



UBAM – EM SUSTAINABLE HIGH GRADE CORPORATE BOND

Quarterly Comment | Q2 2019

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

Market Comment

- ◆ The quarter was marked by heightened trade tensions between the US and China, further signs of economic slowdown especially in developed markets, and central banks, like the Federal Reserve or the ECB, adopting a more dovish stance.
- ◆ As a result, US Treasury bonds rallied over the period (2 year rates -51 bps to 1.75%; 10-year rates -40 bps to 2.01%).
- ◆ In contrast, commodity prices were weak. The CRB index lost -1.5%, with oil down -2.7%, and copper prices down about -8%. Precious metals outperformed (gold +9.1%, silver +1.3%).
- ◆ The G20 meeting between President Trump and Xi delivered as we had expected a cordial exchange between the two leaders, the restart of trade negotiations and some grace allowing US companies to temporarily sell some goods and services to Huawei. This plus the Fed continuing to signal interest rate cuts and the ECB indicating willingness to ease monetary policy explain the market rebound in June.
- ◆ Inflows into EM bonds have reached USD 45.1 bn in the year to date, of which USD 37.9 bn into EM hard currency debt.
- ◆ Overall, EM investment grade corporate bonds returned +3.61%, thanks to lower US rates and a spread tightening of -3 bps to 207 bps.
- ◆ At a regional level, Latin America (+4.3%) and Europe (+4.1%) outperformed, while the Middle East (3.3%) and Asia (3.4%) underperformed.
- ◆ At a country level, the best performance came from Macau (+5.1%, Sands China - Consumer). Chile (+4.7%, Celulosa Arauco – Pulp & Paper) and Morocco (+4.6%, OCP - Industrial) also performed strongly.
- ◆ Lowest performers included low-beta, low-yielding issuers from Poland (2.8%, PKO - Financials), Qatar (2.8% - Ahli Bank), or Hong Kong (2.8%, Bank of East Asia).
- ◆ At a sector level, the best performance came from Pulp & Paper (4.9%, Celulosa Arauco – Brasil), and Metals & Mining (4.6%, Southern Copper - Mexico). In contrast, Financials (3.0% - Haitong Securities, China) and Diversified companies (3.5%, Hutchison - Hong Kong) underperformed.



Performance Review

- ◆ Over the quarter, the fund returned 3.64% net of fees. Gross of fees, the fund was up 3.90%, outperforming the JP Morgan CEMBI Diversified High Grade Index by 25 bps.
- ◆ The main source of outperformance was our credit selection. Our duration and curve positioning also contributed positively.
- ◆ In terms of credit selection (carry spread effect plus spread duration effect):
 - At a country level, the best performance came from our off-benchmark exposure to Romania (Real Estate, new issue – euro-denominated), and from our overweight and selection in Mexico. Our selection in the UAE also contributed positively.
 - In contrast, our selection in Brazil and Russia proved costly.
 - At a sector level, the fund benefited from its overweight and selection in the Consumer sector, as well as from its selection in Financials. In contrast, the main source of underperformance was our underweight in Industrials and in Oil & Gas. This underweight reflect, however, our focus on corporates with high ESG credentials; which are less represented in these sectors.

Portfolio Activity

- ◆ During the quarter, we reduced our holdings in Asia and in the Middle East and Africa (MEA) in favour of Europe and Latin America.
- ◆ In Asia, we reduced holdings in Hong Kong (Consumer) and Singapore (Financials), where valuations appeared expensive.
- ◆ In MEA, we reduced holdings in Qatar (TMT) in favour of Kuwait (Financials). We also cut down our exposure to South Africa (TMT).
- ◆ In Europe, we added exposure to Romania (Real Estate). NEPI Rockcastle, the parent company, benefits from strong ESG credentials (AA rating), thanks notably to its strategy, which favours green buildings.
- ◆ In Latin America, we favoured Brazil (Industrials) at the expense of Colombia (Financials).

Outlook

- ◆ After a strong first half of the year, we expect the summer to be more range-trading. The global and EM economic climate has improved. And the Fed seems willing to act pre-emptively, cutting before a recession has hit the US and addressing any fears that it might be behind the curve.
- ◆ That said, a lot of good news has now been digested by the market. Moreover the ECB meeting on July 25 and the Fed meeting on July 31 are unlikely to deliver more than already priced in. Rate futures markets are pricing in some chance of an ECB 10bps cut and a 75% change of a 25bps cut from the Fed (25% chance of a 50bps cut).
- ◆ We thus think the environment will remain generally supportive for EM but given the fast recent gains, a period of consolidation seems appropriate first, before further drop in yields.
- ◆ In particular, Emerging Market bonds should attract investors due to the low yield environment, a light political agenda, an increasing gap between EM and DM growth, and sound EM corporate fundamentals.



- ◆ At a country level, our largest overweights are in Singapore, Colombia and Chile.
- ◆ Our largest underweights are in China, Saudi Arabia and Qatar, where ESG credentials remain, on average, below standards.
- ◆ At a sector level, we are structurally overweight Financials, due to their sounder ESG credit quality. Our largest underweights are in Utilities, Industrials and the Consumer sector.

ESG Metrics

- ◆ At the end of June, the overall ESG Quality Score of the portfolio stood at 6.21 vs. only 2.64 for the index (@2019 MSCI ESG Research LLC).
Note that the methodology to calculate the overall ESG Quality Score was changed by MSCI over the quarter. The new methodology notably penalises holdings in lowest ESG-rated issuers (B, CCC). Our fund, which focuses on companies with strong ESG practices, does not hold any such issuer while the index holds 22% in ESG B-rated bonds and 9% in ESG CCC-rated bonds.
- ◆ The weighted average carbon intensity¹ of the fund was 76% below that of the index at the end of June (193 v. 806 tons CO₂e/\$M sales revenues - @2019 MSCI ESG Research LLC).

¹ taking into account subsidiary mapping



Disclaimer

This is a marketing document and is intended for informational and/or marketing purposes only. This document is confidential and is intended only for the use of the person(s) to whom it was delivered. This document 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 Qualified Investors in Switzerland or Professional Clients, Eligible Counterparties or 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 to any person or entity to 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 as 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 accepts no liability whatsoever and makes no representation, warranty or undertaking, express or implied, for any information, projections or any of the opinions contained herein or 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 you may not get back some or all of your original capital. In addition, any performance data included in this document does not take into account fees 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 your return.

All statements other than statements of historical fact in this document are "forward-looking statements". Forward-looking statements are not guarantees of future performance. 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 disclaims any obligation to update any forward-looking statement, as a result of new information, future events or otherwise.

It should not be construed as advice or any form of recommendation to purchase or sell any security or funds. It does not replace a prospectus or any other legal documents that 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 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. Investors are invited to read carefully the risk warnings and the regulations set out in the prospectus or other legal documents and are advised to seek professional advice from their financial, legal and tax advisors. The tax treatment of any investment in the Fund depends on your individual circumstances and may be subject to change in the future.

The document neither constitutes an offer nor a solicitation to buy, subscribe for or sell any currency, funds, product or financial instrument, make any investment, or 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 invitation.

Telephone calls to the telephone number stated in this presentation may be recorded. When calling this number, UBP will assume that you consent to this 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, KIID, annual or semi-annual reports or other relevant legal document shall not be acceptable. The Swiss representative and paying agent is Union Bancaire Privée, UBP SA, 96-98, rue du Rhône, P.O. Box 1320, 1211 Geneva 1 ("UBP"). 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 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.

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.

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.