

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 first 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

- Even though dovish comments from major central banks were supportive for EM equity performance, worries about the US fiscal cliff and disappointment around Fed’s new framework led to some volatility in Q3. Most EM central banks paused or reduced the pace of cuts due to a rise in inflation. However, most believe this is due to temporary supply bottle necks, and disinflation is likely to continue.
- Third quarter witnessed a two-tier performance in EM. MSCI EM was up by 9% with significant divergence within the group. Asia markets like China, Taiwan, Korea and India performed strongly (12 to 15%) while Brazil, Chile, Indonesia, Russia, Thailand and Turkey were weak (-7% to -15%).
- In terms of sectors, the best performing sectors were Consumer Discretionary, IT and Materials while Utilities underperformed. We believe this was driven by some evidence of a V shaped recovery particularly in the goods sector.
- Even though Covid cases worsened in Latam and parts of Asia including India and Indonesia, other parts of Asia like China, Korea and Taiwan maintained good control over the spread of the virus.
- Despite case numbers worsening globally, high frequency data on a wide range of indicators across the EM pointed to a strong V shaped recovery. Auto and home sales, export volumes, retail sales and confidence improved across the EM. However, in most places the recovery in services lagged behind. It was encouraging to see improving services growth (domestic travel, movie theatre attendance) in China at the end of the quarter which gives some hope for a broader recovery in Q4. Sources: UBP, Bloomberg Finance LP.

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 third quarter 2020 (as at 30 September 2020):
 - UBAM Positive Impact Emerging Equity (PIEE)**: +13.37%;
 - MSCI Emerging Markets Net*: +9.56%;
 - MSCI Emerging Markets SMID Net*: +9.41%;
 - MSCI Emerging Markets SRI Net*: +15.09%.

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

- Stock selection was again the major driver of performance, as can be expected in a concentrated fund.
 - 17 stocks fell in absolute terms,
 - 14 rose over the quarter, with strong performance among our largest positions.
- In sector terms, the performance was dominated by the Technology and Industrials sectors which generated almost 80% of the gains over the quarter. Among those sectors, those with the highest impact were in the solar sector which benefited from a spectacular rerating:
 - Longi Green: the world's largest solar wafer manufacturer was up 91%;
 - Xinyi Solar: the world's largest solar glass manufacturer was up 69%;
 - Sungrow: Chinese leader in power inverters for the renewable sector and power system integrator was up 100%.

We also had strong performance in sectors related to the EV and Batteries sectors, as many of the various recovery plans around the world seemed to include some significant support for this sector. Overall, it means that our Climate Stability and Sustainable Communities themes were the strongest.

Portfolio Activity

- There was no addition or deletion to /from the portfolio.
- Our trading for the quarter consisted in trimming some of our initial winners back to our sizing model to avoid too much risk concentration. Sungrow, Longi and Xinyi were traded back to our model portfolio weights.
- Symmetrically, we added to Aguas Andinas, Safaricom and TSKB, 3 stocks which had weak performance before we added them, but which are still likely to show significant growth over the medium term.

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

- Activity is continuing to recover in most of the world, emerging markets included. The key question for our present outlook will be to determine if this recovery can continue to levels equivalent to pre-Covid activity, or if it will be somehow hindered, either by another wave of infections, or by insufficient support for the parts of the economy that have most suffered from the first wave.



- From an emerging markets perspective, an increasing level of support, as could be seen in the US for instance, would also have the positive effect of being potentially negative for the dollar, something that some of our markets would benefit, particularly Latin America, South Africa and Turkey.
- The US election in November could also play a role, both in terms of currency strength and because an administration led by the Democrats could be much more favourable to regulatory changes that could benefit some of our portfolio companies.
- Emerging-market countries are likely to recover more rapidly and achieve growth close to their previous 4–5% trend rate thanks to China and Asia. Developed countries should see a strong rebound of 5%, or even more if a second wave of infections is avoided and a vaccine is discovered.

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