THE DRIVE YOU DEMAND

UBAM - GLOBAL EMERGING EQUITY

Quarterly Comment | Q4 2018

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

Market Comment

- Emerging market equities outperformed developed markets during Q4 by 6.2% in USD terms. The global macro-economic environment has de-synchronised, with rising increased geopolitical risks, as well as tensions around the US-led trade war. Emerging markets have suffered quite significantly due to a relative strength in the USD and despite their relative stability against the EUR. However, the broader picture for EMs has stabilised and emerging currencies seem to have rebounded off their lows for now. We believe that emerging market equity valuations remain attractive and offer real opportunities, as we could expect them to re-rate, at the exception of countries hit by specific problems, such as Turkey. The fact that the US rates have come off their highs during the quarter should help.

- The Latin American region outperformed both Asia ex-Japan and EMEA in USD. The recent elections in Brazil saw the victory of Mr. Bolsonaro and its party, the PSL. His election is likely to bring back the pension reform, which was well received by markets. Among the most volatile markets for the year, the Turkish local index fell by 8.7%, but a rally in the currency meant that the market rose in dollar terms. The local elections which are due on 31 Mar 2019 are the main discussion point in Turkey nowadays. Upcoming polls could have an impact on markets since low support for the ruling party in the polls could raise question marks whether the government will take additional populist moves in order to increase their support.

- The performance in Emerging Asia was negative overall and the worst of the 3 regions. China recorded a loss of (-11.4%) in the midst of US-China trade war escalating. Besides, measures taken by the government to control large debt levels were followed by a slight slowdown in growth and a depreciation of the RMB. South Korea and Taiwan were equally affected and shed 12.8% and 13.7% respectively. The better performers were found in the less export oriented economies of South-East Asia with Malaysia falling by a more modest 5.8% and Indonesia rising by 9.8%. India's performance was also resilient (+2.5%) and the upside risk to core inflation is unlikely to make the RBI to diverge from its tightening stance in a hurry.

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

- UBAM Global Emerging Equity outperformed its benchmark by 17bps net over the quarter. Our country allocation was negative (-16bps), with most of the performance coming from our overweight in Indonesia (+15bps) and from our underweight in China (+10bps).

- The contribution from stock selection was positive (+53bp). The stock selection in China, in South Africa and in Poland contributed the most over the period.

- The top two relative contributors to the portfolio's quarterly performance were Itausa and Indofood, which delivered a positive total return of (+23.5%) and (+32.0%) respectively and for which we are both overweight.

- Among the top relative detractors, we found Bradesco and Itau Unibanco, for which we have no positions and which returned (+41.4%) and (+24.5%) respectively over the quarter.

Portfolio Activity

- We kept our main country positions broadly unchanged, with most of the activity taking place at the stock level. We continued to reduce two of our largest overweights: Itausa in Brazil and Samsung Electronics in Korea. For Itausa, the excellent performance of the stock following the elections led to a reduced Value score that diminished the attractiveness of maintaining a large position. The case of Samsung Electronics is different: the stock continues to represent excellent value on current earnings but we are cautious nevertheless as the company is exposed to a number of the current risks that weigh on markets: a potential trade war, the peak in smartphones demand and softer semiconductors prices. The stock is just above our negative momentum cut-off. As a result, we have decided to maintain an overweight but to reduce its size.

- Elsewhere, we have continue to follow our process-driven valuation discipline, wherever stocks did not meet our Value and/or Quality criteria. Maybank stopped screening as an interesting company and we have disposed of the stock to buy RHB Bank instead. The sector and geographic exposure are nearly the same, but we believe the latter has more upside. In Taiwan, we have sold Formosa Plastics for the same reasons and replaced it by Uni-President, currently the most interesting large capitalisation stock in Taiwan outside of the Technology sector. In India, we disposed of Reliance Industries and Axis Bank to replace them by Tata Steel and a new position in tech services: HCL Technologies. This comes in addition to our position in Infosys.

- At the sector level, our main positions are still the same. That said, we continued to find good ideas in Financials while selling Energy stocks at the margin. At the end of the quarter, the Energy stock was our biggest underweight. This is not a structural call and we expect to find more ideas in the sector as and when the oil price stabilizes.

Outlook

- Global Emerging Equities re-tested their relative lows against develpped equities at the beginning of the quarter. The cumulative underpefrormance since 2010 remains significant and it is our view that they are likely to perform better than Developed Markets going forward. Their valuation levels certainly point in that direction, both a current-earnings and cyclcically-adjusted basis.

- That said, the on-going US-China trade dispute will continue to weigh on the market until it is resolved and the long economic expansion that started in 2009 shows signs of weakness in all major regions of the world. We think the most likely scenario is that growth continues, even if at a more moderate pace, but markets are now more cautious about the downside.

- The main positives for 2019 are the valuation buffer that Emerging Equities have built, and the fact that, with lower US rates, there is room for EM currencies to rally, supported by more relaxed central banks. On the negative side, the Chinese economy side is undoubtedly slowing and that will represent a challenge for the asset class if it persists.

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 anyotherway 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. The Funds' Legal Documents may also be obtained free of charge from Union Bancaire Gestion Institutionnelle (France) SAS, 116, avenue des Champs-Elysées, 75008 Paris, France.