Q2 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*

- Over the quarter, equity markets rallied despite an overall unhelpful economic and financial environment. The MSCI ACWI* climbed 6.2% over the period “Sell in May and go away” was not a good advice in 2023, with the Nasdaq recording its best first 6 months since 1983 and the S&P 500 back in a bull market (up 20% from the lows reached in Oct 22). It is difficult to point out the exact reasons why investors continued to pile into risk assets but broadly speaking, investors’ worst-case scenarios simply failed to materialise. Perhaps more importantly, the recession that so many economists anticipated, has so far remained out of sight as activity remains strong, especially on the services side.

- Emerging Markets* underperform this trend and rose by just under 1%. While India* rose by over 12% and Brazil* had a stand-out quarter at +20%, the asset class was dragged down by the underperformance of China* (-10%), still the largest market by far with an index weight of over 30%. Part of this underperformance came from the dashed hopes of a roaring post-lockdown recovery, that was clearly the consensus scenario at the end of January. There were also lingering doubts about the regulatory environments, the health of the real estate market and potential repercussion from an increasingly difficult geopolitical environment.

- This quarter, the Fed Funds Rate target was raised to a range of between 5%-5.25%, up from 4.75%-5% the previous quarter. In June specifically, the Fed left its rates unchanged after ten consecutive hikes, but its tone remained hawkish and it suggested that further rate hikes (2 at least) were likely between now and year-end as inflation remains elevated. This stood in contrast to a situation where many Emerging Markets had inflation either under control (e.g. Brazil where rate cuts are now expected) or not much a problem at all (e.g. most of Asia).

- The International Sustainability Standards Board (ISSB), first introduced at COP26 in November 2021 with strong international political support, concluded the outcome of 18 months of work to deliver an inaugural set of two sustainability disclosure standards, which will take over from the Task Force on Climate-related Financial Disclosures (TCFD) starting in 2024. The ISSB Standards have been designed under the oversight of the IFRS Foundation to help companies tell their sustainability story in a robust, comparable and verifiable manner.

** net total return index*

*Sources: UBP, Bloomberg Finance LP.*


*Performance Review*

- The fund outperformed its benchmark by 1.2%, with a performance of +2.1% (net of fees, IC USD class) vs +0.9% for MSCI Emerging markets*.We started by a good April and May, marking a recovery from a difficult end of Q1, and some underperformance in June.

  ** net total return index*

- In terms of countries, we suffered from our overall allocation. Our underweight positions in India and South Korea were the most costly. Our small overweight in China was also a negative factor. Each of those country deviation from the index cost us about 25 basis points.
- Our sector allocation was better. We did suffer from the oil & gas sector strength, but this was offset by our overweight position in Industrials and our lack of exposure to the Communication sector.
- The thematic contribution suffered from dispersion. If Inclusive & Fair Economies was the strongest theme at +13.9%, Climate Stability was the worst at -8.4%, something has been a problem for the fund this year.
- Our stock picking was largely positive for the quarter with good performance from our Indian financial names (Shriram Finance, Bandhan Bank) and many of our industrial plays in Taiwan, where Delta Electronics posted a very strong quarter on rising margin expectations.

*Portfolio activity*

- In line with the first quarter, Q2 2023 was a slow quarter in terms of trading, with little portfolio activity.
- Our main decisions was to exit **Yduqs**, our generalist education company in Brazil (IMAP 14: 3-5-3-3). The stock had underperformed our expectations, dragged down by falling prices in their home market, a high level of competitive pressure (both from offline and online competitors) and a level of debt which, without being among the worst in the sector, was too high to give us confidence in our long-term view. We still think that the company is offering a very useful service in a country where private tertiary education has a role to play, but we will try to find players with a better balance sheet and/or ability to defend pricing.
- All other trades consisted in modifying the sizing of existing positions. For instance, we added to **Wuxi Apptec** twice after initiating a position in this company in the first quarter. We also added to our more resilient positions in the financial sector (**Cathay Financial, Bandhan**), the exception being B**ank Rakyat Indonesia** which performed very strongly and which we reduced due to its elevated valuation towards the end of the quarter. Elsewhere, we also topped up some our underperforming positions in Climate Stability (**Longi Green, LS Electric, Ming Yang Smart Energy**).

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.

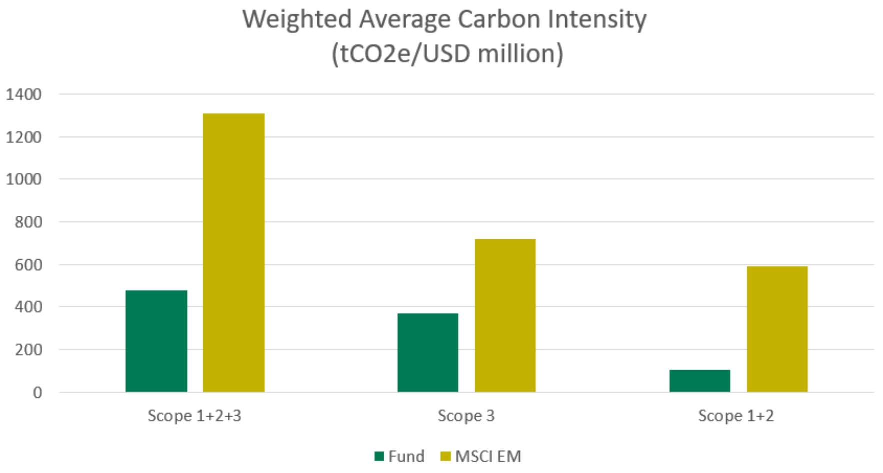

*ESG Monitoring*

- **Human rights and Social**
  (Disclosure: Fund 100% / Index: 99.8%) **and Social** (Disclosure: Fund 100% / Index: 99.9%)

| | UN Global Compact | | | Human Rights Compliance | | |
|---|---|---|---|---|---|---|
| | Pass | Watchlist | Fail | Pass | Watchlist | Fail |
| UBAM - PIEE | 38 | 0 | 0 | 38 | 0 | 0 |
| MSCI EM | 1358 | 44 | 16 | 1359 | 45 | 16 |
| UBAM - PIEE | 100% | 0% | 0% | 100% | 0% | 0% |
| MSCI EM | 95.8% | 3.1% | 1.1% | 95.7% | 3.2% | 1.1% |

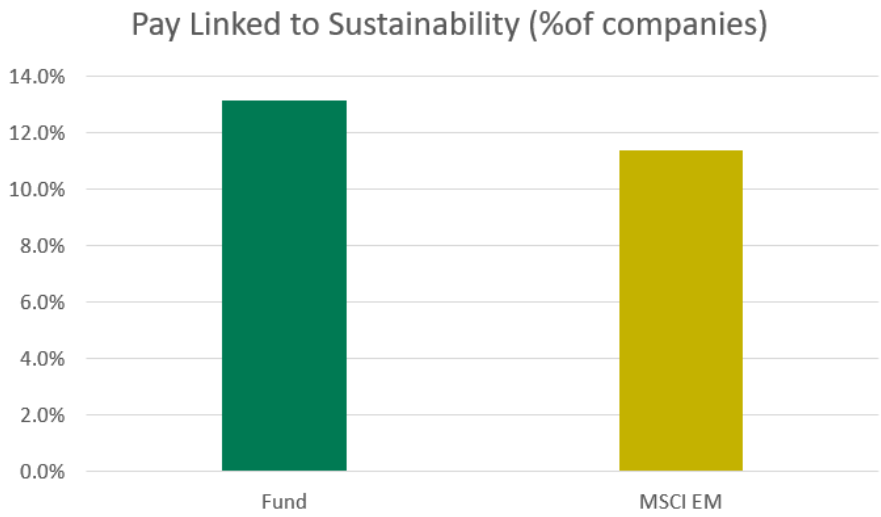
| | Labour Compliance - Core | | | Labor Compliance - Broad | | |
|---|---|---|---|---|---|---|
| | Pass | Watchlist | Fail | Pass | Watchlist | Fail |
| UBAM - PIEE | 38 | 0 | 0 | 38 | 0 | 0 |
| MSCI EM | 1392 | 13 | 15 | 1382 | 22 | 16 |
| UBAM - PIEE | 100% | 0% | 0% | 100% | 0% | 0% |
| MSCI EM | 98.0% | 0.9% | 1.1% | 97.3% | 1.5% | 1.1% |

- **Environment** (Public Disclosure: Fund 64% / Index: 81%, Including estimates: Fund 100% / Index 98.8%)

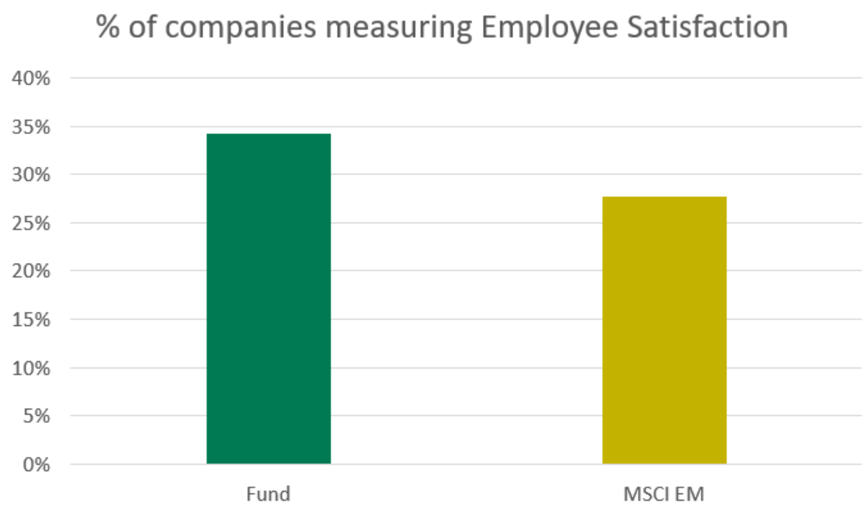



**Carbon Intensity metric:** UBAM - Positive Impact Emerging Equity aims to beat the benchmark (MSCI Emerging markets) for this metric


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




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




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


*Outlook*

- At the half year stage, what have we learned? A number of things. First, the sectors that drove the market up in January, continued to be the dominant forces for the first half of 2023 overall, namely Technology and Consumer Discretionary. Excitement over AI is everywhere as is an obsession with Megacaps. Equally, inflation challenges are as live a topic as they were 6 months ago and central banks still seem quite a long way from a meaningful pivot. The market keeps reassessing down the number of rates cuts it now expects in the US in 2024.

- This orthodox monetary cycle should lead to an orthodox economic cycle. Without such a cycle, it is a challenge to see how policy setters will be convinced that inflation has been tamed. Yet, stock market participants continue to behave with selective attention, in other words, destocking and low levels of demand are weighing on some sectors like energy and materials, but not on discretionary spending plays or high growth sectors, yet, ultimately everything that is relevant to inputs of time series like manufacturing PMIs, will ultimately be influenced by everything that is relevant to consumer demand; it is impossible for one to fade whilst the other flourishes.

- Equally, as we have highlighted before, some of the levers of this cycle will be felt very gradually, for example, the withdrawal of central liquidity (QE). Over the coming months this factor will become more evident and yet many economic indicators are already weaker than at any time in the last 5 years. The cost of capital has already risen, next will come a deterioration in the availability of capital. The disconnect in markets is evident. In an environment where the macro signals seem this confusing, the team are focused on individual portfolio company prospects, aiming to skew weightings towards those stocks where the operating momentum feels most reliable and funding pressures are least severe.

- On the sustainability front, the climate alarm bells continue to ring loudly and the world's tropical rainforests are continuing to shrink, with the pace increasing last year, according to the latest update from the **World Resources Institute's Global Forest Review**. The more than 4 million hectares of primary tropical rainforest lost is roughly equal to the size of Switzerland, and produced 2.7 gigatonnes (Gt) of carbon dioxide emissions, equivalent to India's annual fossil fuel emissions.

- Yet, the commitment to low-carbon transition has never been higher, with now close to 90% of global emissions covered by national, state or supranational net-zero targets. In the meantime, the total global energy transition investment has more than doubled since 2019 from $522bn to $1'110bn in 2022 according to **BNEF**, matching fossil fuels for the first time. In the balance, progress and commitments continue to accelerate despite unprecedented headwinds such as Covid lockdowns, supply chain crunch, war and energy crisis', making the team confident about its dual-mandate strategy.

*Sources: UBP, World Resources Institute's Global Forest Review, BNEF*



## *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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