



Q4 2020

UBAM - POSITIVE IMPACT EMERGING EQUITY

Quarterly Comment

For Professional Investors in Switzerland or Professional Investors as defined by the relevant laws

Why consider emerging markets for impact investing?

- The fund was launched on 7 May 2020, so we strongly believed we needed to start this quarterly comment by answering this question: “Why consider emerging markets for impact investing”?
- Emerging countries tend to be further away from reaching most of the Sustainable Development Goals. A significant part of their populations does not have access to water, education, secondary and higher education etc. Their institutions tend to be less resilient and the regulatory framework less comprehensive. However, this also implies that the potential for improvement in SDG performance that can be captured as an investor is much higher in emerging markets. For instance, many water utilities we look at are still in the process of investing towards reaching universal coverage. This is an exciting goal for any company and its investors.
- Regarding environmental goals, emerging countries do better than their developed counterparts if we look at their level of emissions per capita. But their population and economies grow much faster, which is a big challenge that we will have to tackle collectively through more efficient energy use and renewable energy production.
- We believe that companies which help to solve emerging markets’ problems could well experience faster growth, a stronger regulatory tailwind and potentially superior profitability. A higher education provider in a country with low education levels is likely to see strong demand far into the future. Similarly, the demand for clean energy is extremely strong, and renewable energy producers are likely to find favourable regulatory incentives to make the required investments.

Market Comment

- Equities surged in Q4 2020, with the major catalyst being the positive vaccine news. This investor optimism has come amidst renewed national lockdowns in Europe and local lockdowns in the United States. Economies are adapting to this new world. This comes against the backdrop of outright economic expansion in China which has broadened to include the consumer. In China, consumption should gain further traction, leading to GDP growth potentially above 6% y/y in Q4-20.
- After the announcements of much better-than-expected Q3 earnings across the globe, revision ratios moved into positive territory in all regions:

Positive earnings revisions after strong reporting season
Earnings revision ratio: US, Europe, Japan & EM



Sources: Thomson Reuters

Performance Review

- The fund does not have a benchmark. Consequently, it is important to look at different indicators when thinking about performance, namely:
 - the fund's exposure to small- and mid-cap companies;
 - the performance of sustainability-themed stocks as a group.
- Following this approach, we obtained the following numbers for the fourth quarter 2020 (as at 31 December 2020):
 - UBAM Positive Impact Emerging Equity (PIEE)**: +35.69%;
 - MSCI Emerging Markets Net*: +19.70%;
 - MSCI Emerging Markets SMID Net*: +20.63%;
 - MSCI Emerging Markets SRI Net*: +26.76%.

The fund performance has been supported by the group performance of sustainability-themed stocks.

- Stock selection, and especially the sizing of positions, has been a great performance supporter:
 - Of the top 15 contributors:
 - 10 stocks had an average portfolio weighting at 3% or above (reflecting high convictions);
 - 10 stocks returned 50% or more.
 - Of the top 15 detractors:
 - Only 2 stocks had an average portfolio weight above 2%; both stocks still had a positive contribution to the portfolio performance;
 - Only 2 stocks had a negative contribution to the portfolio
- In sector terms, the performance was dominated by the Technology and Industrials sectors, like in Q3, which generated 71% of the gains over the quarter. The strongest performance contributors in these sectors were:
 - Sungrow Power: global leading inverter solution supplier for renewable
 - Xinjing Glodwind: largest manufacturer of wind turbines in China
 - Xinyi Solar: the world's largest solar glass manufacturer

Portfolio Activity

- Cipla, Bandhan Bank and Zhejiang Chint Electrics have been added to the portfolio.
- Cipla is committed to grow sustainably. It was one of the first companies to offer triple anti-retroviral therapy in HIV/AIDS at less than a dollar a day in Africa in 2001. To this day, they have kept their historic commitments to affordable drugs for low-income countries through their program Cipla Global Access.
- Bandhan Bank is one of India's new universal banks, focused on serving the unbanked and underbanked population in India. It began in 2001 as a not-for-profit microfinance enterprise to make a significant contribution towards poverty alleviation by empowering women, especially in rural areas.
- Zhejiang Chint Electrics manufactures low voltage electric appliances and a leading global provider of smart energy solutions. Through their subsidiary Astronergy they are also in the solar business.
- These acquisition have been funded mostly by the redemption of Lyxor MSCI India

Sources: *UBP, Bloomberg Finance LP.*

*Index provided for comparison and information purposes only. The fund has no official benchmark.

** Class IC, USD net of fees

Outlook

- The growth outlook depends on how well the pandemic is kept under control and on the early arrival of a vaccine, which would improve visibility on the economic cycle and prompt a reassessment of the economic scenario. With the rising probability of seeing an effective vaccine being distributed by mid-2021, the downside risk to global 2021 earnings has clearly receded. With a vaccine, world growth can expect a boost amounting to 1 pp of additional growth, on a full year projection based on our scenario. If vaccination begins rapidly, positive effects on growth should be seen globally in H2-21 and more fully in 2022.

Impact of a vaccine on a full-year growth scenario by region

GDP y/y %	2020	2021 Current scenario	Vaccine scenario
WORLD - MER - on PPP basis*	-4.2	4.6	5.6
USA	-3.3	5.0	6.0
Japan	-3.6	4.4	6.0
Eurozone	-5.1	2.5	3.5
China	-7.4	4.4	6.1
Developed countries	2.1	8.0	9.0
Emerging countries	-5.5	4.2	5.6
	-2.0	5.5	6.2

Sources: UBP - Economic & Thematic Research, Bloomberg consensus
MER: market exchange rates; PPP: purchasing power parity

- In Asia, a vaccine would benefit India, Indonesia and the Philippines, given the number of cases and the share of consumption in GDP terms. Thailand should receive a boost given its wide exposure to tourism. Finally, China should see limited upside potential (0.5-0.8 pp) as a result of existing virus containment and its mature expansion process relative to other countries.
- A number of EM countries are at risk of second wave arriving too soon, as vaccinations programs will unfortunately take more time to get rolled in middle and low income countries.
- With the recent rally, equity valuations are back close to a near two-decade high. Consequently, earnings will be the key driver of equity markets in 2021. Valuation multiples are likely to move lower, but this could be more than offset by the expected earnings recovery in the best case scenario.
- Last but not least, in emerging countries, aggregate inflation is likely to average 3% in 2020 and 2.5% in 2021. It should stay moderate after some currencies (e.g. the Turkish lira and some Latin American currencies) saw significant depreciation in 2020. In China, it is likely to average around 2% after jumping sharply because of higher pork prices.

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