UBAM – EM SUSTAINABLE CORPORATE BOND

Quarterly Comment

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

Market Comment

- The fourth quarter was marked by investors' growing optimism as uncertainties linked to the US elections faded while vaccines started to be approved and to be rolled out in several countries.
- With hopes that these vaccines would open the way for a rebound in the global economy, the US treasury curve steepened. 2-year US Treasury rates were down -1 bp to 0.12% while 10-year rates up +23 bps to 0.91%.
- Commodities were also strong. The CRB index was up by 13.0%, thanks notably to the rally in metal prices (iron ore +35%, copper +16%, silver +14%). Oil prices also rebounded by over 20%, with Brent ending the year at 51.8 USD per barrel, a level not reached since the end of February. Gold, given its safe-haven status, underperformed (+0.7%).
- Overall, EM corporate bonds returned 4.29% over the quarter, with spread tightening by 69 bps to 316 bps.
- High Yield bonds outperformed as risk appetite increased, returning 6.41%, with spreads down by 102 bps. Investment grade bonds returned 2.87% thanks to a spread tightening of 48 bps.
- At a regional level, the best performance came from Africa (6.9%) and Latin America (+6.4%). In contrast, Asia (+2.9%) and the Middle East (+3.3%) underperformed.
- At a country level, the best performance came from Ghana (+33.5%), followed by Argentina (+12.9%) and Ukraine (+10.9%).
- In contrast, the worst performance came from lower beta, higher-rated countries like Poland (+0.5%), Korea (+1.3%) and Taiwan (+1.4%).
- At a sector level, the best performance came from commodities sectors: Pulp & Paper (+7.8%), Metals and Mining (+6.8%) and Oil & Gas (+6.2%). In contrast, lower beta sectors like Infrastructure (2.9%), Financials (3.2%) and Utilities (3.3%) underperformed.
- Over the quarter, the performance of EM Sustainable corporate bonds (+4.42%), as measured by JP Morgan ESG CEMBI Broad index was broadly in line with the overall EM corporate bond universe.

- Over the year, EM corporate bonds returned 7.35%, thanks primarily to the rally in US Treasury, as well as to carry. Despite a very eventful year, the spread widening was limited, as these ended the year at 316 bps (+27 bps). Investment grade bonds returned 7.61%, with spreads up 22 bps to 209 bps, while HY bonds returned 6.58%, with spreads up 32 bps to 481 bps.

On April 1, 2020, UBAM – EM Sustainable High Grade Corporate Bond was renamed UBAM – EM Sustainable Corporate Bond. On June 8, 2020, the fund widened its investment guidelines to include HY issuers.

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.

- At a country level, Azerbaijan (+14.1%) outperformed followed by Egypt (+13.8%), Ukraine (13.3%), Mexico (12.8%) and Zambia (12.2%). In contrast, Kazakhstan (-15.3%) and Ghana (-2.7%) both posted negative returns, while Chile was almost flat (+0.3%).
- At a sector level, the best performance came from Pulp & Paper (16.6%), Metals & Mining (10.1%) and Consumer companies (9.0%). In contrast, Transportation (-37.8%) was severely hit, reflecting the default of a Latin American airline company. It was the only sector posting a negative performance over the year.
- EM Sustainable corporate bonds returned 7.15% over the year, just slightly less than the overall EM Corporate bond universe. After having outperformed in the March sell off, they benefited less from the rebound led by high yield issuers and commodities-linked sectors.

Sources: UBP, Bloomberg Finance LP, JP Morgan

Performance Review

- Over the quarter, the fund returned 3.09% net of fees compared to 4.25% for the JP Morgan CEMBI Diversified index*.
- Performance attribution shows that the fund suffered from its issuer/issue selection, notably linked to the outperformance of high yield or commodities-linked sectors during the period, exposure to which is constrained by the fund's high ESG quality objective .
- Country-wise, the best performance came from our overweight and selection in Mexico, underweight in Qatar, Saudi Arabia, Taiwan and selection in Peru.
- In contrast, our selection in Indonesia, underweight and selection in Brazil, zero holdings in distressed issuers from Argentina and Ghana and overweight in Hong Kong proved costly.
- Sector-wise, the fund benefited from its selection in Industrials and underweight in Utilities. In contrast, our underweight in Oil & Gas, selection in Metals & Mining and in Financials proved costly.
- Our cash holdings, reflecting inflows in the fund, also weighed negatively on performance.

- Over the year, the fund returned 8.36% net of fees compared to 8.47% for the JP Morgan CEMBI Diversified index*. The fund outperformed gross of fees thanks to our issuer selection, which favoured the more resilient ESG-minded companies which suffered less in the March pandemic-induced sell-off.
- Country-wise, the best performance came from our underweight in Kuwait, selection in South Africa and Mexico, overweight in Chile and underweight in Israel. In contrast, our underweight in Brazil and selection in China, India and the UAE, weighed on performance.

On April 1, 2020, UBAM – EM Sustainable High Grade Corporate Bond was renamed UBAM – EM Sustainable Corporate Bond. On June 8, 2020, the fund widened its investment guidelines to include HY issuers.
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.

- At a sector level, the fund benefited from its underweight in Financials and Industrials and overweight in TMT. In contrast, our selection in Consumer companies, Metals and Mining and underweight in Oil & Gas proved costly.

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

Portfolio Activity

- Over the quarter, we increased exposure to Asia and Latin America, at the expense of Africa.
- In Asia, we added holdings in China (TMT, Financials, Real Estate) India (Utilities, Financials), Indonesia (Financials), but sold our holdings in the Philippines (Financials).
- In Latin America, we increased Brazil (Diversified, Consumer), Mexico (renewable energy, Financials) and Paraguay (TMT) at the expense of Chile (Pulp & Paper).
- In Africa, we reduced our exposure to South Africa (TMT, Industrials).
- In the Middle East, we reduced Israel (TMT) in favour of Jordan (Consumer).
- We continued to increase the share of green and sustainability bonds in the portfolio (6.2% vs. 3.8% at the end of September and 3.4% in the index). We took advantage of the primary market to add new opportunities, which were attractive in terms of ESG as well as credit quality and valuation.
- In particular, we bought **Greenko Energy Holdings** (GEH), a major energy company, which provides renewable energy in India. GEH is not rated by MSCI, but scores well according to our internal ESG assessment. As of June 2020, GEH's total consolidated capacity was 4.1 GW, with 56% of wind, 33% of solar, 9% of hydro and 2% of biomass in 14 states in India. This diversification helps mitigate the risk of exposure to seasonal variations in renewable resources availability and strengthens GEH's expertise in an economy moving toward increased decarbonization. The company should benefit from India’s plans to increase its renewable energy capacity (excluding hydro) to ~60% by 2030. Moreover, the company is proactively moving to address the grid integration challenges affecting renewables by embarking on two large-scale integrated renewable energy and storage projects (IRESP) with a total capacity of 2.4 GW. GEH's employee engagement efforts appear to lag better-performing peers, but there are no known controversies related to customers, Human Rights & Community or Labour Rights & Supply Chain. With regards to Governance, GEH is majority-owned by two sovereign wealth funds (SWF): GIC (Singapore; 60%) and Abu Dhabi Investment Authority (ADIA; 15%), while the promoters of the company own the rest. The board has an independent majority, and the roles of CEO and chair are split, with a fully independent chairman. The company also has high standards in terms of risk management practices. At the same time, we see the potential for improvement regarding gender diversity (15.4% female board members) and over-boarding (one member sitting on more than three additional boards).

On April 1, 2020, UBAM – EM Sustainable High Grade Corporate Bond was renamed UBAM – EM Sustainable Corporate Bond. On June 8, 2020, the fund widened its investment guidelines to include HY issuers.

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.

Outlook

- With the roll-out of vaccines across the world, the global economy is expected to rebound in 2021. This rebound should be faster in Emerging Markets, led by Asia, than in Developed Markets.
- EM corporate fundamentals look solid, with notably less leverage than in the US. This means that we can expect defaults rates to come down in 2021 and to remain lower in EM than those in the US, as was the case last year: in 2020, EM HY corporate defaults stood at 3.5% vs 6.8% in US HY.
- In parallel, with the stock of negatively yielding debt reaching USD 18 trillion and the historically low yields of DM credit markets, investors are expected to continue to look at EM debt as an asset class of choice, leading to new inflows as experienced in late 2020.
- In that context, EM corporate bonds, with their lower volatility and higher Sharpe ratios than EM sovereign debt or EM local debt, appear very appealing. Their lower duration (5.1 years) compared to that of EM sovereign bonds (8.3 years) is also positive in a context where a rebound of the US economy could translate into a steepening of the US interest rate curve.
- Moreover, with the increased focus of investors and regulators on sustainability, we believe that ESG-minded issuers will be the first to benefit from these new inflows, which should support further our strategy.

- At a country level, our largest overweight positions are in India, Chile, Hong Kong, South Africa and Indonesia.
- Our largest underweights are in Israel, Saudi Arabia, the Philippines and Turkey.
- At a sector level, our largest overweight positions are in Real Estate and TMT while our largest underweights are in Industrials and Financials.

On April 1, 2020, UBAM – EM Sustainable High Grade Corporate Bond was renamed UBAM – EM Sustainable Corporate Bond. On June 8, 2020, the fund widened its investment guidelines to include HY issuers.
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.

ESG Metrics

- At the end of the quarter, the overall **ESG Quality Score** of the portfolio was 57% higher than the index, standing at 6.11 (equivalent to an MSCI ESG Rating of A) vs. 3.90 for the index (equivalent to an MSCI ESG Rating of BB) (@2021 MSCI ESG Research LLC - coverage: 96% for the fund and 89% for the index)

KEY INDICATORS

- The **weighted average carbon intensity**[1] of the fund is 47% below its index, at 396 tons CO2e/$M sales revenues v. 661 tons CO2e/$M sales revenues for the index. (@2021 MSCI ESG Research LLC - coverage: 98% for the fund and 92% for the index)
- According to ISS, scope 1,2, and 3 greenhouse gas emissions stand at 24.5% below those of the index. (coverage: 84% for the fund and 77% for the index)
- 59% of the electricity generated from our holdings in the utilities sector comes from green power, compared to only 17% in the index. (Source: ISS - coverage: 84% for the fund and 77% for the index)
- **International norms**:
    - Violation of UN Global Compact: 0% (v. 2.8% in the index)
    - Violation of Human Rights norms: 0% (vs. 1.9% in the index)
    - Violation of Labour norms: 0% (vs. 1.2% in the index)

(source: @2021 MSCI ESG Research - coverage level: 98% for the fund and 92% for the index)

- **Board Independence**: 67% of issuers in the portfolio have a majority of independent board members, vs 60% in the index.

  (source: @2021 MSCI ESG Research - coverage level: 82% for the fund and 92% for the index)

[1] taking into account subsidiary mapping

Disclaimer

This is a marketing document and is intended for informational and/or marketing purposes only. This document is confidential and intended only for the use of the person(s) to whom it was delivered. It may not be reproduced (in whole or in part) or delivered, given, sent or in any other way 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 Professional Investors in Switzerland or Professional Clients or an 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 at any person at whom or entity at 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 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 makes no representations, provides no warranty, and gives no undertaking, express or implied, regarding any of the information, projections or opinions contained herein, nor does it accept any liability whatsoever 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 investors may not get back some or all of their original capital. Any performance data included in this document does not take into account fees, commissions, 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 investors' returns. All statements other than statements of historical fact in this document are "forward-looking statements". Forward-looking statements do not guarantee future performances. 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 also disclaims any obligation to update forward-looking statements, as a result of new information, future events or otherwise. None of the contents of this document should be construed as advice or any form of recommendation to purchase or sell any securities or funds. This document does not replace a prospectus or any other legal documents, which can be obtained free of charge from the registered office of the fund they relate to, 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 and may be subject to change in the future. Investors are invited to carefully read the risk warnings and the regulations set out in the prospectus or other legal documents and to seek professional financial, legal and tax advice. This document should not be deemed an offer nor a solicitation to buy, subscribe to, or sell any currency, funds, products, or financial instruments, to make any investment, or to 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 solicitation. Telephone calls to the telephone number stated in this document may be recorded. UBP will assume that by calling this number you consent to such 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, KIIDs, annual or semi-annual reports or other relevant legal document shall not be acceptable. 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 Union Bancaire Privée, UBP SA, 96-98 rue du Rhône, P.O. Box 1320, 1211 Geneva 1 ("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, and from Union Bancaire Gestion Institutionnelle (France) SAS, 116 avenue des Champs-Elysées, 75008 Paris, France. The Swiss representative and paying agent of the foreign funds mentioned herein is UBP. The Funds' Legal Documents may be obtained free of charge from UBP, as indicated above.

Union Bancaire Privée, UBP SA Rue du Rhône 96-98 | P.O. Box 1320 | 1211 Geneva 1 | Switzerland **ubp@ubp.com** | **www.ubp.com**