

# UBS Emerging Markets Equity Fund

## March 2024

### **Fund description**

The Fund is an actively managed fund investing in a high conviction portfolio of 25–40 emerging markets equities.

### **Target market**

The Target Market Determination (TMD) for the Fund sets out the class of consumers for whom the product, including its key attributes, would likely be consistent with their likely objectives, financial situation and needs. To access to the TMD and other Fund documentation visit our website

#### **Investment strategy**

The Fund has a high conviction focused strategy and invests in emerging markets equity securities, taking meaningful positions at the company level seeking to identify the best opportunities to add value.

#### Investment objective

The Fund aims to provide a total return consisting of capital growth and income that outperforms (after management costs) the MSCI Emerging Markets Net Total Return Index over a rolling full market cycle (normally 3–5 years).

#### **Fund information**

Inception date	27 July 2018
Fund size	\$ 60.0m
Management fee	1.20% pa
Performance fee*	Yes
Minimum initial investment	\$50,000
Typical number of holdings	25 to 40
Distributions	Annually
Buy/sell spread	+/- 0.40%
Currency management	Unhedged
APIR code	UBS8018AU
1.71	

<sup>\*</sup> The performance fee is calculated as 20% of the amount by which the Fund outperforms the MSCI Emerging Markets Net Total Return Index

## Country/regional allocation (%)



China	22.3
South Korea	16.5
India	14.8
Taiwan	13.9
Brazil	8.2
Mexico	4.6
Indonesia	3.5
South Africa	3.3
United Kingdom	2.4
Saudi Arabia	2.2
Hungary	2.0
United States	1.8
Thailand	1.7
Cash	2.5

## Sector allocation (%)



Information Technology	27.4
Financials	26.3
Consumer Discretionary	14.9
Energy	8.6
Communication	7.1
Services	
Consumer Staples	6.4
Materials	5.3
Health Care	1.5
Cash	2.5

## **Active security positions**

Overweight	Underweight
Grupo Financiero Banorte O	Alibaba Group Holding Ltd
Samsung Electronics Krw5000	Icici Bank Ltd
Kweichow Moutai Co Ltd A	Meituan-Class B
Reliance Industries Ltd Inr10	Infosys Ltd
Bank Central Asia Pt Idr62.50	Hon Hai Precision Industry

# **Active industry positions**

Overweight	Underweight
Banks	Capital Goods
Semiconductors & Semiconductor Equipment	Utilities
Energy	Financial Services
Food, Beverage & Tobacco	Software & Services
Consumer Durables & Apparel	Consumer Services

#### **Investment performance**

	1 month	3 months	1 year	2 years	3 years	5 years	Since inception*
Fund	%	%	%	% ра	% pa	% pa	% pa
Total return	3.22	5.76	9.76	3.29	(5.10)	1.16	1.65
Benchmark**	2.28	7.07	11.03	5.43	(0.02)	3.97	3.88
Added Value	0.94	(1.31)	(1.27)	(2.14)	(5.08)	(2.81)	(2.23)

<sup>\* 27</sup> July 2018.

Performance figures are net of ongoing fees and expenses. 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. Differences may arise as Russian securities were partially suspended from trading since 25th of February 2022.

#### **Performance/attribution comments**

The portfolio outperformed the benchmark over the reporting month. Information Technology was the key contributor, while Consumer Staples detracted the most, all due to our stock selection. Market-wise, Korea was the key contributor, while China detracted the most, all due to our stock selection. The key stock contributors were our holdings in Anglo American, Samsung Sdi Co and Samsung Electronics Co. Anglo American outperformed on higher commodity prices, particularly copper, and PGMs during the month. There were no company specific newsflow. Samsung SDI rebounded from previous declines, as the company eked out some growth in EV battery shipment volume, outperforming competitors. With its focus on higher-end EV cars, it is less affected by EV price competition in the mass market. In addition, the supply-demand dynamics in the rest of the world are better than in China. Samsung Electronics outperformed, playing catch up to the other large cap tech names that have run up with the AI hype. Following inventory adjustments and a turnaround in memory demand from PC and mobile, the company is also seeing signs of an order recovery from enterprise and cloud servers. With memory order momentum building, recovery should gain more traction in the coming year. On the other hand, our holdings in China Mengniu Dairy Co and Pdd Holdings and not holding Hon Hai Precision Ind Co were the key detractors. Mengniu underperformed as the stock trended lower over the period amid concerns about continued consumption weakness and low visibility of revenue growth acceleration. In addition, the unexpected change in CEO also caused concerns on the company's strategy. Going forward, we believe that consumption recovery will be more gradual than expected, though margin expansion thesis remains intact with valuations remaining attractive. PDD underperformed as investors took profit following its strong rally over the past few months. In addition, former US president Trump said he would propose more import tariffs (possibly in excess of 60%) on China imports, if reelected. Geopolitical concerns are ramping up before the US elections. We believe PDD remains best positioned among the ecommerce platforms in China with potential to grow internationally. There is still a decent potential upside in its domestic business, even if we do not accord value to the Temu business. Not holding/underweighting Hon Hai Precision Industry detracted as the stock rallied on the back of strong 4Q results and optimism they could gain market share in Al servers. Foxconn is guiding significant growth in 2024 driven by AI demand as it makes servers and other devices used in AI applications. We do not hold Han Hai as we prefer other names in the industry.

#### Market review

EM equities posted gains in March, also thanks to optimism around US soft-landing where economic data continued to be encouraging. Sector-wise, Information Technology and Communication Services were the key outperformers, while Real Estate was the key underperformer. Within Asia, Taiwan was one of the key outperformers on the back of Al pick-up. Within Latin America, Brazil was the key detractor as Central Bank of Brazil changed to a less dovish tone for future rate cut guidance and industrial production in January showed retraction relative to December. The gains in March also helped the first quarter to end in positive territory where the solid trend around the IT sector was able to more than offset the negative sentiment around China.

#### **Outlook**

Investors remain unimpressed by the Chinese government's rhetoric around supporting the market and economy, with the Two Sessions concluding in line with muted expectations and the government setting a GDP growth target of around 5%. At the company level, increasing numbers of Chinese companies across different sectors are making an effort to improve shareholder returns, including raising dividends, paying out special dividends or doing share buybacks. This seems to reflect some concerted effort in attracting foreign capital, but investors are looking on how and whether the authorities execute the 24 measures for attracting foreign investments, that were announced in March.

Outside of China, we expect a mild growth recovery, with Asia ex-China growth in 2024 to slightly outpace 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 witnessed that the cyclical upturn is intact though momentum is sluggish outside of Al-related investments. We may need to be more patient for the tech-led manufacturing rebound to benefit industries beyond semiconductors and high-growth areas such as artificial intelligence (AI), that are mainly in Korea and Taiwan. In Korea, there has been increasing interest in the "corporate value-up programme", following in Japan's footsteps in closing their valuation gap. Our boots-on-theground 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, where domestic

<sup>\*\*</sup> MSCI Emerging Markets Net Total Return Index.

demand has shown relative strength. India's economy has continued to produce robust broad-based momentum supported by cyclical and structural tailwinds. In Indonesia, Prabowo Subianto's victory in the recent elections has been confirmed, which could bode well for policy continuity.

Outside of Asia, LatAm together with select Eastern European economies such as Hungary or Poland is expected to lead the broader Emerging Markets with rate cuts in the medium term while bearing in mind local FX weakness may delay policy action. With respect to Brazil, there has been some noises around the current administration and potential interference in the SOE space. We monitor closely as to how much checks and balances there is between the executive and the legislative branches of the government. In Mexico, we see a strong trend of nearshoring, especially in the north, resulting in higher investment and employment. Similarly, the Middle East should continue benefiting from structural reforms, the volatility in oil price notwithstanding. Key in both markets is through a prudent stock selection. In addition, the geopolitical risk around the current conflict in the Middle East needs to be monitored. Last while not our base case, the upcoming election in South Africa has the potential to negatively surprise the market which is being taken into consideration in our portfolio construction process.

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) Deglobalization 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. After negative 2021 and 2022, we have stabilized the performance over the 1y period.

Client Services www.ubs.com/am-australia

Telephone: (03) 9046 4041 Freecall: 1800 572 018 Email: ubs@unitregistry.com.au

This document is intended to provide general information only and is not an invitation to subscribe for units in the Fund. When making a decision about your investments, you should seek the advice of a professional financial adviser or qualified expert. Any materials that constitutes financial product advice is general financial product advice only. It has been prepared without taking into account the objectives, financial situation or needs of any particular person. Before making an investment decision, you should consider whether this information is appropriate having regard to your objectives, financial situation or needs. Refer to UBS Asset Management (Australia) Ltd's financial services guide on our website for more information. Your investment in the Fund does not represent deposits or other liabilities of UBS AG or any member company of the UBS Group including UBS Asset Management (Australia) Ltd (ABN 31 003 146 290) (AFS Licence No. 222605), the issuer of the Fund. Your investment is subject to investment risk, including possible delays on the repayment of withdrawal proceeds and the loss of income or the capital invested. The repayment of capital or the performance of the Fund or rate of return is not guaranteed by any company in the UBS Group. Any potential investor should obtain and consider the Fund's product disclosure statement (PDS before deciding whether to acquire, or continue to hold, units in the Fund. UBS has also issued a target market determination (TMD) that describes the class of consumers that comprises the target market for the Fund and matters relevant to its distribution and review. A copy of the PDS, PDS addition information booklet and TMD is available from UBS Asset Management (Australia) Ltd, the issuer of the UBS Funds, on our website www.ubs.com.au or by calling (03) 9046 4041 or 1800 572 018. Unless specifically stated otherwise, all price and performance information is indicative only. Past performance is not a reliable indicator of future performance. No allowance has been m

The PDS for this Fund is only available to persons receiving the PDS (electronically or otherwise) in Australia, unless expressly authorised by us in writing. The offer does not constitute an offer or invitation in any place in which, or to any person to whom, it would be unlawful to make such an offer or invitation. This Fund (or the PDS) has not been registered under the laws of any jurisdiction outside Australia. The Fund may not be offered or sold in the United States of America or to 'U.S. Persons' (as defined in 'Regulation S' of the Securities Act of 1933, as amended) and the PDS is not for use in, and may not be delivered to or inside, the United States of America.

This document may not be reproduced or copies circulated without prior authority from UBS Asset Management (Australia) Ltd.

© UBS 2024. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.

