Portfolio report

UBS Emerging Markets Equity Fund
Emerging Markets Equity HALO
Client report from 01.04.2024 to 30.06.2024

Performance Comments

After fees and expenses, the portfolio increased by 2.17% over the quarter, underperforming its benchmark.

% Return (Net)	Fund[1]	Benchmark*	Difference
3 months	2.17	2.57	(0.40)
1 years	10.09	12.18	(2.09)
3 years	(5.46)	(1.29)	(4.17)
5 years	1.22	4.12	(2.90)
Calendar Year to Date	8.05	9.82	(1.77)
Since inception (07/18)	1.95	4.16	(2.21)

[1] Performance figures are net of ongoing fees and expenses.

*MSCI Emerging Markets Net Total Return Index

The performance figures quoted are historical, calculated using end of month redemption prices, and do not allow for the effects of income tax or inflation. Total returns assume the reinvestment of all distributions. Performance can be volatile and future returns can vary from past returns.

Source: UBS Asset Management. These figures refer to the past. Past performance is not a reliable indicator of future results.

Materials was the key detractor, while Consumer Discretionary contributed the most, all due to our stock selection. Market-wise, Mexico was the key detractor, while Korea contributed the most, mostly due to our stock selection. The key stock detractors were our holdings in Cemex, Banorte and Suzano. On the other hand, our holdings in Anglo American, SK Hynix and Axis Bank were the key contributors.

Largest stock contributors

– **Anglo American** outperformance was driven by the BHP's offer to buy out the company, and the subsequent restructuring plan announced by the management to unlock value.
– **SK Hynix** outperformed with strong demand expectations for HBM (high bandwidth memory), spurred by Nvidia's strong guidance that reflected robust demand for Artificial Intelligence (AI).
– **Axis Bank** outperformed on positive sentiments post the recent Indian elections and on strong 4QFY24 results and improved margins.

Largest stock detractors

– **Cemex** underperformance was not due to any company specific factors. The underperformance was driven by the increased risk perception for Mexican equities post Presidential elections, and partially to concerns about a slowdown in the US and European economies.
– **Banorte** underperformance was also driven by the increased risk perception for Mexican equities post Presidential elections.
– **Suzano** negative performance was driven by rising concerns about its capital allocation decisions after the announced interest to acquire International Paper.

Stock Contributors & Detractors (%)

Company name	Return	Contribution	Over / underweight
Anglo American	25.31	0.61	OW
Sk Hynix Inc	23.47	0.52	OW
Axis Bank	18.05	0.45	OW
Tencent Holdings Limite	21.07	0.40	OW
Hdfc Bank Ltd	15.16	0.38	OW
Total of top 5 Contributors		**2.36**	
Banco Bradesco Sa	(20.80)	(0.43)	OW
Samsung Sdi	(28.19)	(0.52)	OW
Suzano Sa	(25.10)	(0.60)	OW
Kweichow Moutai	(14.57)	(0.70)	OW
Grupo Financiero Banort	(23.66)	(1.16)	OW
Total of top 5 detractors		**(3.41)**	

Note: Position at quarter-end, which may be different to the position during the quarter.

Sector Attribution (%)

Sector Contributors	Contribution	Over / underweight
Consumer Discretionary	0.89	OW
Communication Services	0.69	UW
Materials	0.17	UW
Industrials	0.07	UW
Real Estate	0.03	UW
Sector Detractors		
Utilities	(0.03)	UW
Information Technology	(0.05)	OW
Health Care	(0.06)	UW
Financials	(0.59)	OW
Consumer Staples	(0.72)	OW

Note: Position at quarter-end, which may be different to the position during the quarter.

Market Attribution (%)

Market name	Contribution	Over / underweight
United Kingdom	0.61	OW
South Korea	0.58	OW
India	0.38	UW
Saudi Arabia	0.24	UW
Taiwan	0.16	UW
Total of top 5 Contributors	**1.97**	
Turkey	(0.11)	UW
China	(0.14)	UW
South Africa	(0.21)	OW
Mexico	(0.71)	OW
Brazil	(0.94)	OW
Total of top 5 detractors	**(2.11)**	

Note: Position at quarter-end, which may be different to the position during the quarter.

Portfolio Positioning

Active Positions by Stock (%)

Top 5 Overweights		Top 5 Underweights	
HDFC Bank	3.78	Alibaba Group Holding	(2.03)
Reliance Industries	3.50	Hon Hai Precision Industry	(1.09)
Samsung Electronics	3.28	ICICI Bank	(0.99)
Axis Bank	3.24	Meituan	(0.96)
Kia	3.22	China Construction Bank	(0.95)

Active Positions by Industry Group (%)

Top 5 Overweights		Top 5 Underweights	
Banks	6.22	Capital Goods	(4.91)
Semiconductors & Semiconductor Equipment	5.07	Utilities	(2.96)
Energy	4.06	Materials	(2.71)
Media & Entertainment	2.03	Financial Services	(2.65)
Automobiles & Components	1.94	Software & Services	(2.39)

Active Positions by Market (%)

Top 5 Overweights		Top 5 Underweights	
South Korea	6.05	Taiwan	(4.88)
Brazil	2.76	China	(4.32)
United Kingdom	1.89	India	(2.72)
Hungary	1.82	Saudi Arabia	(2.04)
United States	1.70	United Arab Emirates	(1.10)

Note: Position at quarter-end, which may be different to the position during the quarter.

Market Review

In 2Q24, EM equities recorded mid-single digit gain. Sector-wise, Information Technology was the key outperformer while Health Care was the main detractor. Within Asia, Taiwan was the key outperformer, extending the rally of tech and semiconductor industries. Within Latin America, all countries in the region posted negative gain due to factors such as elections, currency depreciation and concern for rising inflation expectation. Peru was the key outperformed within the Latin America region, with marginal negative gain.

Outlook & Strategy

Short-term sentiments towards Chinese equities have turned recently, with mixed economic data casting shadows on a previously more optimistic outlook. Real estate prices and infrastructure spending continued to weaken. More supportive policies such as the RMB 300bn re-lending facility to purchase affordable housing have been announced but implementation will take time as details are worked out. Meanwhile the feel-good impact is fading. We have maintained the view that current Chinese equity valuations bake in significant market pessimism, and there is alpha to be reaped in some of the high quality companies we are holding. On the macro level, we believe that growth momentum will remain soft in the near term and expect that improvement in consumer and business confidence is required before the economy turns around. We are also expecting geopolitical issues to continue dominating headlines with the US elections looming nearer. The recently proposed US bills, such as the Biosecure bill targeted at "certain biotechnology providers", are part of the political noise, with more such bills likely to be proposed, before the November elections. Typically less than 15% of bills become Enacted Legislation.

Outside of China, we expect a mild growth recovery, with Asia ex-China growth in 2024 slightly outpacing 2023 in aggregate. In our view, there is an improving export outlook for countries that are more plugged into the tech supply chain. Our analyst was in Taiwan last month and believes the cyclical strength driven by AI-related businesses should sustain into next year at the very least. However we may need to be more patient for the tech-led manufacturing rebound to benefit industries beyond semiconductors and high-growth areas such as AI, that are mainly in Korea and Taiwan.

In Korea, the "corporate value-up programme" continues to elicit investor interest. We followed Japan's development over several years as the authorities worked to close the valuation gap, and believe Korea is sowing the same seeds, which will not happen overnight but over a period. Meanwhile the progress appears to be headed in the right direction. Korea Exchange (KRX) has announced guidelines of the corporate value up programme will launch a Korea Value Up Index and ETFs tracking the index this year. Meanwhile tax reforms continue to be debated in the government. Since last year, our boots-on-the-ground research has made us aware of improving governance ranging from payouts to investors, rising corporate activism, to softer issues such as employee retention, gradually rising female participation, and better work life balance. Corporates are focusing on profitability.

Down south in India and Indonesia, domestic demand has shown relative strength. India's economy has continued to produce robust broad-based momentum supported by cyclical and structural tailwinds. On the back of government capex on infrastructure, there is emerging evidence of a pick-up in private sector capex cycle and for the first time in a decade it appears that India's economy is being driven incrementally by investment rather than consumption. Our boots-on-the-ground research recently uncovered a strong outlook for higher-end discretionary growth while mass and mid-segment consumption remains weak, due to a weak job market, bad monsoons in recent years impacting agricultural incomes and high inflation. Staples companies are showing some stability but recovery may take a few more quarters. India's general election results came in with BJP stopping short of parliamentary majority, but the market took it in stride after a brief negative impact. Investors are looking toward the Budget in early July for more clarity on reform continuity.

In Indonesia, the macroeconomic environment remains stable given well-supported domestic demand and a healthy commodities trade surplus. We believe the economy will continue to be supported by reforms. Public finances in Indonesia are among the healthiest in key Emerging Markets economies, with low fiscal deficit and public debt to GDP. There are some jitters on a smooth and easy transition to the new government at year-end but we are waiting to see the direction of the new administration. In addition, there may be a lull in economic activity during the transition. We have moderated our Indonesian exposure.

Outside of Asia, while the macro backdrop for potential rate cuts is favorable given the level of high real rates, it hasn't fully materialized yet. Brazil was among the first to cut rates back in August 2023. However, given the worse than expected fiscal deficit, rates are likely to stay high for longer. The outlook for Mexico is similar albeit for different reasons. The backdrop of political noises makes it difficult to cut rates in a meaningful way. Only market so far that has delivered on rate cuts is Hungary.

Beyond potential rate cuts, election outcome has been a key driving force behind the markets. Investors are worried about the latest election results in Mexico where the incumbent party has secured the constitutional majority. There has already been some pressure on the equity markets and on FX. Similarly, in the aftermath of the election in South Africa which saw the ANC losing majority, there is uncertainty around the potential new government coalition. We are monitoring the situation closely as it's important to distinguish what is sentiment and what is fundamentally driven.

Structurally speaking, we see changes happening in select markets. In Mexico, we see a strong trend of nearshoring, especially in the north, resulting in higher investment and employment. In addition, the Middle East should continue benefiting from structural reforms, the volatility in oil price notwithstanding. Last,

Outlook & Strategy (Continue)

we are also monitoring closely the geopolitical risk around the current conflict in the Middle East.

Over the longer term, we see the following attractive drivers for Emerging Markets: 1) The evolution of Asian consumers: a rising middle class likely to drive higher consumption, premiumization and a shift towards discretionary spending and financial deepening, 2) De-globalization and geopolitics: reconfiguration of manufacturing and supply chains/"China Plus One" diversification, 3) Artificial intelligence and digital transformation: growing strategic importance of semiconductors with large parts of the value chain in Asia, 4) Energy transition: electric vehicle supply chain, from raw materials (e.g. nickel ore) to electric vehicles and 5) structural changes/reforms: better institutions, reforms and macro conditions in countries like India and Indonesia.

With respect to our portfolio, we believe that we can continue stabilizing performance and add value for our clients with our active approach.

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