Portfolio report

UBS Emerging Markets Equity Fund
Emerging Markets Equity HALO
Client report from 01.01.2024 to 31.03.2024

Performance Comments

After fees and expenses, the portfolio increased by 5.76% over the quarter, underperforming its benchmark.

% Return (Net)	Fund[1]	Benchmark*	Difference
3 months	5.76	7.07	(1.31)
1 years	9.76	11.03	(1.27)
3 years	(5.10)	(0.02)	(5.08)
5 years	1.16	3.97	(2.81)
Calendar Year to Date	5.76	7.07	(1.31)
Since inception (07/18)	1.65	3.88	(2.23)

[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.

Stock selection in . Financials was the key detractor, while Information Technology contributed the most, all due to our stock selection. Market-wise, India was the key detractor, while Taiwan contributed the most, all due to our stock selection. Stock specific comments are as follows.

Largest stock contributors

– **TSMC** outperformed, with the company well-positioned at the start of another multi-year semiconductor upturn, with rising Artificial Intelligence (AI) adoption being the key catalyst for growth, especially at the leading edge. TSMC is the key enabler for AI adoption, both in the datacenter and on the edge, with a nearly 100% market share in AI accelerators. The company's N3 and N5 technology saw strong demand supported by AI and smartphone and expects growth to resume in 2024.

– **Reliance industries** outperformed and on the back of 2QFY24 results which showed encouraging performance across segments, with strong growth delivery in its consumer businesses. We believe that the company offers us exposure to underpenetrated and long-term growth sectors in India, such as e-commerce, digital media, and clean energy.

– **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). The tech hardware industry is emerging from one of its worst downcycles

Largest stock detractors

– **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 he is re-elected. Geopolitical concerns are ramping up in the leadup to 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 its Temu business.

– **HDFC** underperformed on some disappointment over last quarter's results, including its bloated loan to deposit ratio. However the bank still outpaced the industry in terms of deposit growth and we believe it can continue to do so. The company remains a premier private bank focused on mortgages, auto and other personal loans, that continues to expand its footprint into rural India at a rapid pace. In addition, its merger with HDFC Ltd should be accretive with improved penetration and cross sell.

– **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

Stock Contributors & Detractors (%)

Company name	Return	Contribution	Over / underweight
Taiwan Semiconductor Ma	32.36	0.58	OW
Reliance Industries	19.97	0.49	OW
Sk Hynix Inc	29.40	0.46	OW
Mediatek Inc	21.22	0.27	OW
Midea Group Co Ltd	20.58	0.25	OW
Total of top 5 Contributors		**2.05**	
Mtn Group Ltd	(18.02)	(0.42)	OW
Banco Bradesco Sa	(14.99)	(0.51)	OW
China Mengniu Dairy Co	(16.52)	(0.55)	OW
Hdfc Bank Ltd	(11.60)	(0.66)	OW
Pdd Holdings Inc	(16.90)	(0.93)	OW
Total of top 5 detractors		**(3.07)**	

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

Market Attribution (%)

Market name	Contribution	Over / underweight
Taiwan	1.14	UW
Indonesia	0.39	OW
Mexico	0.21	OW
South Korea	0.18	OW
Thailand	0.13	OW
Total of top 5 Contributors	**2.05**	
United States	(0.12)	OW
South Africa	(0.14)	OW
Brazil	(0.15)	OW
China	(0.73)	UW
India	(1.67)	UW
Total of top 5 detractors	**(2.81)**	

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

Sector Attribution (%)

Sector Contributors	Contribution	Over / underweight
Information Technology	1.44	OW
Materials	0.73	UW
Energy	0.19	OW
Real Estate	0.14	UW
Industrials	0.07	UW
Health Care	0.04	UW
Sector Detractors		
Utilities	(0.03)	UW
Communication Services	(0.24)	UW
Consumer Staples	(0.44)	OW
Consumer Discretionary	(1.02)	OW
Financials	(1.84)	OW

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	
Grupo Financiero Banorte SAB de	4.26	Alibaba Group Holding	(2.03)
Kweichow Moutai	3.95	ICICI Bank	(0.95)
Samsung Electronics	3.56	Meituan	(0.87)
Reliance Industries	3.52	Infosys	(0.83)
Bank Central Asia	3.04	China Construction Bank	(0.81)

Active Positions by Industry Group (%)

Top 5 Overweights		Top 5 Underweights	
Banks	6.67	Capital Goods	(4.90)
Semiconductors & Semiconductor Equipment	5.45	Utilities	(2.78)
Energy	3.29	Financial Services	(2.78)
Food, Beverage & Tobacco	2.96	Software & Services	(2.50)
Consumer Durables & Apparel	2.45	Consumer Services	(2.46)

Active Positions by Market (%)

Top 5 Overweights		Top 5 Underweights	
South Korea	3.70	Taiwan	(3.68)
Brazil	3.00	India	(2.85)
United Kingdom	2.31	China	(2.18)
Mexico	1.94	Saudi Arabia	(2.05)
Hungary	1.79	Malaysia	(1.36)

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

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 AI 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 & Strategy

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 AI-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-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, where domestic 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) 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.

UBS Asset Management (Australia) Ltd

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