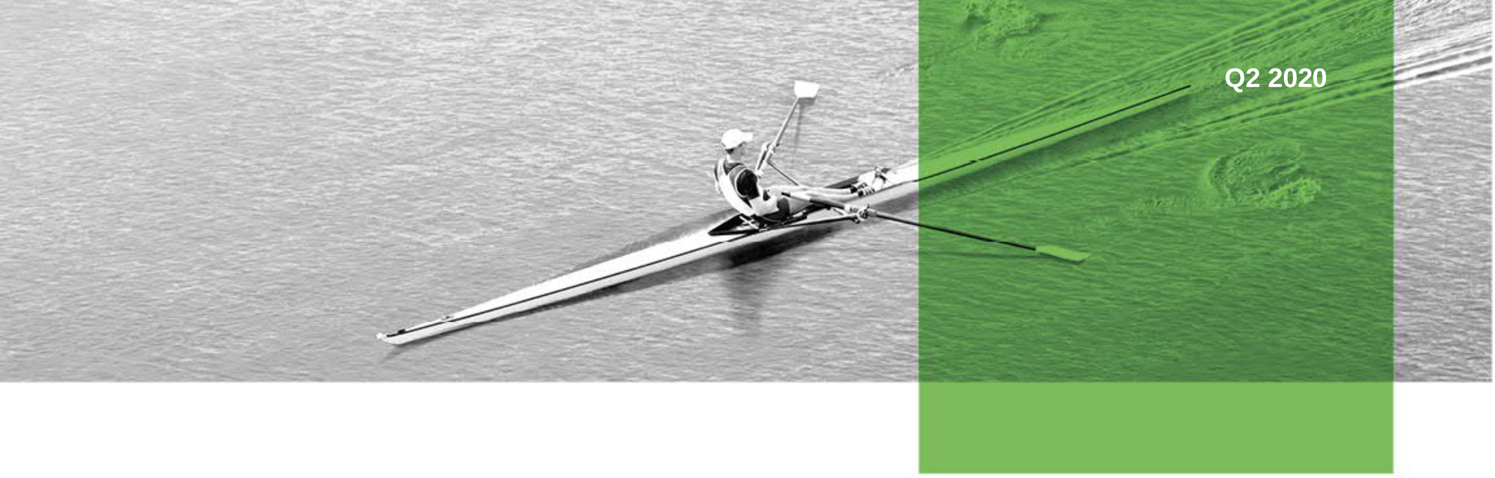


UBAM – best selection asia

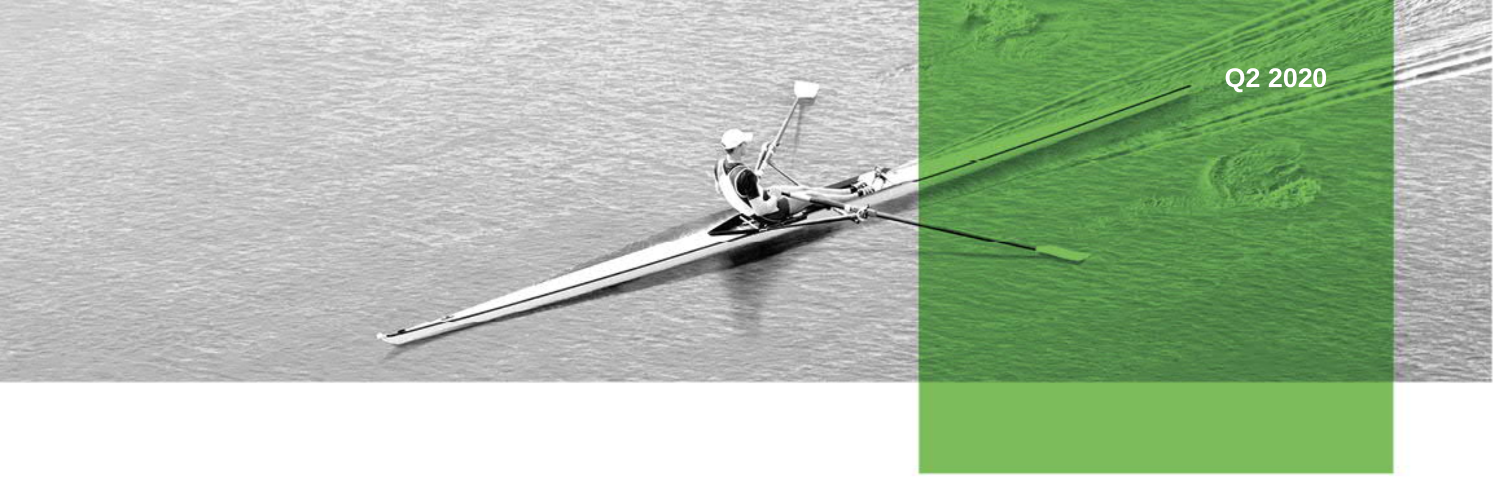
Quarterly Comment | Q2 2020

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

Market Comment

- Risk assets rebounded firmly from their March lows through Q2 although sentiment remained skittish around news flow pertaining to COVID-19 and the increasing threats of a second wave, whilst geopolitical risk in the shape of the fractious relationship between the US and China remains.
- This has overshadowed supportive macroeconomic data which is providing impetus to the bullish narrative although it doesn't take much to beat the extraordinarily depressed readings set by the economic fallout from the virus. An example of this can be seen by the US retail sales figure for May which showed a +17.7% rebound from the previous month, ahead of expectations of +8.4%. Consumer consumption patterns carry more weight in the US today given that ~70% of the US economy is driven by the consumer.
- Elsewhere in the US, jobs data also came in better than expected earlier towards quarter end with the unemployment rate declining from 14.7% to 13.3% as 2.5mn jobs were added back to payroll. This was higher than expected. The New York Fed Manufacturing survey also jumped the most since records began in 2001 in June as the general business conditions index advanced to -0.2 from -48.5 a month earlier whilst firms also grew more optimistic about future conditions. Data is typically noisy and volatile during periods like we are in today, however it is encouraging, nonetheless.
- Whether the recent bounce in data morphs into something firmer and more durable remains to be seen however leading economic indicators and financial conditions continue to provide impetus to this trend. Encouragingly the Citi Economic Surprise Index in the US has recently touched its highest level in history but admittedly the low readings set during the recent contagion make the bars easier to beat. However, it remains a net positive nonetheless as economies continue to reopen.
- On central bank policy and in the US, the FOMC concluded and the Fed reiterated that it expects to maintain the near-zero federal funds rate until it is confident the economy is on track to achieving the central bank's dual mandate. The FOMC's dot plot illustrates a strong likelihood that rates will remain at zero until the end of 2022 whilst Fed Chair Powell reiterated this message during the press conference afterwards. On QE, the Fed continues to purchase around $80bn of US Treasuries and $40bn of mortgage backed securities each month whilst the Fed also announced that it now expects to begin buying corporate cash bonds outright through its already announced "Secondary Market Corporate Credit Facility" which has capacity of $250bn. Only ~$5bn has been added so far which has primarily been through ETF instruments.
- In Europe the ECB also announced new measures to combat the effects of the virus on the region's economy with the new Pandemic Emergency Purchase Programme (PEPP) being expanded in size by €600bn to €1.35 tn and should remain in place until the middle of 2021. This further compliment the mooted €500bn - €750bn fiscal initiative European recovery plan unveiled by the European Commission in late May and is expected to be ratified by EU nations next month.

Sources: UBP, Bloomberg Finance LP.



Performance Review

- The portfolio slightly outperformed the MSCI Asia ex Japan (NR). Stock selection was positive while asset allocation detracted from performance.
- June quarter was the mirror image of March quarter, what fell more recovered more. As Covid-19 situation develops, market paid less and less attention to the daily new cases number, but it followed the reopening progress with ample liquidity in mind. Oversold countries such as Indonesia, Thailand, India and Philippines rebounded more than the index, lower beta market; Singapore and Malaysia came up less. By sectors, health care, communication services, consumer discretionary, IT have outperformed as predicted, and utilities, financials underperformed.
- China is standing out at the later part of the quarter, as retail investor participation increases which is the global phenomenon. Sectors loved by retail outstood, e.g. new economy stocks (Meituan Dianping, Tencent, Dada Nexus), bio and new drug (Sino Biopharm, Wuxi Biologics). Interestingly, conventional wisdom didn't work very well this time. Heavy duty industrial and material sector (Anhui Conch, NARI) couldn't join the rally much. Good quality companies (Kweichow Moutai) were favored in many countries.
- In Hong Kong, high US exposure stocks (Man Wah, Techtronic) were under the spotlight while the city was in the political turmoil. Sun Hung Kai was the victim of it. Bull market sentiment and home coming ADRs helped Hong Kong Exchange. IT sector was leading Korea market as well, Samsung Electronics and Naver had multiple catalysts including Huawei ban and consumer shopping behavior change. Old economy (Hyundai Motor, KB Financial) was aside from retail investors' interest in Korea as well.
- In Taiwan, Mediatek buoyed by two key catalysts; 5G and Huawei ban. Nien Made was the same camp with US beneficiary Man Wah and Techtronic in Hong Kong. Apple supply chain Largan was weak due to iPhone 12 shipment concern.

Portfolio Activity

- The fund has rotated across different sectors to capture opportunities created by Covid-19. Below are major trades of last quarter.
- In April and within the casino sector, the fund sold high leverage stock and switched into the one with lowest gearing.
- In May we added cement names for fiscal policy announcement, and it was funded by India names and Indonesia bank.
- In June, more aggressive names were added from defensive ones. Participated IPO and subsequently increased the exposure of DADA which is the fresh food delivery operator in China. Yuhong is increasing penetration and market share within waterproof material sector, and AK Medical is a leading medical device manufacturer with rapid revenue growth potential. These were funded by CCS, CMB and Capitaland. Within India, rich valuation company Asia Paints was switched to UPL and Sun Pharma.

Outlook

- Markets and sentiment overall continue to be broadly caught between the cross hairs of the simmering likelihood of a second wave of the virus versus masses of liquidity and rebounding economic data as economies reopen.
- The fiscal and monetary response to the global recession by the world's central banks and governments has not only been unprecedented in terms of its timing but it has also been colossal in its size. According to some estimates, so far there has been a $20trillion commitment from the world's authorities to fill the economic impact of COVID-19 which by some is estimated to cost the world's economy $9trillion in lost productivity over 2020 and 2021.
- Within the G4 for instance, central banks' balance sheets are expected to increase by ~ +25% over the coming 12 months with the US Federal Reserve's purchases alone projected to equate to one third of US GDP or equating to nearly 28% of the S&P 500's market cap or ~43% of the Barclays US Aggregate Bond Index.
- The threats posed by a second wave of the virus cannot be dismissed however but there remains a stark divergence in the relative valuations between cyclically orientated equities relative to their more defensive peers.

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