

# 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 fourth quarter of 2023 delivered a "Santa rally" for investors, fueled by rate cut expectations following the Fed's pivot towards a more dovish stance. Equity markets rallied across the board and the MSCI ACWI\* returned 11.0% in USD terms in Q4 to double its total return for the year to 22.2%.
- Overall, 2023, was a year that defied expectations, with inflation roaring and the Fed enacting the fastest rate hike cycle in 40 years. Nonetheless, after a rise in yields from May to October 2023, bonds rallied until the end of the year when US 10-year bond yield declined to 3.88%, exactly where it started the year, after touching 5% in October. Over the last months of the year, the Fed changed its tone and economic indicators remained fairly encouraging, boosting hopes of a soft landing in 2024 for the US economy. On the back of this, equities accelerated in the last two months of the year.
- Emerging markets\* gained a more modest 7.9% over the last quarter after being only slightly up over the first three quarters of the year. The MSCI EM Standard index\* was up 9.8% in dollar terms for the full year, its first full-year gain since 2020.
- In terms of countries, China was the weakest market again in the last quarter with a 4.2% loss. The macro-outlook continues to be disappointing, with a very difficult real estate market, large developers fighting for their survival, and an overall economy on the brink of deflation. This is in contrast with the rest of North Asia (Taiwan and South Korea up more than 15% in Q4) who benefits from the rebound in the semiconductors cycle, and Latin America who benefits from flows on the back of high interest rates and an inflation which seems under control (Mexico and Brazil up more than 15%). Sector wise, Information Technology lead the market again (+17%) while Communication Services and Consumer Discretionary lagged.
- This year's COP28 in Dubai drew over 100'000 attendees, almost double the size of COP21 in Paris. Encouragingly, the narrative on the link between nature and climate has become stronger since COP27, and this was cemented by a dedicated nature day for the first time at COP28. A joint statement on "climate, nature and planet" (signed by 15 nations including the UK and the US) called for countries to meet the Paris Agreement targets along with the Global Biodiversity Framework ambitions. This is great progress in terms of how capital will be allocated to solutions. Moreover, while the record-setting global public-private sector participation offered a signal of hope, the backdrop of oil refineries served a stark reminder of COP's dual nature as a symbol of climate progress and delay. There was no convincing increase in the level of urgency or ambition at collective level, but we can hope that keeping the 1.5° C target will lead to stricter targets for the next round of climate goals (i.e. the so-called "nationally determined contributions").

\* net total return index

Sources: UBP, Bloomberg Finance LP.

## Performance Review

- The fund underperformed its benchmark by 6.9%, with a performance of +1.0% (net of fees, IC USD class) vs +7.9% for MSCI Emerging markets\*. The underperformance happened mainly in the second part of October and the month of November.
 

\* net total return index
- In terms of countries, there was little impact overall from our geographic allocation. China was the key underperformer, and we were slightly underweight that market over the quarter. We have also run a larger allocation to Taiwan after we added to our large cap exposure there (see portfolio activity).
- Our sector allocation was also unremarkable from an allocation point of view but showed that, on the selection side, we lost significant ground to the index in Information Technology, Industrials and Healthcare, the latter two being structural overweight positions for the fund.
- The thematic contribution continued to show weakness for our Climate Stability theme. Stocks classified in that theme fell by almost 9%. Meanwhile, Health & Wellbeing, Sustainable Communities and Healthy Ecosystems were close to the zero mark. Only Inclusive & Fair Economies and Basic Needs were in positive territory (+7.5% and +6.7% respectively).
- Looking at the key detractors, it was mainly the stocks linked to the energy transition that suffered this quarter. EV-related stocks (BYD, Samsung SDI), renewable equipment manufacturers (Longi, Xinyi Solar, Ming Yang) or more general industrial plays in that theme (LS Industrial Systems, Sinbon Electronics) all weighed on performance, as well as our lack of exposure to megacap stocks such as Samsung Electronics, which had a great quarter (+20%). There were also some stock specific developments such as the profit warning at Life Healthcare, and a more modest outlook at Wuxi Aptec or Bandhan Bank.

## Portfolio activity

- We disposed entirely of our position in **Pinduoduo** (IMAP: 12) due to the shift in strategy towards cross-border e-commerce, which we see as riskier, and less aligned with the sustainability objectives of the company. We tried to engage with the company about that particular issue all year, but without success. We felt the company could not stay in the portfolio for that reason, despite the very good operating performance the company has demonstrated this year, and which benefited the fund until mid-October. Less importantly due to the more modest size of the position, we exited **Safaricom** (IMAP: 16). Their exposure to Ethiopia, coupled with the limited convertibility of the Kenyan Shilling due to repeated US dollars shortages in the country, meant that the position was too risky from a macro perspective.
- We added three new positions. In Taiwan, we moved forward on the impact case of **TSMC** (IMAP: 16) due to their ability to help their customers generate energy efficiency gains (a key objective for the years to come) and the improving semiconductors cycle. We initiated a position in **Sungrow Power Supply** (IMAP: 16), a stock we had owned before but exited for valuation reasons. It is now trading at a much lower valuation, a consequence of the recent weakness in energy transition stocks, and will help diversify our exposure to the solar sector beyond Longi Green and Xinyi Solar. Finally, we invested in **Hypera** (IMAP: 12), a Brazilian pharma champion with ambitious investment plans both in local R&D and generics.



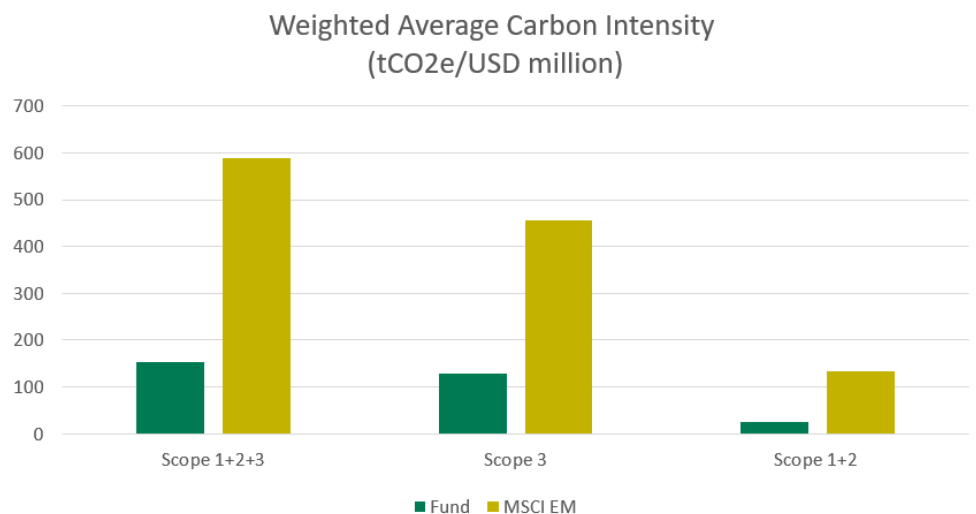
ESG Monitoring

➤ **Human rights and Social** (Disclosure: Fund 95.0% / Index: 100%) **and Social** (Disclosure: Fund 94.9% / Index: 100%)

	UN Global Compact			Human Rights Compliance		
	Pass	Watchlist	Fail	Pass	Watchlist	Fail
UBAM - PIEE	38	0	0	38	0	0
MSCI EM	1377	49	14	1376	50	14
UBAM - PIEE	100%	0%	0%	100%	0%	0%
MSCI EM	95.6%	3.4%	1.0%	95.6%	3.5%	1.0%

	Labour Compliance - Core			Labor Compliance - Broad		
	Pass	Watchlist	Fail	Pass	Watchlist	Fail
UBAM - PIEE	38	0	0	38	0	0
MSCI EM	1409	18	13	1399	28	13
UBAM - PIEE	100%	0%	0%	100%	0%	0%
MSCI EM	97.8%	1.3%	0.9%	97.2%	1.9%	0.9%

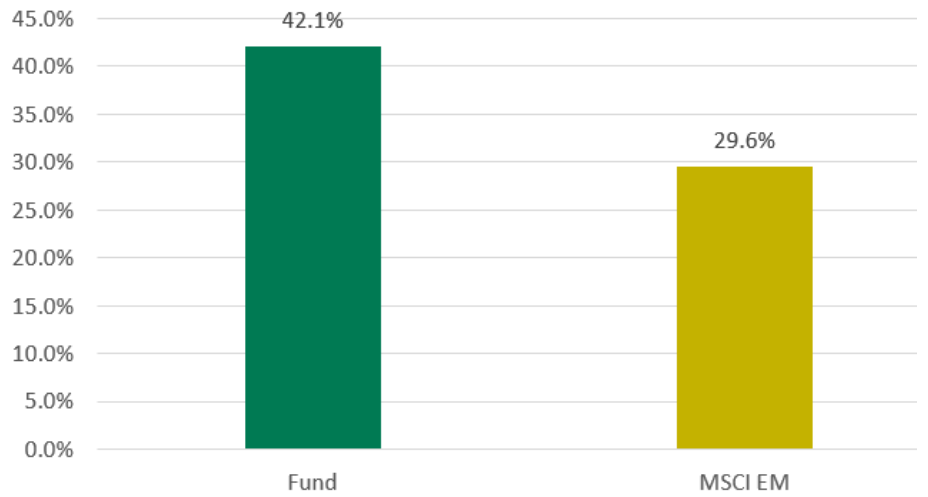
➤ **Environment** (Public Disclosure: Fund 68.5% / Index: 77.0%, Including estimates: Fund 100% / Index 99.9%)



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

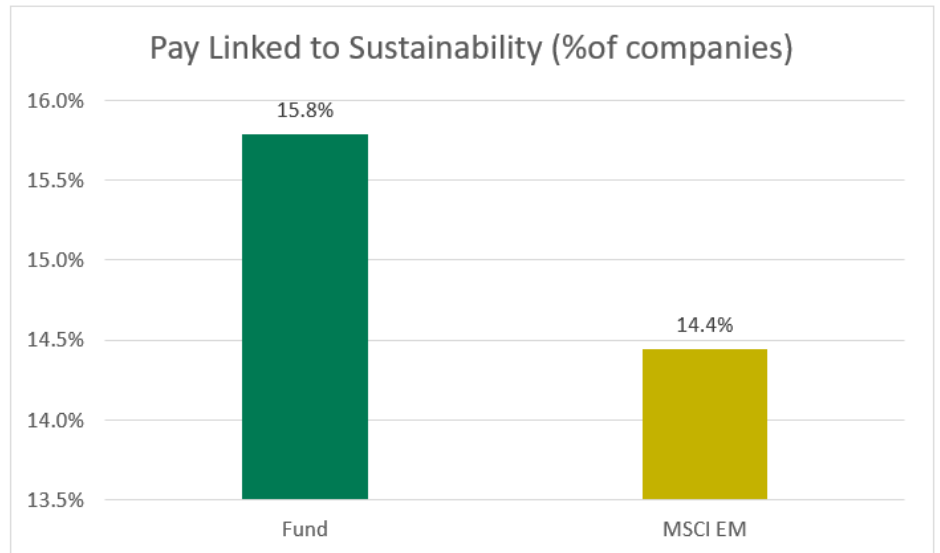


### % of companies measuring Employee Satisfaction



➤ **Labour** (Disclosure: Fund 95.0% / Index: 100%)

### Pay Linked to Sustainability (%of companies)



➤ **Governance** (Disclosure: Fund 95.0% / Index:100%)

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

## Outlook

- Market sentiment was even more mercurial than normal over 2023, bouncing from recession worries at the start of the year, to resilient growth over the summer, to higher for longer in the autumn, and ending the year focused on future rate cuts. Arguably, the strong run into year-end may have dragged some of 2024's expected equity return into 2023 as market consensus moved to price in a soft landing. The MSCI ACWI generated double digit returns despite negative earnings growth for most constituents as investors navigated an altering backdrop. Consequently, 2023 was largely driven by valuation expansion, while 2024 is supposedly going to be driven by better corporate earnings across the board. Investors' focus is now shifting from inflation concerns and towards softening economic growth. For 2024, consensus predicts 9-11% EPS growth - which is the traditional starting point. Nevertheless, risks are always present as financial conditions remain constrictive – higher interest rates have made borrowing more expensive, which has reduced spending and investment.
- There are a few additional features central to the investment thesis for the coming year. First, 2024 will be the biggest election year in history, with more than half the people on the planet living in countries that will hold nationwide elections in 2024. The US presidential election in November is the most significant event, however, global trade and diplomacy will be impacted much sooner given two major conflicts ongoing and the undercurrent of geo-political tensions.
- China will continue to suffer from the fallout of the slowdown in its real estate sector. We don't expect a sudden acceleration, but do not expect a collapse either. The consensus expects a 4.5% GDP growth in 2024, and there are still ways in which the authorities can stimulate the economy particularly as inflation is much lower than in other regions. Outside of China, the rest of Emerging Markets has been receiving inflows over the last few months, and we believe this will continue.
- During Q4, bond yields fell dramatically as investors played the pivot theme, however, since the start of 2024 some of that yield compression has been given back. This holds true with recent market volatility reacting to short term changes in news flow, in this instance Fed minutes suggesting that market had got too premature in its US rate cut expectations. Further bond market volatility is likely to influence equity markets rather than the other way around in 2024.
- On the sustainability front, among the standout positive developments in 2023 was a very high renewables growth rate (50% more renewable capacity in 2023 than in 2022\*), numerous climate commitments at COP28, and multiple signs of technology advancement. Standout challenges in 2023 included geopolitical conflicts, high weather volatility that put strains on power grids (driving multiple countries to increase their reliance on fossil fuels temporarily) higher interest rates driving up decarbonization project costs and multiple missteps and challenges relating to companies' business models. On that last challenge, 2023 was a reminder that it is not enough to have a business model focused on enabling the sustainability transition; you must also be a high-quality business. Stocks that face risks of commoditisation, are cash flow constrained, and/or are exposed to significant execution risks will continue to struggle and a disciplined allocation remains critical.

Sources: *UBP*, *COP28*, \* *IEA*



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## 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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