

UBAM – EMERGING MARKET CORPORATE BOND SHORT DURATION

Quarterly Comment

For Professional Investors in Switzerland or Professional Investors as defined by the relevant laws.

Market Comment

- The year started with optimism with the roll-out of vaccines around the globe, and the decision of the US new administration to provide a huge stimulus package of USD 1.9 trillion to support activity.
- Expectations of a sharp rebound in the US economy rapidly led to fears of an acceleration of inflation, however, which in turn, resulted in a steepening of the US rate curve. The 2-year US Treasury rates went up by 4 bps to 0.16% while 10-year rates increased by 83 bps to 1,74%.
- In parallel, commodity prices also shot up. The CRB index rose by 10.2%, thanks notably to the rally in oil (Brent +22.7%) and in basic metals (copper +13.4%). Precious metals, however, underperformed, with gold down 10.0% and silver down 7.5%.
- Volatility picked up over the quarter, but overall, EM corporate bonds remained well supported as investors remained comfortable with credit fundamentals, and large inflows into the asset class were strong (+USD 29.1 bn into EM hard currency bonds, of which +6.8 bn in pure corporate-focused funds vs. 5.3 bn in pure sovereign-focused funds) even if these flows slowed in March.
- This led EM corporate bond spreads to tighten over the quarter by 33 bps to 283 bps.
- Total return performance was negative (-0.99%), however, as a result of the rise in US rates. Still EM corporate bonds were less impacted than EM sovereign bonds (-4.54%), thanks to their much shorter duration (5 years vs 8 years).
- High Yield bonds outperformed, posting a marginally positive return (0.02%), thanks to their higher carry, lower duration and greater spread tightening over the period (-46 bps to 435 bps). Investment grade bonds returned -1.87% with a spread tightening of 32 bps to 177 bps.
- At a regional level, the best performance came from Africa (1.2%) and the Middle East America (-0.2%). In contrast, Latin America (-2.8%) and Europe (-1.1%) underperformed.
- At a country level, the best performance came from Ghana (+15.6%), followed by Azerbaijan (+4.2%) and Bahrain (+4.0%). In contrast, the worst performance came from Mexico (-4.3%), Argentina (4.0%) and Kazakhstan (-3.6%).
- At a sector level, the best performance came from commodities sectors: Infrastructure (-0.1%), Financials (-0.1%) and the Consumer sector (-0.7%). In contrast, Oil & Gas (-3.0%) and Pulp & Paper (2.4%) underperformed.
- The shorter end of the credit curve outperformed, thanks to its shorter duration: 1-3-year EM corporate bonds returned +0.9%, while 3-5-year bonds were broadly flat%.



Performance Review

- Over the quarter, the fund returned -0.26% net of fees. The fund benefited from its high carry and from spread tightening, but suffered from the rise in rates.
- At a country level, the best performance came from our holdings in Hong Kong, South Africa, Colombia and India.
- In contrast, our allocation to Chinese issuers, Ethiopia, Russia and Turkey proved costly.
- At a sector level, the best performance came from Industrials and the Consumer sector. In contrast, the fund suffered from its allocation to Financials, Sovereigns and Oil & Gas.

Portfolio Activity

- Over the quarter, our scorecard remained in “dynamic” territory, as despite the rise in US rates, we remained comfortable on EM corporate fundamentals.
- We increased holdings in Latin America, Asia and Africa at the expense of Europe and the Middle East.
- In Latin America, we added exposure to Brazil (TMT, Oil & Gas), Colombia (TMT) and Chile (TMT, Consumer). In contrast, we reduced our holdings in Industrials in Mexico.
- In Asia, we increased holdings in China (Real Estate) and Indonesia (Oil & Gas) at the expense of India (Infrastructure, Metals & Mining).
- In Africa, we added a Supranational development bank as well as holdings in South Africa (TMT, Metals & Mining).
- In Europe, we sold our holdings in Kazakhstan (Financials) in favour of Ukraine (Metals & Mining).
- In the Middle East, we reduced exposure to the UAE (Financials).
- At a sector level, we favoured TMT, Oil & Gas and Real Estate at the expense of Industrials and Infrastructure.



Outlook

- Despite some delays in the roll-out of vaccines across the world, the global economy is expected to rebound sharply this year thanks notably to the large support packages that many countries have pledged. This rebound should be faster in Emerging Markets, led by Asia, than in Developed Markets.
- EM corporate fundamentals remain solid, with notably less leverage than in the US. This means that we can expect defaults rates to come down in 2021 and to remain lower in EM than those in the US.
- In parallel, and despite the rise in US rates, investors are expected to continue to look at EM debt as an asset class of choice providing attractive carry. This should lead to new inflows as experienced in the first quarter of 2021.
- We expect inflows into short-dated bonds to be sustained. Indeed, these appear attractive, with spreads of around 290 bps for 1-3- and 3-5-year paper vs only about 210 bps in 7-10-year bonds. Moreover, their low duration provides a cushion in case of further steepening of the US interest rate curve.
- In the current environment we prefer HY bonds as they offer greater carry and additional protection to absorb any rise in rates. The global recovery should also help to keep defaults rates low, further favouring HY. Still, we remain selective and rely on our internal, bottom-up, credit analysis to avoid issuers at risk.
- At a country level, our largest positions are in China, Brazil, Russia, South Africa and Colombia.
- At a sector level, our largest positions are in Sovereigns, Oil & Gas, Consumer companies and Industrials.

Disclaimer

This is a marketing document and is intended for informational and/or marketing purposes only. This document is confidential and intended only for the use of the person(s) to whom it was delivered. It may not be reproduced (in whole or in part) or delivered, given, sent or in any other way made accessible to any other person without the prior written approval of Union Bancaire Privée, UBP SA or any entity of the UBP Group ("UBP"). This document reflects the opinion of UBP as of the date of issue. This document is for distribution only to persons who are Professional Investors in Switzerland or Professional Clients or an equivalent category of investors as defined by the relevant laws (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. It is not intended for distribution, publication, or use, in whole or in part, in any jurisdiction where such distribution, publication, or use would be unlawful, nor is it directed at any person at whom or entity at which it would be unlawful to direct such a document. In particular, this document may not be distributed in the United States of America and/or to US persons (including US citizens residing outside the United States of America). This document has not been produced by UBP's financial analysts and is not to be considered financial research. It is not subject to any guidelines on financial research and independence of financial analysis. Reasonable efforts have been made to ensure that the content of this document is based on information and data obtained from reliable sources. However, UBP has not verified the information from third sources in this document and does not guarantee its accuracy or completeness. UBP makes no representations, provides no warranty, and gives no undertaking, express or implied, regarding any of the information, projections or opinions contained herein, nor does it accept any liability whatsoever for any errors, omissions or misstatements. The information contained herein is subject to change without prior notice. UBP gives no undertaking to update this document or to correct any inaccuracies in it which may become apparent. This document may refer to the past performance of investment interests. Past performance is not a guide to current or future results. The value of investment interests can fall as well as rise. Any capital invested may be at risk and investors may not get back some or all of their original capital. Any performance data included in this document does not take into account fees, commissions, and expenses charged on issuance and redemption of securities, nor any taxes that may be levied. Changes in exchange rates may cause increases or decreases in investors' returns. All statements other than statements of historical fact in this document are "forward-looking statements". Forward-looking statements do not guarantee future performances. The financial projections included in this document do not represent forecasts or budgets but are purely illustrative examples based on a series of current expectations and assumptions which may not eventuate. The actual performance, results, financial condition and prospects of an investment interest may differ materially from those expressed or implied by the forward-looking statements in this document as the projected or targeted returns are inherently subject to significant economic, market and other uncertainties that may adversely affect performance. UBP also disclaims any obligation to update forward-looking statements, as a result of new information, future events or otherwise. None of the contents of this document should be construed as advice or any form of recommendation to purchase or sell any securities or funds. This document does not replace a prospectus or any other legal documents, which can be obtained free of charge from the registered office of the fund they relate to, or from UBP. The opinions herein do not take into account individual investors' circumstances, objectives, or needs. Each investor must make his/her own independent decision regarding any securities or financial instruments mentioned herein and should independently determine the merits or suitability of any investment. In addition, the tax treatment of any investment in the fund(s) mentioned herein depends on each individual investor's circumstances and may be subject to change in the future. Investors are invited to carefully read the risk warnings and the regulations set out in the prospectus or other legal documents and to seek professional financial, legal and tax advice. This document should not be deemed an offer nor a solicitation to buy, subscribe to, or sell any currency, funds, products, or financial instruments, to make any investment, or to participate in any particular trading strategy in any jurisdiction where such an offer or solicitation would not be authorised, or to any person to whom it would be unlawful to make such an offer or solicitation. Telephone calls to the telephone number stated in this document may be recorded. UBP will assume that by calling this number you consent to such recording. UBP is authorised and regulated in Switzerland by the Swiss Financial Market Supervisory Authority and is authorised in the United Kingdom by the Prudential Regulation Authority. UBP is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Any subscriptions not based on the funds' latest prospectuses, KIIDs, annual or semi-annual reports or other relevant legal document shall not be acceptable. The latest prospectus, articles of association, KIID and annual and semi-annual reports of the funds presented herein (the "Funds' Legal Documents") may be obtained free of charge from Union Bancaire Privée, UBP SA, 96-98 rue du Rhône, P.O. Box 1320, 1211 Geneva 1 ("UBP"). The Funds' Legal Documents may also be obtained free of charge from UBP Asset Management (Europe) S.A., 287-289 route d'Arlon, 1150 Luxembourg, Grand Duchy of Luxembourg, and from Union Bancaire Gestion Institutionnelle (France) SAS, 116 avenue des Champs-Élysées, 75008 Paris, France. The Swiss representative and paying agent of the foreign funds mentioned herein is UBP. The Funds' Legal Documents may be obtained free of charge from UBP, as indicated above.

Union Bancaire Privée, UBP SA Rue du Rhône 96-98 | P.O. Box 1320 | 1211 Geneva 1 | Switzerland ubp@ubp.com | www.ubp.com