

UBAM - SNAM JAPAN EQUITY RESPONSIBLE

Quarterly Comment | Q4 2022

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

Market Comment

- TOPIX (TR) rose 3.3% in Q4. The Japanese equity market was lifted by investor opinion that US monetary tightening would slow but then fell on heightened concerns the European and US economies could fall into a recession. Japanese equity prices then continued to fall as alterations to the BoJ's yield curve control strategy were seen as a de-facto rate hike.
- The Japanese market rose at the beginning of the quarter as investors came to expect a slowdown in US rate hikes and fears abated over US monetary tightening. Then entering into November, the Japanese market was pulled upwards by large-cap names on the back of US equity strength as US CPI undershot expectations and FOMC minutes suggested there would be a slowdown in rate hikes.
- The Japanese equity market then saw a downturn as we entered into December. Investors feared recessions in Europe and the US as more market participants started to believe monetary tightening would be here for the long run and US retail data came in weak. The BoJ then announced at a monetary policy meeting that it would tweak yield curve control, allowing for greater fluctuations around its long-term target rate. This betrayed market expectations for continued easy monetary policy. The market fell as investors saw the policy tweak as a de-facto rate hike. The overall market was then weighed down in particular by exporters as the yen strengthened against the US dollar.
- Global equities traded near the long-term average forward PE ratio at 15.0 at the end of December, with 2022 earnings growth expectations steady at +10.1%, up from +7% at the start of the year, while 2023 expectations were further reduced to +2.8%, down from +9% at the start of the year. In fact, significant margin pressure is expected for companies which do not have enough pricing power to offset the likely weakening consumer demand in 2023.

Sources: UBP, Bloomberg Finance LP.

Past performance is not indicative of future performance

Performance Review

- The portfolio underperformed the TOPIX (TR).
- Sector allocation contributed to performance while stock selection detracted.
- In sector allocation, overweighting of Financials and underweighting of Health Care contributed to performance.
- In stock selection, overweighting of Dai-ichi Life Holdings, Morinaga Milk Industries, and Sumitomo Mitsui Trust Holdings contributed to performance, while overweighting of Mitsubishi Estate and Nidec and underweighting of Mitsubishi UFJ Financial Group detracted. Overall, stock selection was negative.
- The sectors (GICS 11) the portfolio was overweight in at the end of December were Information Technology and Consumer Staples. Underweight sectors were Communication Services and Health Care.

Portfolio Activity

- The portfolio manager constructs the portfolio according to Sampo AM's expected alpha ranking (expected alpha = intrinsic value / market price), a reflection of the team's fundamental analysis, forecasting, and valuation methodology, as well as ESG scores. Names we reduced our portfolio weighting in include Ushio, Olympus, and Nippon Express Holdings. We increased our weighting in include Yamato Holdings, Toyota Industries, and Fujitsu.
- The portfolio was constructed in such a way to be neutrally weighted against our ESG classified sectors (Manufacturing, Consumer/Service, Finance, Public/Infrastructure). As of the end of quarter, the sectors (GICS 11) the portfolio was overweight in were Information Technology and Consumer Staples. Underweight sectors were Communication Services and Health Care.
- Our strategy will continue to focus on ESG scores and undervalued names, as determined by our alpha rank measure. We will continue to construct a portfolio with ESG sector neutral weightings and an effective risk/return balance.
- In Q4, names we reduced our portfolio weighting in include Ajinomoto, Tokio Marine Holdings, and Citizen Watch. We increased our weighting in include Daifuku, The Hachijuni Bank, and Meidensha Corporation.

Outlook

- December saw the Japanese equity market fall on policy changes made by the BoJ but equity prices have remained in the boxed range seen since the beginning of the year. While the BoJ's policy shift was unexpected, the market outlook is still that the equity market will continue to lack direction given concerns of a global recession.
- US long-term rates will remain an important metric to watch in 2023. We expect they will fall from their current 3.5%-4.0% range to 3.0%-3.5% given our expectations for a recession in the latter half of the year. We expect the fall in US long-term rates to boost the equity market by helping to raise valuations. We expect corporate earnings to fall at an increased pace but bottom out in 1H FY2023. We will keep watch of the level of deterioration of corporate earnings over the short term but expect all negatives to have played out after that. We believe the market factored in further negatives for monetary tightening by the BoJ given the drop in equities and bounce in the yen in December. While there are many obstacles to overcome in implementing further tightening, we will be keeping watch of movement by the BoJ as Haruhiko Kuroda approaches his term limit as governor in April.
- The pressure on the Bank of Japan (BoJ) to exit its extremely loose monetary policy continued to build. In a surprise move on 20th December, the BoJ eased its Yield Curve Control (YCC) policy by loosening the cap on 10-year government bond yield from 25bp to 50bp. The Japanese Yen had already been recovering steadily from its lows and in December rose sharply from 141 to 133 per dollar.
- We believe that the Japanese equity market will remain in its current trading range in the first half of 2023 and start to break out in the second half of the year. We believe there is room for a 10-20% increase in TOPIX versus its 2022 finish of 1,891.

Disclaimer

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 a fund 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 the 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.

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 I 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.