Q1 2021

UBAM – EMERGING MARKETS FRONTIER 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

- 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%.
- Over the quarter, frontier bonds, as measured by JP Morgan NexGEM index posted a negative performance of only -1.28%, outperforming the broader EM sovereign bond market (-4.54%) thanks to their shorter duration, higher spread cushion and a spread tightening of 20 bps to 576 bps, which demonstrates that investors remained comfortable with Frontier issuers despite the market volatility
- At a regional level, the best performance came from Asia (5.2%). In contrast, Africa (-3.2%), Europe (-2.5%), Middle East (-2.1%) and Latin America (-1.0%), all posted negative performance.
- At a country level, the best performance came from Sri Lanka (+10.1%), Zambia (+8.9%), Costa Rica (+6.9%), El Salvador (+6.3%) and Suriname (+5.5%).
- In contrast, countries that performed the worst were Belize (-14.0%), Senegal (-8.8%), Mozambique (-8.6%) and Ethiopia (-7.8%).
- Sri Lanka's strong rebound reversed the underperformance of the previous quarter. The country continues servicing its debt, and as liquidity concerns abate, the extremely attractive valuations tend to lead to outperformance. Sri Lanka's reserves did come under pressure when they repaid India's swap line but were replenished with a new FX swap line from China. The country seems intent on servicing Eurobonds and finding ways to access liquidity elsewhere. While default remains a distinct possibility, bond prices already reflected this risk coming into the year. Thus, absent bad news, the outperformance makes sense given the very high current yields. The fund holds a significant position in Sri Lanka.

- Speaking of defaults, another country which provided significant positive returns in Q1 was Zambia, which officially defaulted in November last year when the grace period for coupon payment on their bonds due in 2024 expired. As such, unlike Sri Lanka there's no current yield to speak of, so the performance is entirely down to expectations of recovery value. On that front, several reports citing constructive engagements with the IMF sent positive signals to the market. The fund continues to hold a modest position in Zambia.
- Finally, similarly linked to IMF engagement, Costa Rica and El Salvador both rallied significantly. In Costa Rica, a staff level agreement was reached during the quarter, with relatively light conditionality. This followed months of debate and difficulties getting the domestic support needed. The generous nature of the programme increases the chances that the measures can be passed in the divided congress. El Salvador had their midterm elections of legislators, where President Bukele's Nuevas Ideas party secured a majority. This allowed the country to quickly announce IMF engagement, with a staff level agreement being expected shortly. The fund has no exposure to Costa Rica, but a substantial position in El Salvador.
- Mozambique suffered in the first quarter, due to a combination of continued negative fundamentals and an increase in violence in the Cabo Delgado region. The country maintains a difficult fiscal position following their shallow restructuring in 2019. This wasn't helped in the first quarter as data from the end of 2020 was negative. Meanwhile, one potential saving grace for the country is their LNG reserves. These were targeted by Islamist militants who have grown increasingly active in the Cabo Delgado region which is home to LNG projects estimated to involve as much as $50bn worth of investments. Our fund has no exposure in Mozambique.
- Paraguay also suffered during the quarter due to its tight spreads, and a slightly unhelpful technical position. In January, the country issued new bonds, and re-tapped their 2050s issued last year. The domestic news flow wasn't particularly negative, but with US interest rates rising, tight spreads, and bond supply, the country underperformed despite its very strong credit metrics. The fund decreased its exposure slightly in the longer end of Paraguay.
- Finally, Ethiopia continued to underperform. The country became the first non-defaulted country with Eurobonds outstanding to request G20 common framework treatment. The Common Framework is a mechanism by which a debtor country would seek to achieve debt relief from all creditors, both public and private. While the DSSI "encouraged" private sector participation, the Common Framework requires a country to "seek comparable treatment" by other external creditors, including the private sector (which would, by definition, include Eurobond holders). While that may seem clear, there still is no obvious mechanism by which it could be imposed. Seeking comparable treatment is not the same as achieving it. Ultimately, a restructuring of Eurobonds requires bondholders' consent. It remains to be seen what would happen if this consent is not achieved in a country that has subscribed to the Common Framework. On top of this uncertainty, the noise around the Renaissance Dam continues. We exited our position in Ethiopia following the G20 news.

Performance Review

- Over the period, the fund returned -2.62% net of fees.
- The main source of negative performance was our duration positioning.
- At a regional level, the best performance came from Asia and the Middle East. In contrast, Latin America, Africa and Europe posted negative performance.
- Country-wise, the largest contributors to performance were Sri Lanka, El Salvador, Zambia and Angola.
- In contrast, Paraguay, Nigeria and Guatemala were among the worst performers over the quarter. In addition, Belarus, Dominican Republic, Ivory Coast and Kenya also contributed negatively.
- Since the inception of the fund twelve months ago, the fund has returned 29.18% net of fees, thanks to the sharp market rebound experienced after the pandemic-induced sell-off which had occurred pre-launch. All regions contributed positively, with Africa and Latin America in the lead.

Portfolio Activity

- Over the period, we increased holdings in Asia and Europe at the expense of Latin America.
- In Africa, we increased our exposure to Angola, Benin, Cote D'Ivoire, Ghana and Nigeria at the expense of Ethiopia, Cameroon and Gabon.
- In Latin America, we reduced holdings at the long end of Guatemala and Paraguay but added exposure in the Dominican Republic and El Salvador with rotation from long-end to short-end bonds. We also reduced our exposure to Honduras.
- In Asia, we increased our exposure to Sri Lanka and to Tajikistan.
- In Europe, we added exposure to Kazakhstan (local currency bonds) at the expense of Ukraine.
- Finally, we added exposure to Local Currency for the first time since the fund was launched in Q4 2020. From a macro perspective, we have a benign view on the USD for 2021 and see the room for EM currencies to appreciate. Meanwhile, dollar yields available in several countries we like have become less compelling. In total, around 13% is now invested in local currency instruments (Dominican Republic, Egypt, Kazakhstan, Ukraine, and Uruguay).

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.
- The outlook remains constructive on the fundamentals of frontier markets, and particularly in the names we are invested in. The IMF is looking at a $650bn increase in SDR allocations, which is clearly a constructive development. Add to this some newly agreed IMF programmes (Kenya, Costa Rica and El Salvador) and ongoing discussions with many other countries. Moreover, the successful issuance of Eurobonds by many of Frontier sovereigns in the first quarter, which included liability management and a level of issuance already ahead of projections at an aggregate level, is a positive. Altogether, these should offer decent liquidity support and a continued constructive outlook for frontier markets.
- In addition, despite the recent rise in US rates, DM yields remain at low levels on average. We thus expect inflows into EM bonds to continue in the months to come. This should benefit frontier markets, one of the few reasonably liquid asset classes with such high yield levels.

- At a regional level, we favour Africa and Latin America.
- At a country level, our largest positions are Côte d'Ivoire, Nigeria, Kenya, Paraguay, Guatemala, and the Dominican Republic.

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.

This is a marketing document and is intended for informational and/or marketing purposes only. It is confidential and is intended to be used only by 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 clients in Switzerland or Professional Clients or an equivalent category of investor 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 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 constitute forecasts or budgets; they 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. The contents of this document should not be construed as any form of advice or recommendation to purchase or sell any security or funds. It does not replace a prospectus or any other legal documents, which can be obtained free of charge from the registered office of the fund(s) mentioned herein or from UBP. The opinions herein do not take into account individual investors' circumstances, objectives, or needs. Each investor must make their 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. Investors are invited to carefully read the risk warnings and the regulations set out in the prospectus or other legal documents and are advised to seek professional counsel from their financial, legal and tax advisors. The tax treatment of any investment in a fund depends on the investor's individual circumstances and may be subject to change in the future. 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 presentation may be recorded. UBP will assume that, by calling this number, you consent to this recording.
Pursuant to Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (the "Disclosures Regulation" or "SFDR"), funds are required to make certain disclosures. Funds falling under the scope of Article 6 of the SFDR are those which have been deemed not to pursue an investment approach that explicitly promotes environmental or social characteristics or has sustainable investment as their objective. Notwithstanding this classification, the Investment Managers may take account of certain sustainability risks as further described in the fund's prospectus. Funds falling under the scope of Articles 8 or 9 of the SFDR are those subject to sustainability risks within the meaning of the SFDR. The sustainability risks and principal adverse impacts as stipulated in the SFDR are described in the prospectus. In addition, unless otherwise specified, all funds apply the UBP Responsible Investment Policy, which is available on https://www.ubp.com/en/investment-expertise/responsible-investment.

Any subscriptions not based on the funds' latest prospectuses, KIIDs, annual or semi-annual reports or other relevant legal documents (the "Funds' Legal Documents") shall not be acceptable. 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, Switzerland (UBP), 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-Elysées, 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.
This content is being made available in the following countries:
Switzerland: UBP is authorised and regulated in Switzerland by the Swiss Financial Market Supervisory Authority (FINMA). The head office is Union Bancaire Privée, UBP SA, 96-98 rue du Rhône, P.O. Box 1320, 1211 Geneva 1, Switzerland. **ubp@ubp.com** | www.ubp.com
United Kingdom: UBP is authorised in the United Kingdom by the Prudential Regulation Authority (PRA) and is subject to regulation by the Financial Conduct Authority (FCA) and limited regulation by the PRA.

France: Sales and distribution are carried out by Union Bancaire Gestion Institutionnelle (France) SAS, a management company licensed with the French Autorité des Marchés Financiers, - licence n° AMF GP98041 ; 116, av. des Champs Elysées l 75008 Paris, France T +33 1 75 77 80 80 Fax +33 1 44 50 16 19 **www.ubpamfrance.com**.
Hong Kong: UBP Asset Management Asia Limited (CE No.: AOB278) is licensed with the Securities and Futures Commission to carry on Type 1 – Dealing in Securities, Type 4 – Advising on Securities and Type 9 – Asset Management regulated activities. The document is intended only for Institutional or Corporate Professional Investor and not for public distribution. The contents of this document have not been reviewed by the Securities and Futures Commission in Hong Kong. Investment involves risks. Past performance is not indicative of future performance. Investors should refer to the fund prospectus for further details, including the product features and risk factors. The document is intended only for **Institutional Professional Investor** and not for public distribution. The contents of this document and any attachments/links contained in this document are for general information only and are not advice. The information does not take into account your specific investment objectives, financial situation and investment needs and is not designed as a substitute for professional advice. You should seek independent professional advice regarding the suitability of an investment product, taking into account your specific investment objectives, financial situation and investment needs before making an investment. The contents of this document and any attachments/links contained in this document have been prepared in good faith. UBP Asset Management Asia Limited (UBP AM Asia) and all of its affiliates accept no liability for any errors or omissions. Please note that the information may also have become outdated since its publication. UBP AM Asia makes no representation that such information is accurate, reliable or complete. In particular, any information sourced from third parties is not necessarily endorsed by **UBP AM Asia**, and **UBP AM Asia** has not checked the accuracy or completeness of such third party information.
Singapore: This document is intended only for accredited investors and institutional investors as defined under the Securities and Futures Act (Cap. 289 of Singapore) ("SFA"). Persons other than accredited investors or institutional investors (as defined in the SFA) are not the intended recipients of this document and must not act upon or rely upon any of the information in this document. The financial products or services to which this material relates will only be made available to clients who are accredited investors or institutional investors under the SFA. This document has not been registered as a prospectus with the MAS. Accordingly, this document and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of this product may not be circulated or distributed, nor may the product be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to institutional investors under Section 274 or 304 of the Securities and Futures Act (Cap. 289) of Singapore ("SFA"), (ii) to relevant persons pursuant to Section 275(1) or 305(1), or any person pursuant to Section 275(1A) or 305(2) of the SFA, and in accordance with the conditions specified in Section 275 or 305 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. This advertisement has not been reviewed by the Monetary Authority of Singapore.
MSCI : Although Union Bancaire Privée, UBP SA information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the "ESG Parties"), obtain information from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness of any data herein. None of the ESG Parties makes any express or implied warranties of any kind, and the ESG Parties hereby expressly disclaim all warranties of merchantability and fitness for a particular purpose, with respect to any data herein. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein. Further, without limiting any of the foregoing, in no event shall any of the ESG Parties have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.