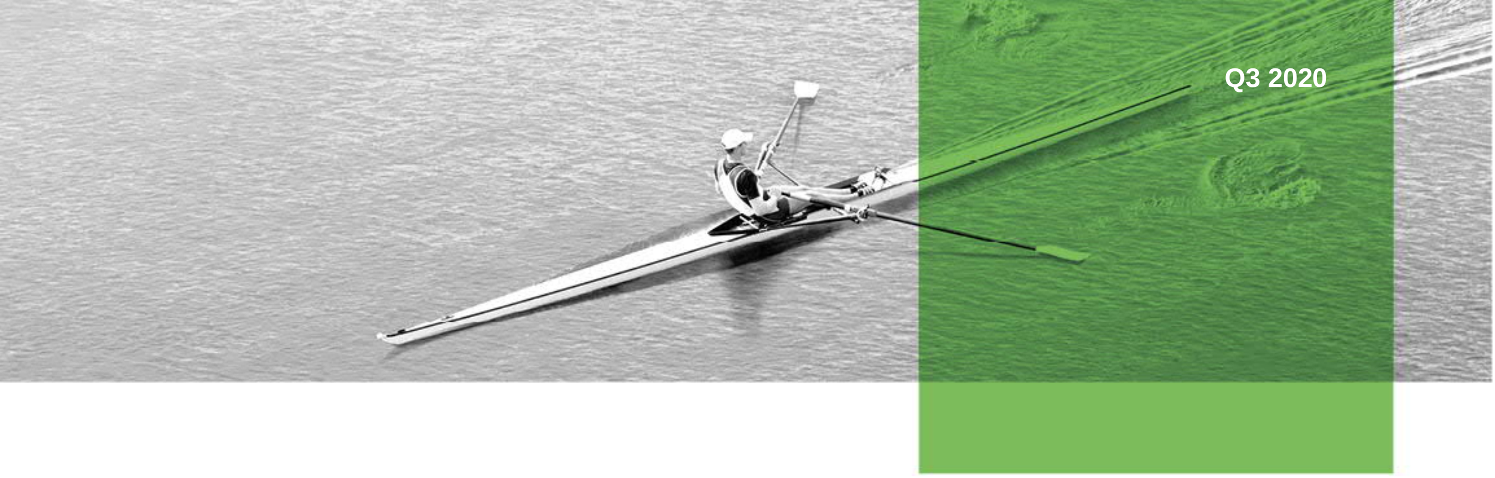


UBAM – best selection asia

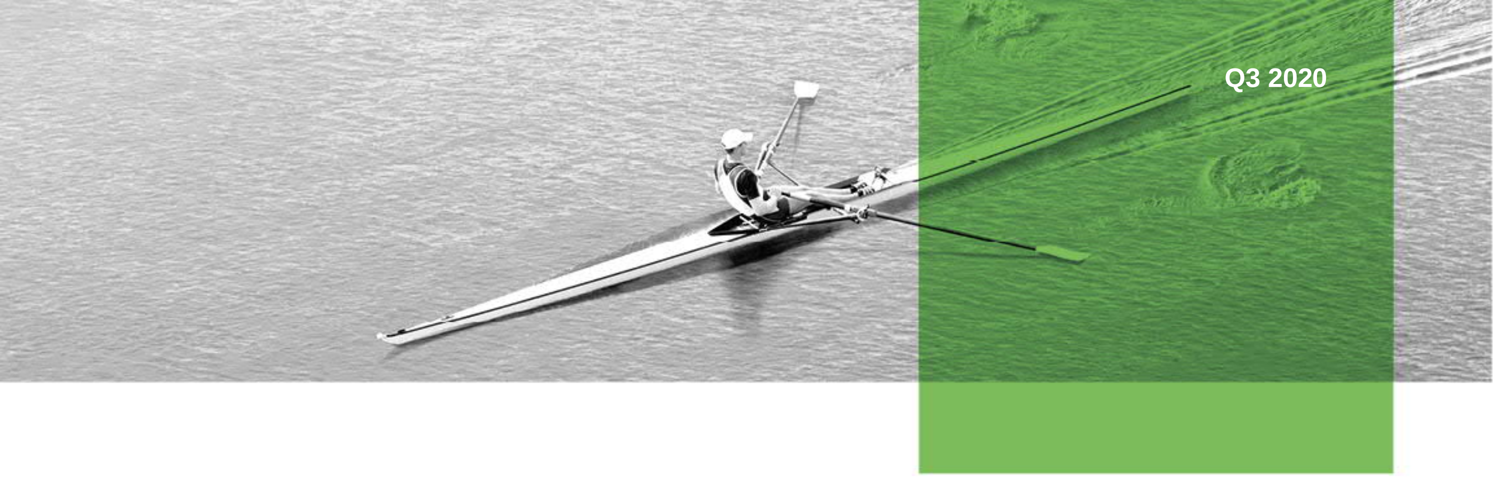
Quarterly Comment | Q3 2020

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

Market Comment

- The quarter itself remained relatively buoyant for the best part although risk sentiment faltered during the final month of the period as steady increases in COVID-19 cases prompted some governments to reimpose softer lockdown measures in order to contain the spread of the virus. For some countries this resurgence signals the second and, in some cases, the third waves in the pandemic and although measures to contain the virus are not as economically restrictive as those encountered over the Spring period, the near term impact on economic activity cannot be dismissed. This in turn prompted a risk-off finish to the quarter with the USD rallying on a perceived flight to safety whilst equities were weak overall during the final month.
- Broad gauges of equity performance finished +8% for the quarter whilst bonds broadly returned +2.6%. The risk-off finish and the threats posed by the still persistent virus did not however lead to a dramatic spike in market volatility akin to what was experienced in the Spring. Credit and foreign exchange markets, although somewhat more subdued during the final week of the quarter, remained highly buoyant throughout with surging gross issuance from companies within the Investment Grade and High Yield ends of the corporate credit spectrum. Whilst in Sovereign debt markets, net issuance by governments rose to the highest level since 2012 as governments continue to fund their fiscal responses to the pandemic.
- The weakness in September came despite relatively upbeat economic momentum from a host of regions over the quarter which showed still modest expansion within the world's major economies. Although the pace of expansion has moderated lately, particularly within the services side of Western economies, there remains a high degree of dispersion between countries. China for instance appears to be almost back to similar levels of economic activity it was experiencing prior to COVID-19 emerging in the country if broader readings on consumption are to be gauged.
- China's economy recovered and developed at an expected rate, which outpaced most economies. An increasing amount of overseas capital was invested in the A share market via QFII and RQFII. Market preferences went diversified. The volatility of the indices and the stock market fluctuated in the same way. From the perspective of indices, the market volatility remained at a low level, and is likely to change after the US election and possible geopolitical changes. Before that, especially before the National Holiday, people tended to wait and see.

Sources: UBP, Bloomberg Finance LP.

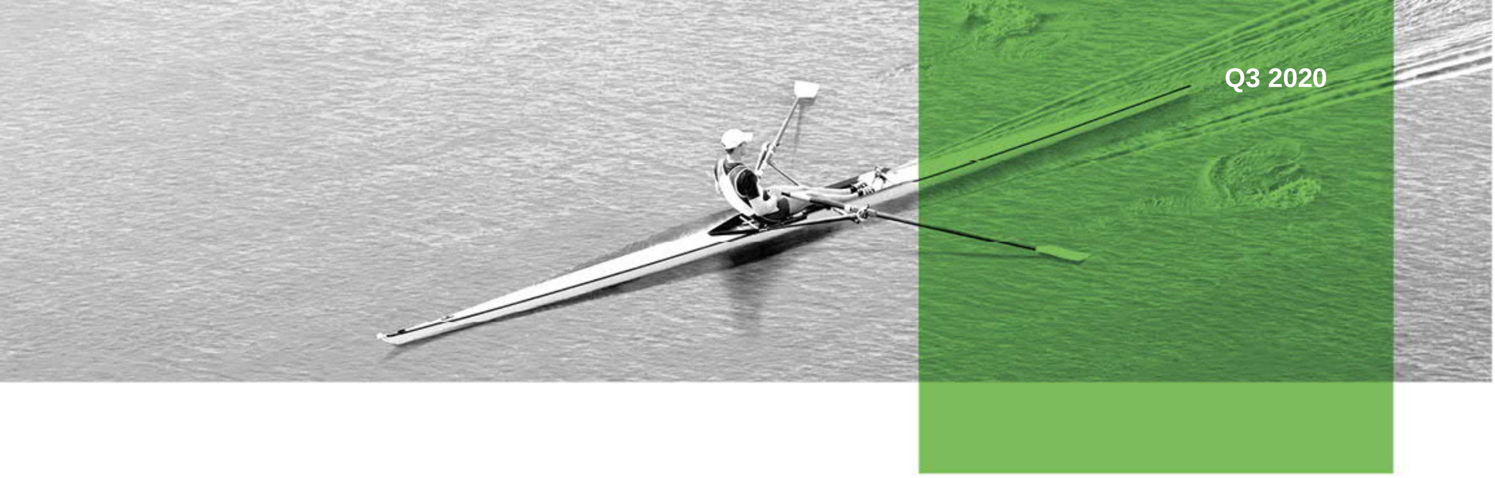


Performance Review

- The portfolio outperformed the MSCI Asia ex Japan (NR). Stock selection was very strong while asset allocation did only contribute marginally to performance.
- South Asia was weak except only India. But this was mostly from overseas exposure. IT sector (HCL Tech) which mainly covers overseas software clients showed very strong earnings beat thanks to Covid-19 related IT infrastructure investment. Energy sector was led by Reliance Industries which is a rising telecom / internet giant in India. Rise of Reliance adds pressure on the incumbent player, Bharti Airtel. Sun Pharma was only in line with the market return due to litigation settlement, but overhang is now removed. Financial sector is unloved across the region including a solid name like HDFC Bank
- Malaysian market was weak, but V.S. Industry stood out. We like the company from the angle of factory relocation out of China and it recently added a Covid-19 disinfectant sprayer as a new client.
- In Indonesia, Indofood Sukses finished the earnings accretive acquisition of MENA affiliate in the group that has faster growth.
- Hong Kong was the only market that underperformed among North Asian countries mainly because of tourism absence. Macau casinos are literally blocked since Covid-19 breakout and shopping malls or Real Estate sector shows slow progress. Our stock picks (Man Wah, Techtronic) here are more exposed to outside of Hong Kong.

Portfolio Activity

- In July, we consolidated two Chinese banks into one, in favour of China Construction Bank
- We also added Ping An and Citic Securities to increase market beta. Two alpha names; Oriental Yuhong, Times Neighborhood were added, and Indraprastha Gas was removed.
- We increased IT and Hyundai Motor from Covid-19 hit name LG H&H and financial sector.
- We switched from CNOOC to PetroChina for Pipeline company.
- Throughout September we rebalanced the portfolio in order to increase new economy sector names and reduced financials and old economy names.



Outlook

- The 2021-2022 inflation outlook points towards a progressive firming trend, but with some volatility. COVID and the associated lockdown were a deflationary shock, but a new trend is emerging post-lockdown in terms of prices in housing, healthcare and transport that should refuel some pressure on core inflation, besides volatile energy and food prices. If a vaccine appears rapidly and if fiscal policy turns more aggressive in the US (reducing inequalities), demand could be boosted further by booming credit and wages, that could push inflation on a higher medium-term trend.
- With the crisis, monetary policymakers have aggressively cut rates, injected liquidity and extended asset purchase programmes more actively than in 2008. Monetary policy has created an accommodative monetary environment to mitigate the recession and avoid a major financial crisis. This aggressive policy response should remain in place if growth remains on an uncertain trend, with low inflation and high unemployment. The Fed will abandon the strict 2% inflation targeting in favour of average inflation targeting, allowing them to tolerate temporary surges in inflation without a need to tighten key rates. As a result, no rise in key rates should be expected in the US in 2021, and the first adjustment may be postponed to 2022 or later under the current inflation and unemployment scenario.
- Speaking of government support, President Xi and the Chinese government are considered the most pro-financial leaders. Under the backdrop of Sino-US frictions, people now realize the importance of putting the right money in the right place. Therefore, fully opening up the financial sector in order for the capital market to become the main engine that drives a technology development rally.
- The positive return of Chinese equities is related to the GDP growth over the long term, and we believe the A Share market has entered in the recovery stage has an edge over the global economy, which will help maximize asset yield and reduce risks.

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