

Portfolio report

UBS Emerging Markets Equity Fund

Emerging Markets Equity HALO

Client report from 01.10.2023 to 31.12.2023



Performance Comments

After fees and expenses, the portfolio increased by 2.51% over the quarter, outperforming its benchmark.

% Return (Net)	Fund ¹	Benchmark*	Difference
3 months	2.51	2.02	0.49
1 years	7.31	9.15	(1.84)
3 years	(6.17)	(1.10)	(5.07)
5 years	2.40	4.33	(1.93)
Calendar Year to Date	7.31	9.15	(1.84)
Since inception (07/18)	0.68	2.76	(2.08)

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 Consumer Discretionary was the key contributor, while Consumer Staples detracted the most, all due to our stock selection. Market-wise, Taiwan was the key contributor, United Kingdom detracted the most. Stock specific comments are as follows.

Largest stock contributors

- **PDD** outperformed on better-than-expected results for the past quarters and particularly in Q3FY23, where the company saw strong revenue growth underpinned by higher market share gain, as well as improvement in profitability via higher take-rates. PDD's overseas expansion efforts continue to gain traction, and the robust momentum behind their shopping app, Temu, remains sustainable. We believe PDD remains best positioned among the ecommerce platforms in China with potential to grow internationally.
- **Grupo Fin Banorte** outperformed on the back of good Q3 results and overall positive sentiment towards the Mexico market thanks to increasing nearshoring activities.

- **MediaTek** outperformed as the stock rallied through the period, on the back of better-than-expected 3QFY23 results and improved management guidance for next quarter as smartphone demand continues to recover. Looking ahead, investors expect the industry to be nearing the bottom of one of its worst downcycles, and sentiments have greatly improved on Nvidia's bullish quarterly guidance which reflected strong demand for Artificial Intelligence (AI).

Largest stock detractors

- **Ping An Insurance** underperformed as the stock slid over the period, amid weakness in the company's asset management segment though its new business value growth remained resilient. Ping An's stock price was further dragged by a report that stated the company has been asked by Chinese authorities to take a controlling stake in Country Garden. The company has formally denied the claim and currently does not hold any shares in the embattled property developer, though investor sentiments on life insurers remained weak over the period.
- **China Mengniu Dairy** underperformed as the stock continued to trend lower over concerns about continued consumption weakness and low visibility of recovery in revenue growth. Going forward, we believe that consumption recovery will be more gradual than expected, though margin expansion thesis remains intact with valuations remaining attractive.
- **Meituan** underperformed as the stock fell towards month-end. In the company's recent 3QFY23 results, management had indicated that the company's food delivery order volume growth might face some pressure from macro headwinds. In addition, margins have been impacted by rising user subsidies. There are also added concerns about the weak economy and intensifying competition in its in-store services, with Douyin ramping up competitive measures. We are reviewing the underlying investment thesis.

Stock Contributors & Detractors (%)

Company name	Return	Contribution	Over / underweight
Pdd Holdings	41.11	1.22	OW
Grupo Financiero Banorte	17.40	0.58	OW
Mediatek	37.38	0.57	OW
Samsung Electronics	14.26	0.45	OW
Sk Hynix	22.52	0.44	OW
Total of top 5 Contributors		3.26	
China Merchants Bank	(23.83)	(0.38)	OW
Anglo American	(14.07)	(0.51)	OW
Meituan	(32.20)	(0.57)	OW
China Mengniu Dairy	(24.11)	(0.66)	OW
Ping An Insurance	(25.23)	(0.92)	OW
Total of top 5 detractors		(3.04)	

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

Sector Attribution (%)

Sector Contributors	Contribution	Over / underweight
Consumer Discretionary	1.67	OW
Information Technology	1.30	OW
Real Estate	0.14	UW
Industrials	0.10	UW
Sector Detractors		
Communication Services	(0.04)	UW
Energy	(0.09)	OW
Health Care	(0.11)	UW
Utilities	(0.12)	UW
Financials	(0.33)	OW
Materials	(0.43)	UW
Consumer Staples	(0.96)	OW

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

Market Attribution (%)

Market name	Contribution	Over / underweight
Taiwan	0.59	UW
South Korea	0.43	OW
Mexico	0.37	OW
United States	0.36	OW
Hungary	0.28	OW
Total of top 5 Contributors	2.03	
Brazil	(0.15)	OW
Poland	(0.22)	UW
Thailand	(0.23)	OW
India	(0.37)	UW
United Kingdom	(0.51)	OW
Total of top 5 detractors	(1.48)	

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	
Kweichow Moutai	4.15	Alibaba Group Holding	(2.23)
Grupo Financiero Banorte	4.13	ICICI Bank	(0.88)
PDD Holdings	3.79	Infosys	(0.87)
Samsung Electronics	3.62	China Construction Bank	(0.82)
Reliance Industries	3.58	Vale	(0.77)

Active Positions by Industry Group (%)

Top 5 Overweights		Top 5 Underweights	
Banks	6.58	Capital Goods	(4.69)
Semiconductors & Semiconductor Equipment	6.14	Financial Services	(2.93)
Energy	3.56	Materials	(2.80)
Food, Beverage & Tobacco	2.69	Utilities	(2.70)
Consumer Durables & Apparel	1.94	Software & Services	(2.67)

Active Positions by Market (%)

Top 5 Overweights		Top 5 Underweights	
Indonesia	3.08	Taiwan	(2.85)
Brazil	2.99	India	(2.09)
United Kingdom	2.42	Saudi Arabia	(2.02)
Hungary	1.78	Malaysia	(1.33)
Mexico	1.76	United Arab Emirates	(1.26)

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

Market Review

EM equities posted low-single digit gains in December, as the overall market showed more resilience in Q4 and ended the year in positive territory. This was led by rising optimism as markets repriced sooner rate cuts from the Fed and the probability of a soft landing in the U.S. On the other hand, EM's positive performance was partially offset by the release of a new draft regulation on the online gaming industry in China, which caused a drag in the performance of several gaming stocks. Some recovery ensued as the regulatory authority in China reiterated their support on the healthy development of the online gaming industry. Broad performance across different EM sectors was positive, with Utilities and Information Technology as the key outperformers, while Communication Services was the largest drag on the index.

Outlook & Strategy

Overall growth is likely to be softer going into 2024 with moderated inflation expectations and geopolitical issues to continue dominating headlines.

In Asia, we believe that the growth momentum for China will remain soft in the near term given the lack of a large stimulus and woes in the real estate sector. There are though also some bright spots such as 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, while the macroeconomic environment in Indonesia remains stable given well-supported domestic demand and a healthy commodities trade surplus.

Outside of Asia, LatAm as a region together with select Eastern European economies such as Hungary or Poland is expected to lead the broader Emerging markets with respect to rate cuts in the medium term, while bearing in mind local FX weakness may delay policy rate action. With respect to Mexico, we see a strong trend of nearshoring, especially in the north, resulting in higher investment and employment. Last, 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.

While not our base case, investors should be aware of the following potentially underappreciated risks: 1) China's pace of economic recovery - as authorities in China continue to focus on incremental easing, the pace of recovery remains uncertain as consumer confidence stays subdued. The risk of China not being able to achieve its GDP growth target remains, and the chance of the economy significantly undershooting the target cannot be ruled out and 2) multiple elections in 2024 could lead to negative surprises - the outcome of Taiwan's 2024 presidential election could have significant ramifications for US-China relations and regional security. The US presidential election is equally important; a Republican presidency led by Trump is likely to lead to higher uncertainty in geopolitics, including US-China relations.

Still, when we look beyond the relatively short election cycle, we do see a few attractive drivers: 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 for mainly two reasons. We have identified significant upside to fair value in several areas within our portfolio by using our long-term intrinsic value framework despite the recent rebound in select names. In addition, we are seeing a turnaround and/or thesis validation from the operating metrics in some of the companies that have been dragging performance in the recent years.

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