UBAM – EM INVESTMENT GRADE CORPORATE BOND

Quarterly Comment

For Professional Investors in Switzerland or Professional Investors as defined by the relevant laws.
The classification of the fund(s) as per the Sustainable Finance Disclosure Regulation (SFDR) is available on ubp.com or in the latest prospectus

Market Comment

- US interest rates increased significantly over the quarter; 2-year US Treasuries were up 160bps to 2.33%, while 10-year US Treasuries rose by 83bps to 2.34% as the Fed delivered its first hike and the market priced more than 200bps of hikes until the end of the year.
- In terms of the risk environment, we downgraded our short-term expectations in Q1 2022, given Russia's invasion in Ukraine affecting the global supply chain, which was slowly recovering from the pandemic.
- Fears of rising interest rates kept investors away from fixed income in general over last quarter. The asset class saw outflows at -$14.1bn, according to data from JP Morgan. This follows up from weak flows of +$0.3bn in Q4 2021. In 2021, EM Fixed Income funds saw an inflow of $52.5bn.
- Rising US Treasury yields paired with the geopolitical crisis impacted returns across most of fixed income in Q1 2022. EM Corporates bonds delivered returns of -9.3% over the quarter according to the JP Morgan CEMBI Div index.
- Over the quarter, EM Investment Grade corporate bonds underperformed the broader EM Corporate universe, returning -9.9%. Spreads over US Treasuries widened by 16bps to 190bps in Q1 2022.
- At a regional level, the least impacted markets for EM Investment Grade Credit were Latin America (-6.8%) and the Middle East (-4.8%). Emerging Europe was the worst performing region, delivering -81.6% in Q1 2022.

  At a country level, the best performance for EM Investment Grade Credit came from Peru (-3.1%) and UAE (-3.5%). In contrast, Russia (-66.1%) posted the worst performance given the impact of JP Morgan excluding it from the index at the price of 0 before the quarter-end.
- At a sector level, the worst performance came from Metals & Mining (-34.4%) and Oil & Gas (-28.1%). Financials (-4.1%) and Infrastructure (-4.5%) were among the most resilient sectors in terms of Q1 2022 performance.

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.

Performance Review

- Over the quarter, the fund returned -10.07% net of fees, vs. -9.89% for the JP Morgan CEMBI Diversified High Grade Index*.
- Performance attribution data shows that the fund outperformed its benchmark by 6bps in Q1 2022 (gross of fees).
- In relative terns, the fund benefitted primarily from its credit selection (carry spread and spread effect) at 20bps. In contrast, the combined effect of duration and curve positioning was negative relative to the benchmark (-10bps).
- Main contributors to relative performance, excluding the effect of our interest rate duration/curve positioning which is managed at portfolio level:
    - Country-wise, the best performance came from our overweight and selection in India, Indonesia and Brazil. Conversely, selection in China was costly to relative returns as contagion spread to IG rated issuers in the property sector.
    - Sector-wise, the fund suffered from its selection in Utilities but benefitted from the selection in Industrial.

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

Portfolio Activity

- Over the quarter, our scorecard fell into in the “conservative” territory, with March marking the lowest score in the last twelve months in the view of deteriorating risk environment, although EM fundamentals moved into positive territory.
- We reduced our exposure in Africa, Latin America an Emerging Europe over the quarter, redeploying the proceeds in Asian issuers, least affected by the Russia conflict.
- In Emerging Europe, we sold our entire exposure in Russia to limit the consequences of sanctions on the ability of Russian corporates to repay their debt payments in hard currency. In Latin America, we sold our exposure to Peru amid election uncertainties. Across all regions, we added exposure to commodity-linked companies as potential winners from Russia being cut off from the global supply.
- At a sector level, we increased exposure to Oil & Gas, Industrial, Consumer and Utilities. Conversely, we reduced exposure to the Metals & Mining, Real Estate and TMT sectors.

Outlook

- Inflation has risen to elevated levels globally and has impacted interest rates world-wide. Many EM Central banks have hiked early, starting a tightening cycle in early 2021 already for some of them. DM Central banks first read this inflation as transitory and have been reassessing their outlook and seem now set for a quicker tightening of their interest rates.
- US rates have sold off significantly in Q1 2022 and remain a risk to be watched carefully going forward. The curve is now pricing a significant amount of tightening by end of 2022 (about 2.5% in rate hikes according to Fed Fund futures).
- The front end of US curve (up to 2years) is now very steep, and yields start to be compelling on the asset class. We wouldn't expect in the short term a strong rally back in rates or spreads, but the increased carry should start to do its work in helping the asset class performance.
- In Q1 2022, about USD 15bln exited the asset class (mainly retail). Despite the negative Q1 performance, but on the back of higher yields, we would expect investors to get attracted back in the asset class.
- EM Investment grade bonds, which offered a yield of 3.21% for a duration of 5.3 at the end of March 2022. EM Investment grade bonds duration dropped by about 0.2 since end of lasts year, part of that can be attributed to higher discount factors (higher yields). EM investment grade appear particularly well positioned vs US investment grade credit, with a lower yield of 3.6% for a much longer duration of 7.8 which makes them more vulnerable to the risk of rising interest rate levels.
- Moreover, EM IG corporate bonds demonstrate lower volatility and higher Sharpe ratios than EM IG sovereign debt or US IG bonds, which contributes to their attractiveness.

- At a regional level, we are underweight relative to the index in Asia and the Middle East. We have overweight exposures in Latin America and Africa
- At a country level, our largest overweight positions are in Indonesia and India. Our largest underweights are in Singapore and South Korea.
- At a sector level, our largest overweight positions are in Oil & Gas, and Utilities. Our largest underweight exposures are in the Financial and Industrial sectors.

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