Q4 2022

UBAM – EM RESPONSIBLE CORPORATE 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

- US interest rates continued their rise over the quarter; 2-year US Treasuries were up 15bps to 4.43%, while 10-year US Treasuries rose by 5bps to 3.88% as the Fed delivered 125bps of hikes cumulatively in November-December.
- The asset class saw outflows at -$16.4bn in Q4 2022, according to data from JP Morgan. This makes the asset class end the year with -$89.2bn in cumulative outflows. EM Fixed Income funds saw an inflow of $52.5bn in 2021.
- The pace of the rise in US Treasury yields moderated and China reopening plans coupled with the support of the real estate market by Beijing had a positive effect on returns in Q4 2022. EM Corporates bonds delivered +4.91% over the quarter according to the JP Morgan CEMBI Div index.
- Over the quarter, EM Investment Grade corporate bonds underperformed the broader EM Corporate universe, returning +3.05% while their High Yield counterparties returned +7.40%, outperforming the broader index. JP Morgan CEMBI Div spreads over US Treasuries tightened by 59bps to 335bps in Q4 2022.
- At a regional level, Latin America (+7.98%) performed the best, followed by Emerging Europe (+7.61%) and Africa (+5.61%) while Asia and the Middle East returned +4.06% and +2.42% respectively.
- At a country level, the best performance came from Macau (+22.80%), Ukraine (+17.37%) and Morocco (+15.88%). The worst performance was delivered by Philippines (-3.53%), Jamaica (-3.05%) and Singapore (+0.34%).
- At a sector level, the best performance came from Pulp & Paper (+14.69%), Consumer (+11.23%) and Metals & Mining (+8.35%). The worst performers were among the Transport sector (+2.12%) and Financials (+2.70%).

Sources: UBP, Bloomberg Finance LP, JP Morgan

On April 1, 2020, UBAM – EM Sustainable High Grade Corporate Bond was renamed UBAM – EM Sustainable Corporate Bond. On June 8, 2020, the fund widened its investment guidelines to include HY issuers.

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

- Over the quarter, the fund returned +3.27% net of fees compared to +4.91% for the JP Morgan CEMBI Diversified index.
- Gross of fees performance attribution shows the fund underperformed the index, where the selection effect and duration poitioning proved costly, whereas the curve positioning contribution was slightly positive.
- Main contributors to relative performance, excluding the effect of our interest rate duration/curve positioning which is managed at portfolio level:
  - Country-wise, the best relative performance came from our holdings in the Philippines, Russia and Taiwan. Conversely, our holdings in Macau, Singapore and Hong-Kong suffered the most over the quarter.
  - Sector-wise, our selection in Utilities and Financials proved beneficial. Conversely, our selection in Industrials detracted from performance.

Portfolio Activity

- Over the quarter, we decreased our exposure to Asia ex Japan and while increasing the allocation to Latin America.
- In Asia, we decreased our Financials and Real Estate exposure in Singapore and China. In Hong Kong the exposure to Real Estate was also decreased.
- In Latin America, we initiated an exposure to Argentina in the TMT sector. We also increased the also to Brazil across several sectors (Consumer, Transport, Pulp & Paper) and Peru (Utilities and Metals & Mining).
- At sector level, we decreased the exposure to Financials across regions and to Real Estate in China.
- In Q4, we also increased the cash bucket in the portfolio following the Fed tightening. It will allow us to participate to the primary market at the beginning of Q1 2023 which offers attractive yield attributes compared to the secondary market.
- The share of green and sustainability bonds in the portfolio has increased from 8.7%, to 14.0%. We maintain a higher share that in the index (7.0%).

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Outlook

- The outlook for 2023 is encouraging for Emerging Markets (EM) Debt, especially for active managers.
- Global corporate earnings should come under pressure though potentially less in most EM as GDP growth is expected remain solid compares to a slowing activity in developed markets (DM).
- With the evidence of US inflation starting to cool down, the Fed might slow its tightening policy. This could be a positive for US rates (Hard Currency EM bonds) as well as for local currency but a negative for the USD.
- By starting rising rates in early 2021 for some of them and by hiking decisively, EM central banks have been early movers in adjusting their monetary policies compared to DM and are likely to pause earlier. Moreover, disinflation in EM is materializing faster than expected which should be a tailwind.
- In EM, the sooner than expected Chinese reopening is seen as a positive for GDP growth globally, other Asian countries that could benefit from an increase of Chinese tourism and commodity-based countries in South Africa and Latin America that could benefit from the expected terms of trade improvement once China’s economic activity normalizes. Moreover, China policymakers are determined to increase growth this year as measures have been taken to simplify tech regulations and to support the real estate market.
- EM are well positioned to face the new economic cycle with healthy balance sheets and solid credit fundamentals. These were able to refinance their debt in the last few years, lowering their financial expenses and extending their debt maturity profiles. They also benefited from the increase in commodities’ prices and from expansive fiscal policies promoted by governments to fight Covid’s economic impact. Finally, the reduction of net debt supply in 2022 did more than offset the outflows from the asset class during the year.
- One remaining risk remains the geopolitical developments surrounding the conflict in Ukraine.
- At a country level, our largest overweight positions are in Mexico and Brazil. Our largest underweights remain in UAE and Saudi Arabia.
- At a sector level, our largest overweight positions are in TMT and Oil & Gas while our largest underweights are in Financials and Industrial.

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ESG Metrics

- At the end of Q4, the overall **ESG Quality Score** of the portfolio was 36% higher than the index, standing at 7.5 (equivalent to an MSCI ESG Rating of AA) vs. 5.5 for the index (equivalent to an MSCI ESG Rating of BBB)

  Source: @2022 MSCI ESG Research LLC - coverage: 96% for the fund and 88% for the index.

  KEY INDICATORS

- The **weighted average carbon intensity**[1] of the fund is 45% below its index, at 338 tons CO2e/$M sales revenues v. 615 tons CO2e/$M sales revenues for the index.

  Source: @2022 MSCI ESG Research – coverage by number of issuers: 86% for the fund and 91% for the index.

- According to ISS, scope 1,2, and 3 greenhouse gas emissions stand at 16.5% below those of the JP Morgan CEMBI Diversified Index. The Carbon Intensity of the portfolio is 70% better than that of the universe.

  Source: ISS – coverage by number of issuers: 96% for the fund and 86% for the index.

- 49% of the electricity generated from our holdings in the utilities sector come from green power, compared to only 13% in the index.

  Source: ISS – coverage by number of issuers: 96% for the fund and 86% for the index.

- **International norms**:
  - Violation of UN Global Compact: 0% (vs. 1.1% in the index)
  - Violation of Human Rights norms: 0% (vs. 1.1% in the index)
  - Violation of Labour norms: 0% (vs. 0.7% in the index)

  Source: @2022 MSCI ESG Research - coverage level: 86% for the fund and 89% for the index

- **Board Independence**: 83.1% of the portfolio is invested in companies that have a majority of independent board members, vs 72.5% for the index.

  Source: @2022 MSCI ESG Research - coverage level: 86% for the fund and 86% for the index

- **Board Diversity:** 88.3% of the portfolio is invested in companies that have at least one female Director, vs 85.4% for the index.

  Source: @2022 MSCI ESG Research - coverage level: 86% for the fund and 86% for the index

- The average **Fatality** rate stands at 0.9 per 100,000 employees in the fund compared to 2.0 per 100,000 employees in the index. (Source: MSCI ESG Research – coverage 33.8% of issuers in the fund vs. 26.3% of issuers in the index – the coverage ratio depends on the materiality of the indicator).

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[1] *Taking into account subsidiary mapping*

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