
# UBAM - POSITIVE IMPACT EMERGING EQUITY

Quarterly Comment

For Professional Investors in Switzerland or Professional Investors as defined by the relevant laws.
Fund classification under Sustainable Financial Disclosure Regulation (SFDR): Article 9

## *Market Comment*

- Global equity markets were weaker in Q3 after strong gains in the first half of the year. The MSCI ACWI* contracted by 3.4%, but was still up 10.1% for the year. Investors entered the quarter hopeful that the Fed had orchestrated a soft landing for the economy, and that the era of policy tightening rates would soon end thanks in large part to a continued healthy job market and consumer spending. However, that enthusiasm withered over August and September, as the prospect of a sustained period of higher rates sank in.

- In terms of style, markets witnessed a meaningful rotation for the first time this year, with the MSCI World Value Index* down “only” 1.8% versus the MSCI World Growth Index* down 4.9%. The household names “mega-cap tech” stocks that helped usher in significant returns in the first half of the year ran out of steam. Energy stocks were on the other hand, relatively resilient and one of few bright spots along with financials and materials. Some of the steepest declines came in the consumer discretionary sector given concerns over the knock-on effects of higher interest rates on consumers’ disposable income. The tech sector overall was one of the weakest, along with real estate and utilities.

- Performance was generally bad across regions. The MSCI EM Index* was down 2.9% and up 1.8% YTD. Concerns over the Chinese economic recovery and its property sector continued to drag Emerging equities, despite India’s strong outperformance. There was also further weakness in South Africa, Mexico and Taiwan, which were among the worst performers with correction of 5% and more in dollar terms over the quarter. The small cap index, which had good performance so far this year rose by a further 2.9%.

- In terms of themes within Emerging Markets, Climate Stability and Sustainable Communities were the most negative contributors, while Basic Needs led the pack. Health & Wellbeing and Healthy Ecosystems were also in positive territory. For sectors, it is Energy which was the strongest performing, followed by Consumer Discretionary, while Technology, Communication and Industrials lagged.

- Between the 2nd and 5th of October, Building Bridges was held in Geneva. Seen as Switzerland’s leading sustainable finance annual event, it aims to build momentum, support, and collaboration for transforming the financial system into one that helps drive the transition to a net-zero, nature-positive and socially inclusive economy. Notably, nature was at the top of the agenda this year, building on the momentum from the adoption of the Global Biodiversity Framework at the end of 2022 and the launch of the Taskforce for Nature-related Financial Disclosures (TNFD) reporting framework, which was a much-anticipated milestone.

**** net total return index***

***Sources: UBP, Bloomberg Finance LP.***

*Performance Review*

- The fund underperformed its benchmark by 0.5%, with a performance of -3.4% (net of fees, IC USD class) vs -2.9% for MSCI Emerging markets*.After a difficult start in the first half od July, the fund caught up until the 3rd week of August before losing some ground again before the end of the quarter.
  ** net total return index*

- In terms of countries, we benefited overall from our geographic allocation. Our allocation to Hungary, and to Latin America via a stock listed in the US, added positively to performance. On the contrary, our underweight on India, which continues to be a very strong market this year, and Turkey, in which we have no investment, had a negative impact.

- Our sector allocation was also positive, with our overweight in Healthcare and our underweight in Communication Services being the largest positive contributors.

- The thematic contribution continued to show weakness for our Climate Stability and Sustainable Communities themes, which suffer from the ongoing derating of renewable energy and EV batteries stocks. The Basic Needs theme was the best performing one, which is explained by the fact that this was a good quarter for the Value index, to which this theme is overexposed.

- Our stock picking was largely negative on the quarter. The largest negative contributors were linked to the derating mentioned above. But they were also a few stock-specific situations. Shandong Weigao issued from a profit warning over its results for the first part of the year, and Swire Properties continued to suffer from the negative sentiment impacting China, and its subpar economic recovery in 2023, particularly when it comes to Real Estate.

*Portfolio activity*

- In line with the first two quarters, the fund showed limited turnover in terms of names.

- We disposed entirely of our position in **Direcional** (IMAP: 15). The stock suffered from an ESG rating downgrade by our external provider, and ended below our screening threshold. We were already reducing that position before as it had been a great contributor to the performance of the fund and was now trading above the valuation of its sector peers.

- We added two new positions. In Brazil, we invested in **Afya** (IMAP: 14), an education and service provider that specialises in medical education. This is a growing sector in the country that has proven very resilient to macro variations in the country And in Indonesia, we initiated a position in **BTPN Syariah** (IMAP: 16), a microcredit provider that has developed a very profitable business, but is trading at a deep discount to **Bank Rakyat Indonesia** (IMAP: 14), the leader in that area. We had reduced our position in Bank Rakyat in the second quarter as the share price more than reflected the recent progress in its fundamentals, but we still hold a smaller position. BTPN syariah will help to rebuild our exposure to this country.



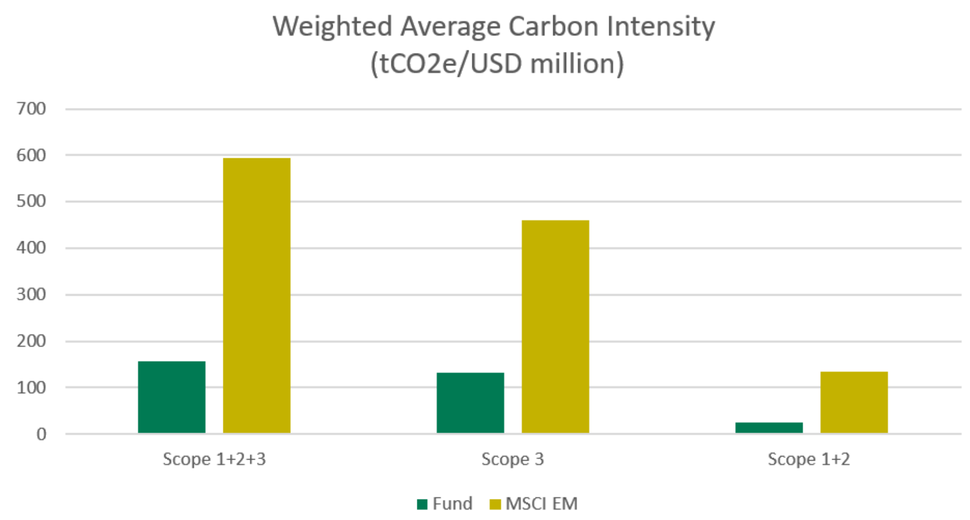
*ESG Monitoring*

- **Human rights and Social**
  (Disclosure: Fund 94.9% / Index: 99.8%) **and Social** (Disclosure: Fund 94.9% / Index: 99.9%)

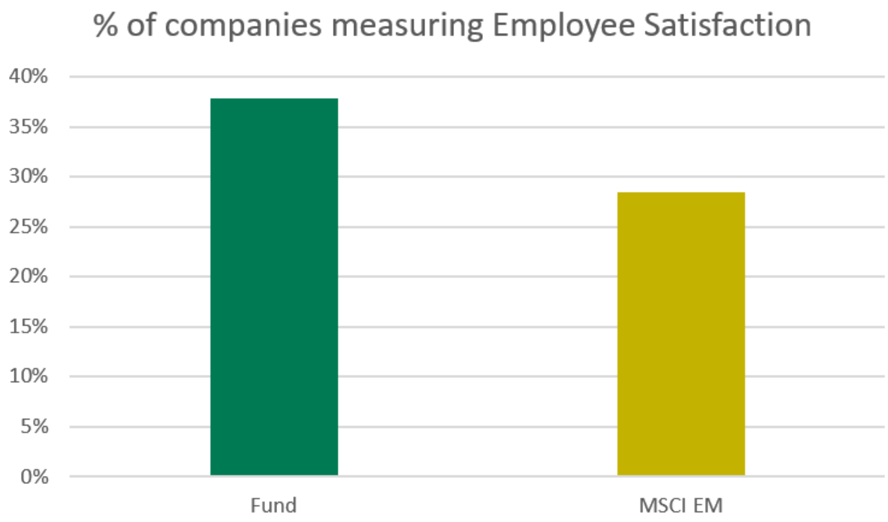
| | UN Global Compact | | | Human Rights Compliance | | |
|---|---|---|---|---|---|---|
| | Pass | Watchlist | Fail | Pass | Watchlist | Fail |
| UBAM - PIEE | 37 | 0 | 0 | 37 | 0 | 0 |
| MSCI EM | 1374 | 47 | 14 | 1376 | 46 | 14 |
| UBAM - PIEE | 100% | 0% | 0% | 100% | 0% | 0% |
| MSCI EM | 95.7% | 3.3% | 1.0% | 95.8% | 3.2% | 1.0% |

| | Labour Compliance - Core | | | Labor Compliance - Broad | | |
|---|---|---|---|---|---|---|
| | Pass | Watchlist | Fail | Pass | Watchlist | Fail |
| UBAM - PIEE | 37 | 0 | 0 | 37 | 0 | 0 |
| MSCI EM | 1407 | 16 | 13 | 1398 | 24 | 14 |
| UBAM - PIEE | 100% | 0% | 0% | 100% | 0% | 0% |
| MSCI EM | 98.0% | 1.1% | 0.9% | 97.4% | 1.7% | 1.0% |

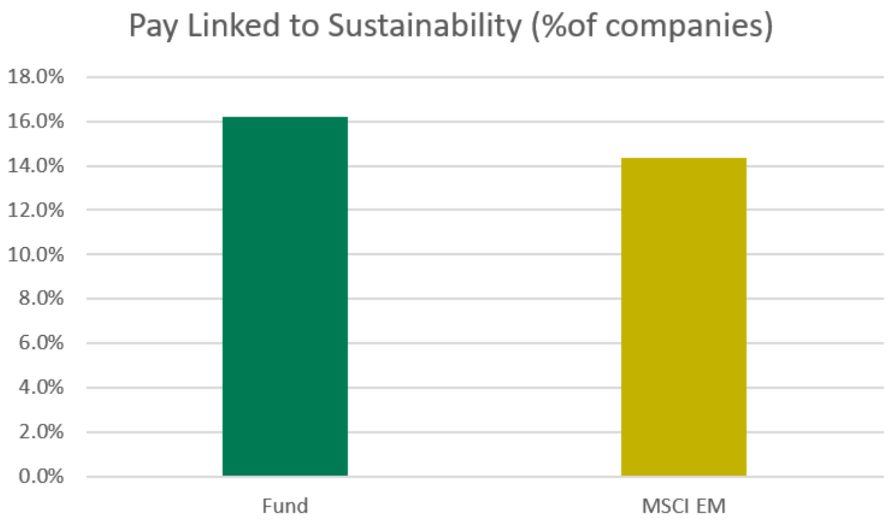
- **Environment** (Public Disclosure: Fund 62.5% / Index: 77.0%, Including estimates: Fund 100% / Index 99.9%)




**Carbon Intensity metric:** UBAM - Positive Impact Emerging Equity aims to beat the benchmark (MSCI Emerging markets) for this metric




- **Labour** (Disclosure: Fund 94.9% / Index: 99.2%)




- **Governance** (Disclosure: Fund 94.9% / Index:100%)

*Sources: UBP, Based on MSCI ESG Research LLC and Urgentem*



*Outlook*

- The global economy remains supported by a robust performance from the US where full employment and a savings pile from the Covid era continue to support the consumer-led economy. With the bulk of overvaluation in global equity markets accounted for by US ‘Big Tech’ and related artificial intelligence names, stock and sector selection opportunities should continue to emerge elsewhere, justifying a broader diversification across sectors and regions.

- Yet a positive outlook remains restricted by the actions taken by global central banks even if we are entering the end of this raising cycle. Furthermore, the savings pool is dwindling. We would expect a lag in terms of the impact of these moves on the real economy. Market commentators are laser-focused on what kind of landing these measures will usher in.

- From the point of view of equity investors, concerns should centre on an ability to grown the top line, margins and profits whilst end demand appears to be leading to volume stagnation. As we enter into an election cycle in the US and UK in 2024, we can expect a lot of headline grabbing noise. The Chinese government is equally attempting a tricky navigation of a slow patch in economic growth as the property and construction bubble deflates. This is having a broader impact on the whole Asian region and indeed into the manufacturing heart of Europe, in particular in Germany. In the case of China, this backdrop has already been embedded in stock performance. At present, consensus expects 5-10% earnings growth for developed markets in 2024 and with the average stock actually lower than at the start of the year, there is evidence of good value emerging in stock markets, however, we do not expect a sharp rebound and we remain cautiously positioned for the time being.

- On the sustainability front, The International Energy Agency (**IEA**) released its Net Zero Roadmap 2023 update over the quarter, arguing that the case for climate action and biodiversity restoration is stronger than ever. First introduced in May 2021, the Roadmap was a landmark moment for the energy and climate world, but much has happened since its launch two and half years ago: first, the strong and carbon intensive economic recovery from the Covid crisis; then, the global energy crisis triggered by Russia’s invasion of Ukraine. The negative consequences of these major events include the rise of global energy-related carbon dioxide emissions to a new record in 2022 and increased investment in new fossil fuel projects. However, we have also seen some extremely positive developments, most notably the rapid progress of key clean energy technologies, such as solar PV and electric vehicles, backed by significant policy efforts to advance them further. Recognising the importance of these industries of the future for energy security and economic competitiveness, countries around the world are seeking to boost their clean technology manufacturing capacities, driving a resurgence in industrial policy. Innovation is also accelerating, strengthening the pipeline of technologies that will be needed to complete the world’s journey to net zero. Notwithstanding, July 2023 was the hottest month on record – and 2023 as a whole appears likely to become the hottest year. Severe wildfires, droughts, floods and storms further underlined that the climate crisis is with us and that the costs are mounting. Insights from this report will certainly inform international discussions going into COP28 on Nov 30th 2023 and beyond.

*Sources: UBP, IEA*

## Appendix

## Methodology

- Global Compact Compliance

  This factor indicates whether the company is in compliance with the United Nations Global Compact principles. The possible values are Fail, Watch List, or Pass.
- Human Rights Compliance

  This factor indicates whether the company is in compliance with the United Nations Guiding Principles for Business and Human Rights. The possible values are Fail, Watch List, or Pass.
- Weighted Average Carbon Intensity

  This figure represents the company's Scope 1 + Scope 2+ Scope 3 greenhouse gas emissions normalized by sales in USD, which allows for comparison between companies of different sizes. This is a weighted average calculated using Urgentem data.
- Labor Compliance - Core

  This factor indicates whether the company is in compliance with the International Labour Organization’s fundamental principles. The possible values are Fail, Watch List, or Pass.
- Labor Compliance - Broad

  This factor indicates whether the company is in compliance with the International Labour Organization’s broader set of labor standards. The possible values are Fail, Watch List, or Pass.
- Monitors employee satisfaction

  Flagged as "Yes" if company monitors employee satisfaction.
- Pay Linked to Sustainability

  Has the company, if designated as having either a high environmental or social impact, failed to incorporate links to sustainability performance in its current incentive pay policies? Flagged if yes. This metric is based entirely on the company’s own reporting, and is strictly focused on the specific inclusion or not of such metrics in the determination of variable pay components and does not take into consideration their effectiveness. High Environmental Impact: If any of the following ESG Ratings Key Issues carry more than a 5% weight: Carbon Emissions, Water Stress, Toxic Emissions & Waste, Product Carbon Footprint, Raw Material Sourcing, Packaging Material & Waste, Electronic Waste, Biodiversity & Land Use, Energy Efficiency. High Social Impact: If any of the following ESG Ratings Key Issues carry more than a 5% weight: Labor Management, Health & Safety, Product Safety & Quality, Supply Chain Labor

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