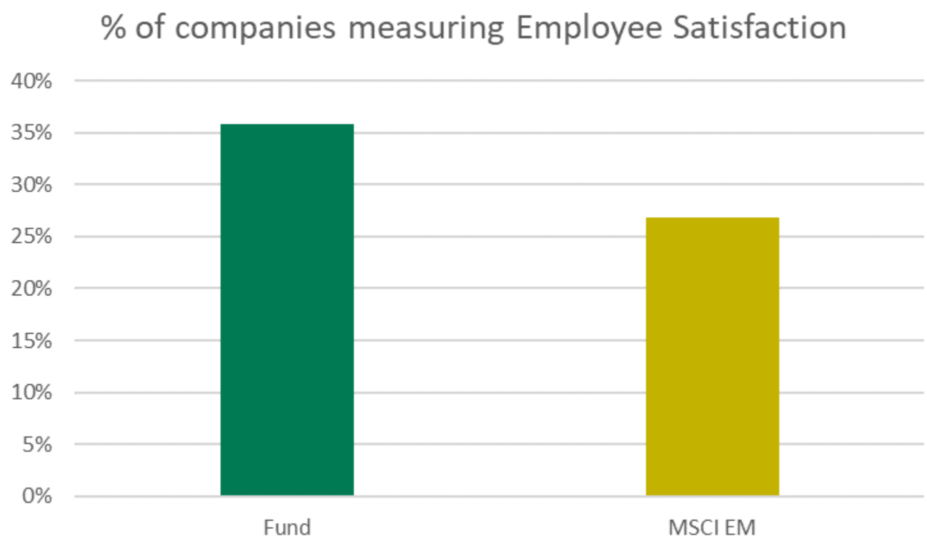



**Carbon Intensity metric:** UBAM - Positive Impact Emerging Equity aims to beat the benchmark (MSCI Emerging markets) for this metric


➢ **Governance** (Disclosure: Fund 100% / Index:100%)




➢ **Labour** (Disclosure: Fund 100% / Index: 99%)




*Sources: UBP, Based on MSCI ESG Research LLC and Urgentem*



## Outlook

- Equity markets have begun 2023 in cheerful mood, but March 2023 was a month of divergent returns depending on theme and geography. Investors demonstrated a strong preference for large caps and technology, and leadership proved to be very narrow, for example 88% of the S&P's advance in March was derived from 10 tech names. The switch of market leadership from Value to Growth follows a well-trodden playbook where one period's share price leaders become the next market phase laggards.

- So, what kind of fundamental observations should investors focus on after such a noisy quarter in equity markets? In a recent market outlook, we highlighted that when compared to the first months of 2022, the beginning of 2023 arrived with a much lighter burden of new macro factors to digest. Then came the 2023 banking crisis. Whilst each troubled bank name can be idiosyncratically explained, investors should not pretend that the loss of confidence that accompanied the mini crisis will have no lasting scars. For example, the US money supply is estimated to have contracted by over 5% on an annualised basis in Q1. Whilst this leaves less for central banks to do in terms of rate setting, the outcome of a sharp tightening in money supply is likely to be felt in the real-world economy. That is likely to have consequences for developed, as well as emerging markets, but EM can at least hope that the dollar will weaken a bit as a result, and still rely on China continuing to benefit from the reopening of its economy.

- So far, investor behaviour in response to lower bond yields, driven by the turbulence in developed market banks, has been to buy growth, yet this is in the face of a quarter when profit guidance overall was as poor as at any time since Q1 2015. The market reaction is perhaps too optimistic, favouring more expensive, growth areas of the market and shunning lower multiple sectors. The team remains positioned in both quality-growth and value names, and we remain focused on companies that are capable of internally funding their financing needs via stable profits.

- Sustainability commitments are encouragingly keeping strong form so far this year, with **BNEF** reporting that some 780 companies have set or committed to set a science-based target (SBT) through March, pledging to reduce their emissions in line with the Paris Agreement. This is the fastest start of the year in SBT commitments ever – some 32% higher than commitments at the same time in 2022 (592), showcasing the popularity of SBTs among corporations and more importantly evidencing the increased commitments of companies to move in the right direction and tackle climate change meaningfully.


*Appendix*

*Methodology*

- Global Compact Compliance
  This factor indicates whether the company is in compliance with the United Nations Global Compact principles. The possible values are Fail, Watch List, or Pass.
- Human Rights Compliance
  This factor indicates whether the company is in compliance with the United Nations Guiding Principles for Business and Human Rights. The possible values are Fail, Watch List, or Pass.
- Weighted Average Carbon Intensity
  This figure represents the company's Scope 1 + Scope 2+ Scope 3 greenhouse gas emissions normalized by sales in USD, which allows for comparison between companies of different sizes. This is a weighted average calculated using Urgentem data.
- Labor Compliance - Core
  This factor indicates whether the company is in compliance with the International Labour Organization’s fundamental principles. The possible values are Fail, Watch List, or Pass.
- Labor Compliance - Broad
  This factor indicates whether the company is in compliance with the International Labour Organization’s broader set of labor standards. The possible values are Fail, Watch List, or Pass.
- Monitors employee satisfaction
  Flagged as "Yes" if company monitors employee satisfaction.
- Pay Linked to Sustainability
  Has the company, if designated as having either a high environmental or social impact, failed to incorporate links to sustainability performance in its current incentive pay policies? Flagged if yes. This metric is based entirely on the company’s own reporting, and is strictly focused on the specific inclusion or not of such metrics in the determination of variable pay components and does not take into consideration their effectiveness. High Environmental Impact: If any of the following ESG Ratings Key Issues carry more than a 5% weight: Carbon Emissions, Water Stress, Toxic Emissions & Waste, Product Carbon Footprint, Raw Material Sourcing, Packaging Material & Waste, Electronic Waste, Biodiversity & Land Use, Energy Efficiency. High Social Impact: If any of the following ESG Ratings Key Issues carry more than a 5% weight: Labor Management, Health & Safety, Product Safety & Quality, Supply Chain Labor

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