UBAM – EM INVESTMENT GRADE 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 Investment Grade bonds rose by 2.87% over the quarter, with spreads down by 48 bps to 209 bps.
- At a regional level, the best performance came from Latin America (+5.6%) and Africa (+2.4%). In contrast, Asia (+2.1%), Europe (2.2%) and the Middle East (2.2%) underperformed.
- At a country level, the best performance came from Brazil (+8.5%), Colombia (+7.5%) and Mexico (+6.4%). In contrast, Poland (0.4%), China (+0.9%) and Taiwan (+1.4%) underperformed.
- At a sector level, the best performance came from Pulp & Paper (+7.6%), Metals & Mining (+5.3%) and Consumer companies (+3.9%). In contrast, Diversified companies (+1.6%), Financials (+2.2%), Utilities (+2.2%) and TMT (+2.2%) underperformed.
- Over the year, EM corporate Investment Grade spreads returned 7.61% despite a spread widening of 22 bps.

Performance Review

- Over the quarter, the fund returned 3.49% net of fees, ahead of the JP Morgan CEMBI Diversified High Grade Index* (+2.87%).
- Performance attribution shows that the fund outperformed by 96 bps.
- The fund benefited primarily from its credit selection (carry spread and spread effect +92 bps), while duration and curve positionning were marginally positive.
- 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 selection in the UAE and Thailand and from our underweight in Korea and Qatar. In contrast, our selection in Hong Kong, as well as our underweight in Colombia and Kazakhstan, proved costly.
  - All sectors contributed positively. The best performance came from our underweight and selection in Financials, our overweight in Industrials and selection in Consumer companies.

- Over the year, the fund returned 7.08% net of fees, compared to 7.61% for the JP Morgan CEMBI Diversified High Grade Index*. The fund outperformed gross of fees thanks primarily to its credit selection.
  - At acountry level, the best performance came from our selection in China, the UAE and Saudi Arabia. In contrast, our selection in Hong Kong and India and underweight in Colombia proved costly.
  - At a sector level, the fund benfited from its underweight in Financials and selection in Consumer companies and Oil & Gas.In contrast, our underweight in Telecom and Utilities proved costly

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

Portfolio Activity

- Over the quarter, our scorecard moved from “balanced” to “dynamic” territory.
- We thus reduced holdings in lower beta regions Asia and the Middle East in favour of Latin American issuers.
- In Asia, we reduced Korea (Financials, Industrial), Indonesia (Financials) and India (Infrastructure, Financials). Still, we increased holdings in China (Industrials, Transport, Real Estate).
- In the Middle East, we primarily reduced holdings in the UAE (Infrastructure, Utilities).
- In Latin America, we increased our holdings in Peru (Financials, Transport), Mexico (Consumer) and Colombia (Financials).
- At a sector level, we added holdings in Consumer companies, Transport, TMT and Real Estate. In contrast, we reduced our positions in Financials, Infrastructure and Utilities.

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 for EM IG corporate issuers than that of their US counterparts.
- In parallel, with the stock of negatively yielding debt reaching USD 18 trillion and historically low yields in 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.
- EM Investment grade bonds, which offered a yield of 2.54% for a duration of 5.9 at the end of Dec, appear particularly well positioned vs US investment grade credit, with a lower yield of 2.35% for a much longer duration of 9.0. Indeed, such long duration make them vulnerable to the risk of steepening of the US curve which could result from higher growth expectations.
- Moreover, EM IG corporate bonds continue to demonstrate lower volatility and higher Sharpe ratios than EM IG sovereign debt or US IG bonds, which should also contribute to their attractiveness, leading to new inflows which should support performance.

- At a regional level, we are overweight in Europe and underweight in the Middle East & Africa.
- At a country level, our largest overweight positions are in China, Russia, India, and South Africa.
- Our largest underweights are in Qatar, Korea, Singapore, and Chile.
- At a sector level, our largest overweight positions are in Metals & Mining, Real Estate and Transport. Our largest underweights are in Financials, Utilities and Oil & Gas.

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