UBAM – EM SUSTAINABLE 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

- After the sharp volatility and sell-off experienced in the first three months of the year, the US rate curve flattened in the second quarter. In particular, the shorter end of the curve sold off on the back of the Federal Reserve's more hawkish tone. The 2-year US Treasury rates went up by 9 bps to 0.25% while 10-year rates decreased by 27 bps to 1,47%.
- In parallel, as signs of a global growth rebound were confirmed, commodity prices rallied. The CRB index rose by over 15%, thanks notably to the rally in oil (Brent +18%) and in basic metals (iron ore +21%). Precious metals, however, underperformed, with gold up only 3.7%.
- Inflows into EM bonds remained strong throughout the quarter. YTD inflows have reached 47.3bn vs 29.1 bn at the end of March. Flows into pure EM corporate bond strategies reached USD 12.1bn vs. YTD, vs. 11bn for pure EM sovereign bond strategies.
- EM corporate bond spreads were marginally wider over the period (+3 bp to 286 bps), leading to a return of +2.12%.
- High Yield bonds outperformed (2.63%), thanks to their higher carry and a small spread tightening (-6 bps to 429 bps). Investment grade bonds returned 1.75% with spreads unchanged at 177 bps.
- At a regional level, the best performance came from Europe (3.5%), Africa (2.9%) and the Latin America (2.7%). In contrast, Asia (1.4%) and the Middle East (1.8%) underperformed.
- At a country level, the best performance came from Argentina (11.1%), followed by Ghana (7.4%), Turkey (5.2%), Mexico (4.3%) and Thailand (+4.3%). In contrast, the worst performance came from Peru (-0.5% due to the uncertainty created by the presidential elections), China (-0.2%) and Chile (0.4%).
- At a sector level, the best performance came from commodity sectors like Oil & Gas (4.3%), Pulp & Paper (3.6%) and Metals & Mining (3.0%). Transport companies also did well (3.6%). In contrast, Real Estate (1.1%), Financials (1.3%) and Utilities (1.6%) underperformed.
- Over the quarter, EM Sustainable corporate bonds, as measured by JP Morgan ESG CEMBI Broad index, returned (2.06%) in line with the overall EM corporate bond universe. Investment grade ESG bonds underperformed (1.4%), however, notably due to their reduced share of commodities issuers compared to the overall index.

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 1.54% net of fees compared to 2.12% for the JP Morgan CEMBI Diversified index*.
- Performance attribution shows that the fund suffered from its issuer/issue selection while our duration and curve positioning was broadly neutral.
- The main source of our underperformance is our underweight in high yield (especially in the single-B segment), which results fromthe fund's high ESG quality objective .
- Excluding the duration and curve effects, which are managed at the overall portfolio level,
    - Country-wise, the best performance came from our selection in China, India and Russia and underweight in Israel. In contrast, our underweight in Argentina, Turkey, Brazil, our overweight in Chile and our zero holdings in Taiwan proved costly.
    - Sector-wise, the fund benefited from our underweight and selection in Consumer companies. In contrast, our selection in Industrials, underweight and selection in Oil & Gas and selection in TMT proved costly.

**Index provided for comparison and information purposes only. The fund has no official benchmark.*

Portfolio Activity

- Over the quarter, we increased exposure to Latin America at the expense of Asia.
- In Latin America, we increased our exposure to Brazil (Consumer, TMT) and Colombia.
- In Asia, we reduced our allocation to India (two Utilities green bonds were called). In contrast we increased holdings in Financials in Singapore and Thailand and in Chinese real estate.
- In the Middle East, we bought Qatar (Oil & Gas, TMT) at the expense of Kuwait (Financials).
- The share of green and sustainability bonds in the portfolio decreased (8.6% vs 10.2% at the end of March) over the quarter, as some of our green holdings were called. We maintain a higher share that in the index, however (4.9%).
- In particular, we bought exposure to a green bond issued by Yanlord Land Group, a real estate company with activities in China and Singapore. The company has strong profitability as well as solid cash flows, leverage metrics and liquidity. Moreover, its commitment to sustainability is strong. Its sustainability governance sits with the Board; it is a member of the Workplace Safety and Health Council; it has a Supplier Code of Conduct and requires its partners to adhere to regulations and Environmental, Health and Safety standards; and it has been developing its book of certified green buildings. The green bond has been assessed by Sustainalytics, who confirmed its alignment with the Green Bond Principles.

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The eligible categories for the use of proceeds include, among others, green buildings, energy efficiency, sustainable water, renewable energy and pollution prevention, which address the UN Sustainable Development Goals 6, 7, 11 and 12. Yanlord will notably focus on the construction or retrofit of commercial and residential buildings that have received green certifications viewed as credible and impactful by Sustainalytics

Outlook

- The global economy is expected to rebound sharply this year thanks notably to the large support packages that many countries have pledged. The rebound in some EM countries may, however, be slower than initially planned due to the delayed deployment of vaccines and the appearance of new Covid-19 variants.
- Still, we believe that sovereign and corporate fundamentals remain solid and that the acceleration of growth is only being postponed by a few months. Indeed, the export of vaccines to EM countries is set to pick up in the second half, thanks notably to the Covax scheme, which will benefit from the increased supply of vaccines available and the fact that many DM countries are nearing completion on their inoculation programs.
- In the meantime, central banks are expected to remain fairly accommodative until economies recover fully and should only tighten their monetary policy gradually.
- While the risks associated with the new Covid-19 variant and subsequent new waves remain, we expect investors 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 half of 2021.
- In that context, EM corporate bonds, with their lower volatility and higher Sharpe ratios than EM sovereign debt or EM local debt, appear even more appealing. Their lower duration (around 5years) compared to that of EM sovereign bonds (around 8 years) is also positive as pressure on the longer end of the US curve remains.
- Moreover, with the increased focus of investors and regulators on sustainability, we believe that ESG-minded issuers will benefit in priority from these inflows, which should support further our strategy.

- At a country level, our largest overweight positions are in India, China, Colombia and Chile.
- Our largest underweights are in Israel, Saudi Arabia, the Philippines and Kuwait.
- At a sector level, our largest overweight positions are in TMT and Real Estate while our largest underweights are in Financials, Industrials and Oil & Gas.

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ESG Metrics

- At the end of the quarter, the overall **ESG Quality Score** of the portfolio was 50.6% higher than the index, standing at 6.06 (equivalent to an MSCI ESG Rating of A) vs. 4.02 for the index (equivalent to an MSCI ESG Rating of BB) (@2021 MSCI ESG Research LLC - coverage: 97% for the fund and 90% for the index)

KEY INDICATORS

- The **weighted average carbon intensity**[1] of the fund is 50.7% below its index, at 332.4 tons CO2e/$M sales revenues v. 674.9tons CO2e/$M sales revenues for the index. (@2021 MSCI ESG Research LLC - coverage: 98% for the fund and 92% for the index)
- According to ISS, scope 1,2, and 3 greenhouse gas emissions stand at 23.3% below those of the index. (coverage: 86% for the fund and 76% for the index)
- 56% of the electricity generated from our holdings in the utilities sector come from green power, compared to only 18% in the index. (Source: ISS - coverage: 86% for the fund and 76% for the index)
- **International norms**:
    - Violation of UN Global Compact: 0% (v. 2.2% in the index)
    - Violation of Human Rights norms: 0% (vs. 1.5% in the index)
    - Violation of Labour norms: 0% (vs. 1.1% in the index)

  (source: @2021 MSCI ESG Research - coverage level: 98% for the fund and 91% for the index)
- **Board Independence**: 65.3% of the portfolio is invested in companies that have a majority of independent board members, vs 68.4% for the index.

  (source: @2021 MSCI ESG Research - coverage level: 96% for the fund and 88% for the index)
- **Board Diversity:** 86.8% of the portfolio is invested in companies that have at least one female Director, vs 80.3% for the index.

  (source: @2021 MSCI ESG Research - coverage level: 96% for the fund and 88% for the index)
- The average **Fatality** rate stands at 8.6 per 100,000 employees in the fund compared to 21.2 per 100,000 employees in the index. (Source: MSCI ESG Research – coverage 34.8% of issuers in the fund vs. 24.9% of issuers in the index – the coverage ratio depends on the materiality of the indicator).

[1] taking into account subsidiary mapping

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