

Knowledge Transfer Program

Module 2 – Back to Fixed Income
Global Sovereign Markets



UBS Asset Management: A centre of excellence for Sovereign institutions

35+ years' experience in partnering with Central Banks, Sovereign Wealth Funds, National Pension Funds, and other government agencies

Key strengths

- Managing over USD 169 bn AUM on behalf of public institutions
- Global insight and expertise allows us to integrate our comprehensive range of investment capabilities in tailored solutions for you
- A flexible range of advisory services to help you meet your long-term goals – including Hedge Funds advisory experience
- UBS Asset Management is a member of the One Planet Sovereign Wealth Fund initiative
- Knowledge partnerships and training with dedicated teams, tailored to sovereign clients
 - Research papers and publications
 - Financial Markets training courses
 - Sovereign Trainee Programs

Dedicated Sovereign Client Solutions

- Advisory services
- Asset Management
- Asset/Liability matching
- Risk Management
- Manager Selection
- Knowledge Partnership
- Training and development
- Dedicated research team

Dedicated Global Sovereign Markets team

- London
- New York
- Zurich
- Singapore
- Beijing
- Taipei
- Hong Kong
- Dubai

Source: UBS Asset Management. Data as of 30 June 2022 unless otherwise stated.

Knowledge transfer is one our key strengths

Sharing industry know-how and investment expertise

- The emphasis of an on-the-desk training program is to facilitate a knowledge-sharing environment whereby the participant is encouraged to openly engage with the investment professional and actively participate in the day-to-day activities of the team that they are seated with.
- Ultimately, participants are equipped with the tools to learn and enhance practical skills for trading and investment and gain key industry insights into current developments across financial markets.

Examples of on-the-desk trainings:



Fixed Income

- Sovereign overview; Active global sovereign bond management; Introduction to passive fixed income
- Credit overview; Credit research with an analyst; Global credit investment process
- Foreign Exchange overview; Managing foreign exchange execution



Investment solutions

- Strategic Asset Allocation
- Tactical Asset Allocation
- Currency exposure and hedging
- Scenario Analysis



Equities

- Equity markets and the drivers
- Stocks and stock valuation, equity research
- Equity indices and passive investing
- Implementation of best execution



Risk Management

- Case studies demonstrating how to use the UBS Asset Management's multi asset risk system in the context of the above scenarios

UBS Knowledge transfer program

UBS Asset Management is an experienced long-term partner to sovereign clients

Key seminars offered to our Sovereign Clients:

- Reserve Management Seminar, Switzerland: a forum for central bankers, multilateral organisations, finance ministries, frequent borrowers and representatives of Sovereign Wealth Funds to discuss and exchange ideas on best practices for managing reserves
- Sovereign Investment Circle, Singapore: a joint event between UBS Asset Management and IMD, a leading business school, focusing long-term investment themes
- Investment Training Seminar, United States: discussions on economic growth, fiscal and monetary policy and their impact on global markets
- Greater China annual Conference, Shanghai: addressing latest investment trends/developments and providing access to China specialists
- Topical research papers and development opportunities that can be tailored to your needs

Client seminars: provide forum to discuss investment topics and an opportunity to meet peers

**Greater China
Conference**
China



**Reserve Management
Seminar**
Switzerland



**Sovereign
Investment Circle**
Singapore



**Investment Training
Seminar**
United States



**2x Reinvesting Bretton
Woods Seminars**
United States



January

June

September

October/November

April & October

Training material available on demand on our website

<https://www.ubs.com/global/en/asset-management/global-sovereign-markets/knowledge-transfer-program.html>



Global Sovereign Markets

Select domicile

Locations



UBS logins

Overview **Events** Insights Contacts Highlights

Knowledge Transfer Program

Our modular educational training program



The post-Covid-19, inflationary world continues to be full of new challenges, but also opportunities, for sovereign investors. We believe that central banks, sovereign wealth funds and other state-controlled investment vehicles should focus on how to best deal with these challenges and how to grasp the opportunities.

In this volatile investment environment, the need for tailored advice and knowledge transfer remains high, so we are continuing to offer this topical series of modules in 2022 to support our wider educational conference programme.

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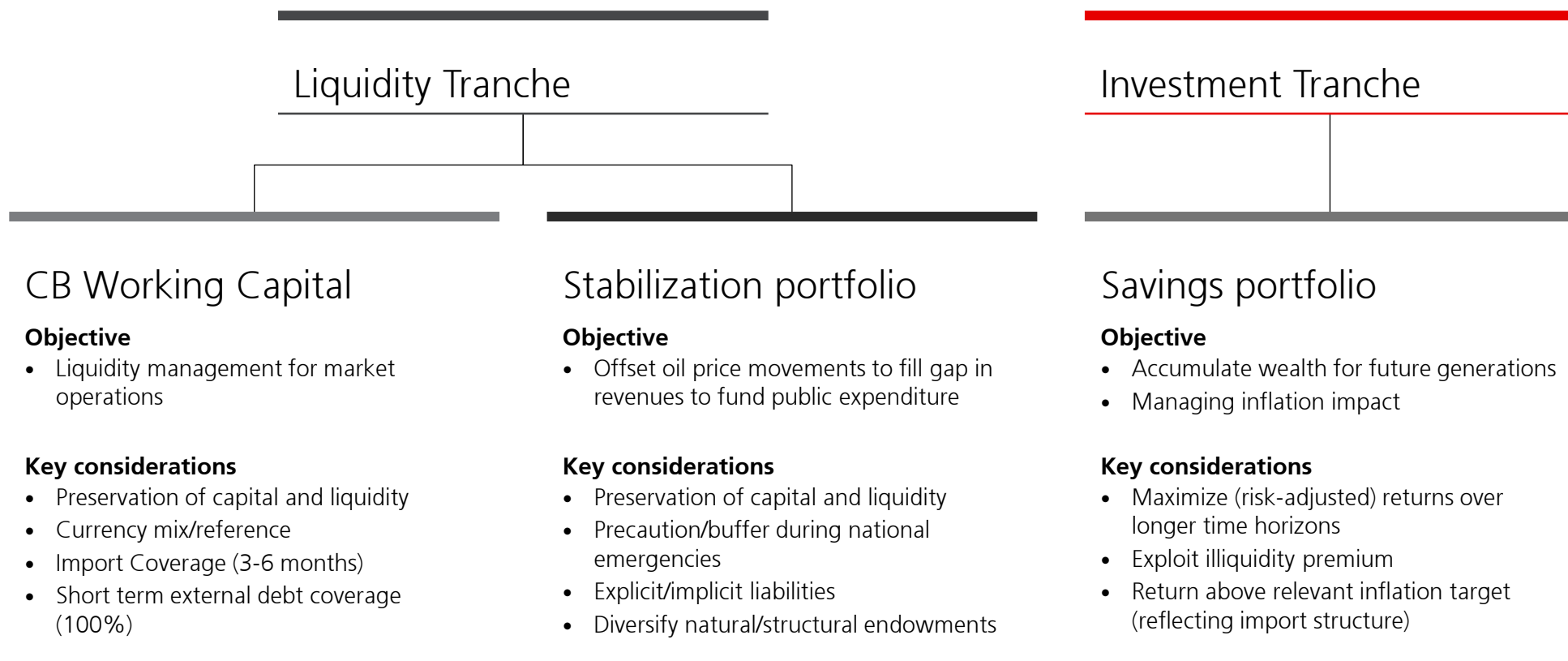
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Section 1

Is it time for investors to revisit their fixed income allocations? – Massimiliano Castelli

Investor Portfolios: Different portfolios and different goals

Liquidity and investment tranche separation

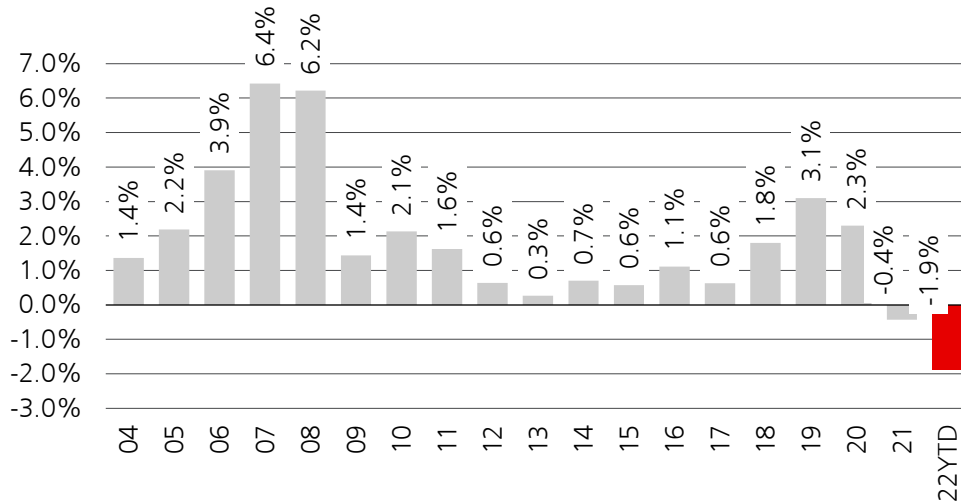


Source: UBS Asset Management. For illustrative purposes only.

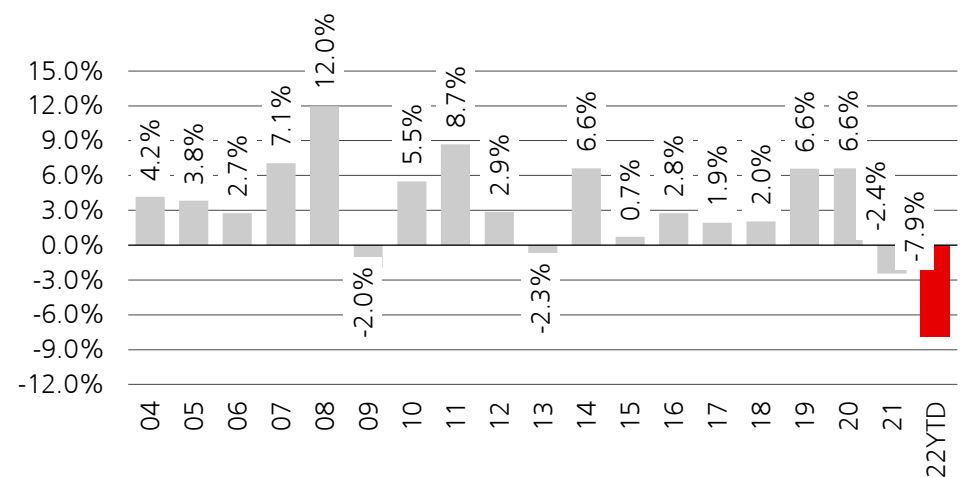
Government Bonds: Sample Portfolios

Advanced economies' government bonds are and will remain a key asset class in sovereign institutions portfolios

Global Government Bond Short Duration (GGB 1 – 3), Hypothetical Returns, %

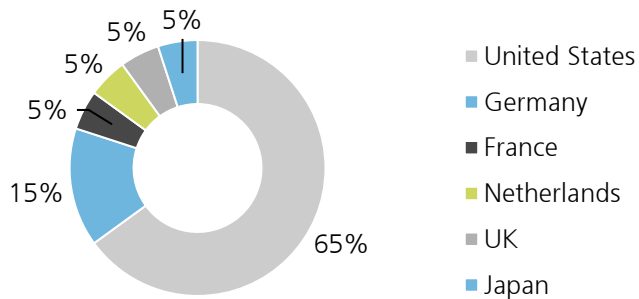


Global Government Bond Long Duration (GGB), Hypothetical Returns, %



Key features

- Broadly resembling the currency composition of global FX reserves
- Non-USD indexes all hedged in USD

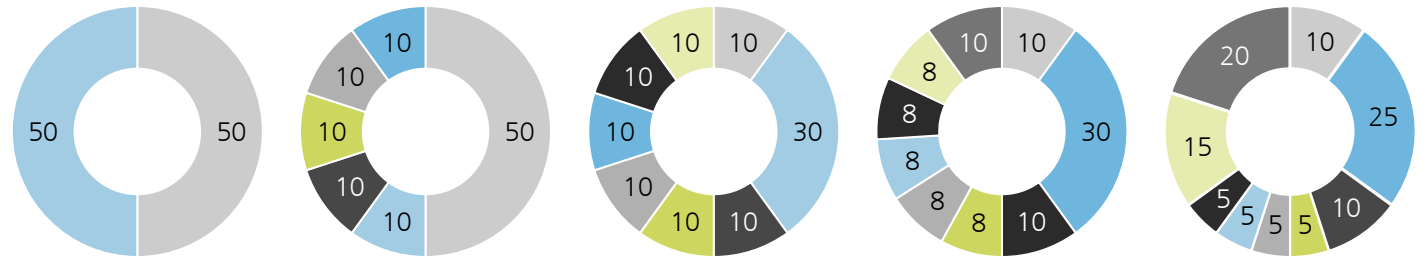


Source: UBS Asset Management, Bloomberg. Data as of end of July 2022. For illustrative purposes only.

Sample Portfolios (1) – Liquid Portfolios

Sample portfolios have different levels of risk tolerance and diversification

			Liquidity Most liquid – CB working capital management	Fixed Income Diversification Diversification across fixed income to improve risk-adjusted returns			Equity Diversification Liquid equity to boost risk-adjusted returns	Equity and more Emerging Market Debt (EMD) Equity and EMD to boost risk-adjusted returns
			CB1	CB2	CB3	CB4	CB5	
Liquidity	Cash		50	10	10	10	10	
	GGB 1 – 3		50	50	30	30	25	
Division	GGB			10	10	10	10	
Spread	Supranationals			10	10	8	5	
	Corporates			10	10	8	5	
	Securitised			10	10	8	5	
Inflation hedge	TIPS				10	8	5	
Risk premium	EMD				10	3	15	
	Equities					15	20	

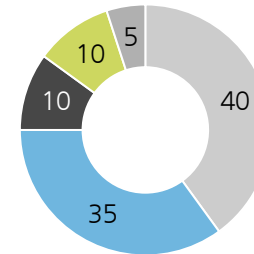
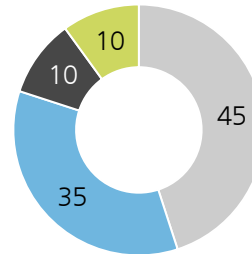
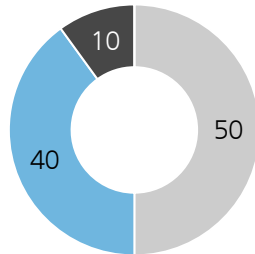


Source: UBS Asset Management. For illustrative purposes only.

Sample Portfolios (2) – Stabilization Funds

The majority of assets are invested into liquid and high-grade government bonds, but with a longer duration to boost returns and they are also investing in equity and real estate

		Liquidity 50% in liquid GGB 1 – 3; GGB/Corporates to boost returns	+ Equity Equity to boost risk – adjusted returns	+ Equity and Real Estate (RE) Equity + RE to boost risk – adjusted returns	
		Stab1	Stab2	Stab3	
Liquidity	GCB 1 – 3	50	45	40	<i>Investment grade</i>
Division	GGB	40	35	35	
Spread	Corporates	10	10	10	
Risk premium	Equities		10	10	
	Real Estate			5	

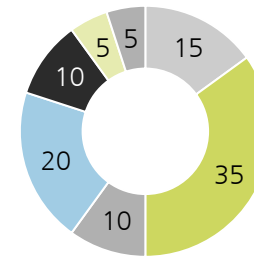
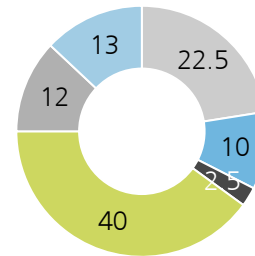
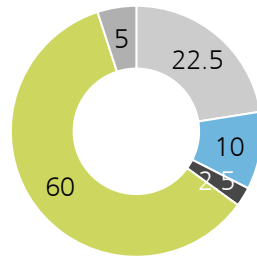


Source: UBS Asset Management. For illustrative purposes only.

Sample Portfolios (3) – Saving Funds

High risk tolerance, but implementation can differ in terms of allocation to illiquid asset classes

			Listed liquid Assets <i>Norwegian</i> model majority of assets in liquid public markets	+ Alternatives Equity to boost risk – adjusted returns	Large allocation to illiquid assets <i>Endowment</i> model Large allocation to alternatives	
			Sav1	Sav2	Sav3	
Duration	GGB		22.5	22.5	15	<i>Investment grade</i>
Spread	Corporates		10	10		
Risk premium	EMD		2.5	2.5		
	Equities		60	40	35	
	Real Estate		5	12	10	
	Private Equity			13	20	
	Hedge Funds				10	
	Infrastructure				5	
	Commodity				5	

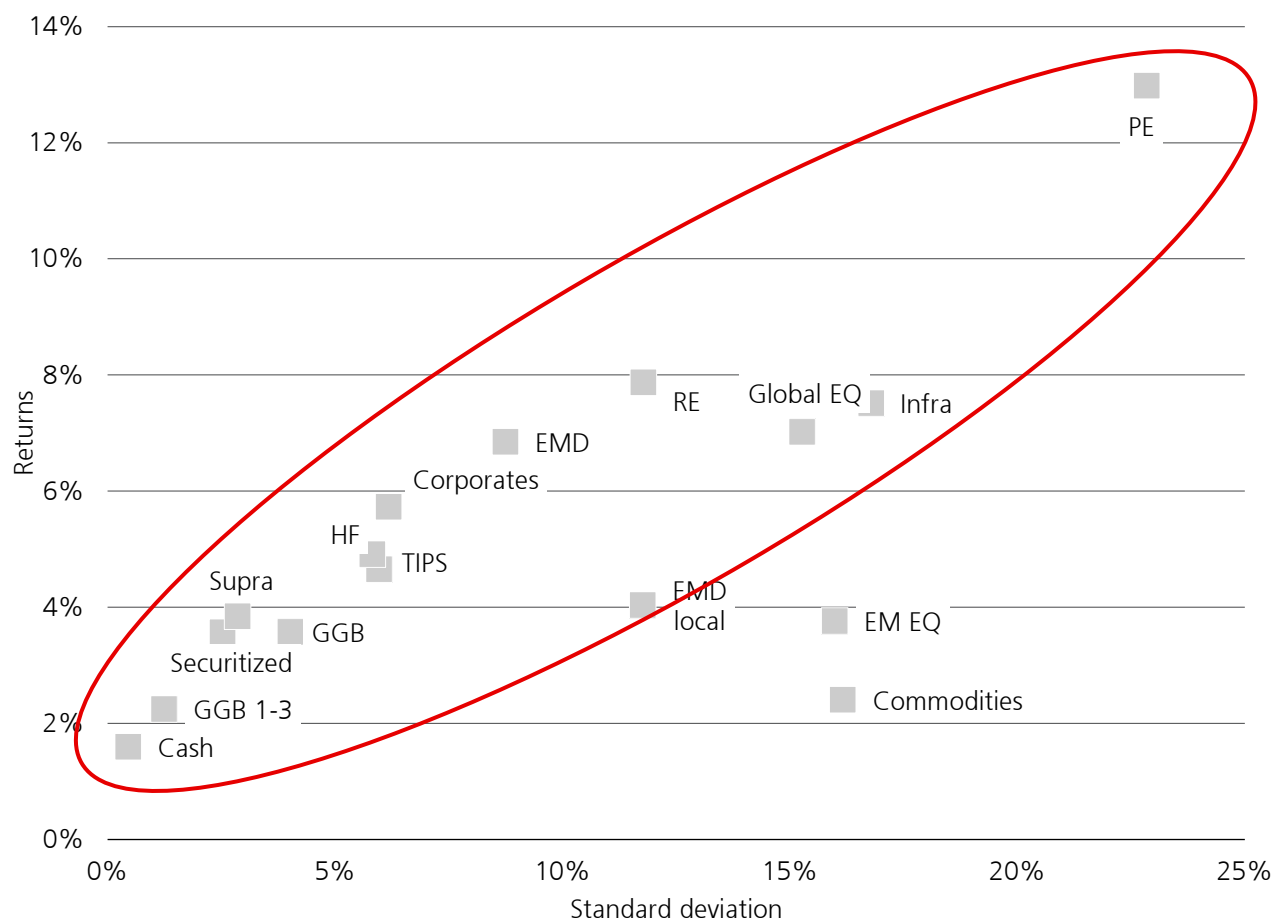


Source: UBS Asset Management. For illustrative purposes only.

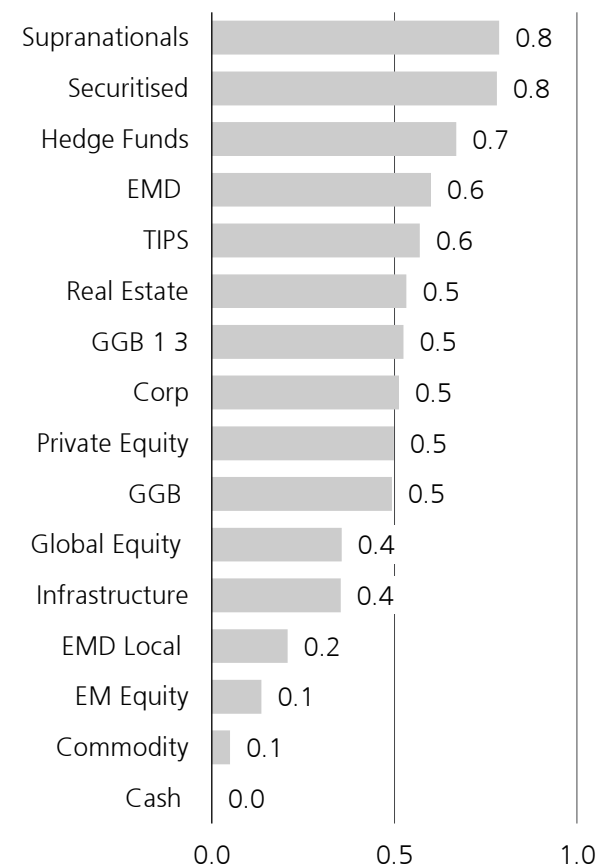
Asset classes: high returns in fixed income

In risk-adjusted terms, fixed income assets performed strongly

Historical Returns and Standard Deviation, 2002 – 2022 YTD



Sharpe Ratios, 2002 – 2022 YTD

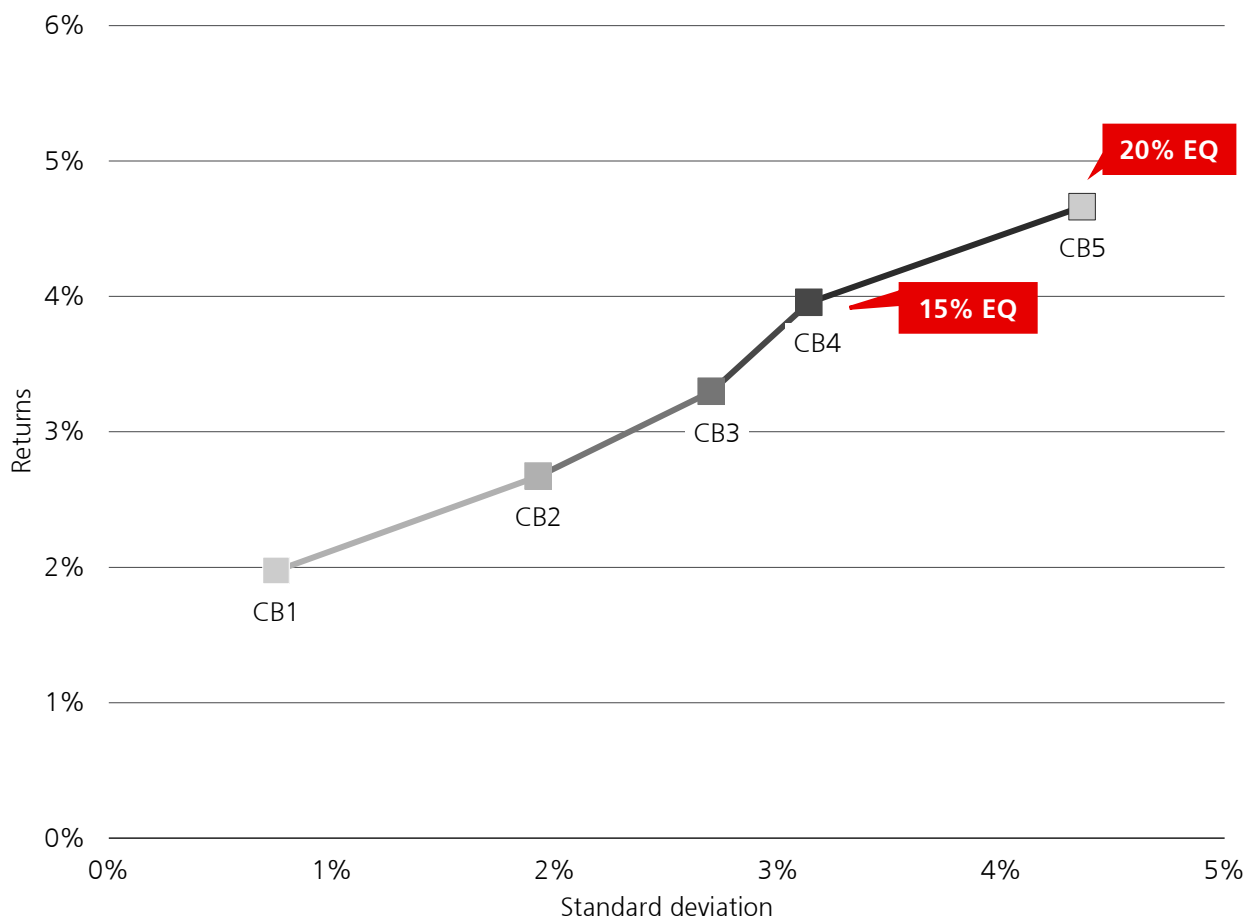


Source: UBS Asset Management. Please note that past performance is not a guide to the future. Data as of end of July 2022.

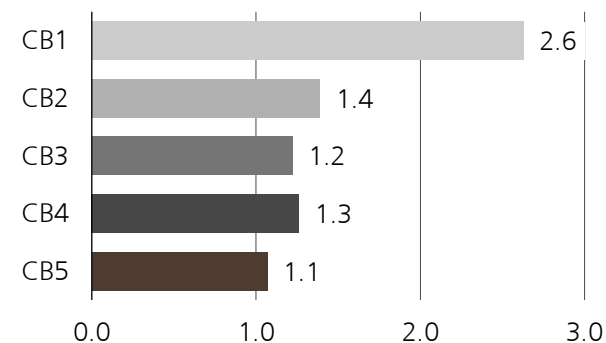
Diversification to improve returns (1)

Diversification across fixed income and equity provided a substantial increase in returns while keeping risk/return relationships relatively stable

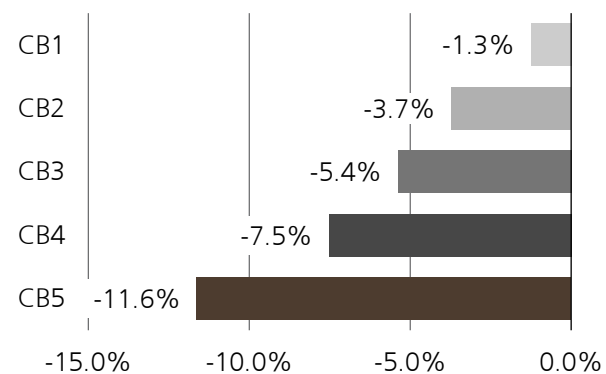
Historical Returns and Standard Deviation, 2002 – 2022 YTD



Return/Risk, 2002 – 2022 YTD



Worst 12 months, 2002 – 2022 YTD

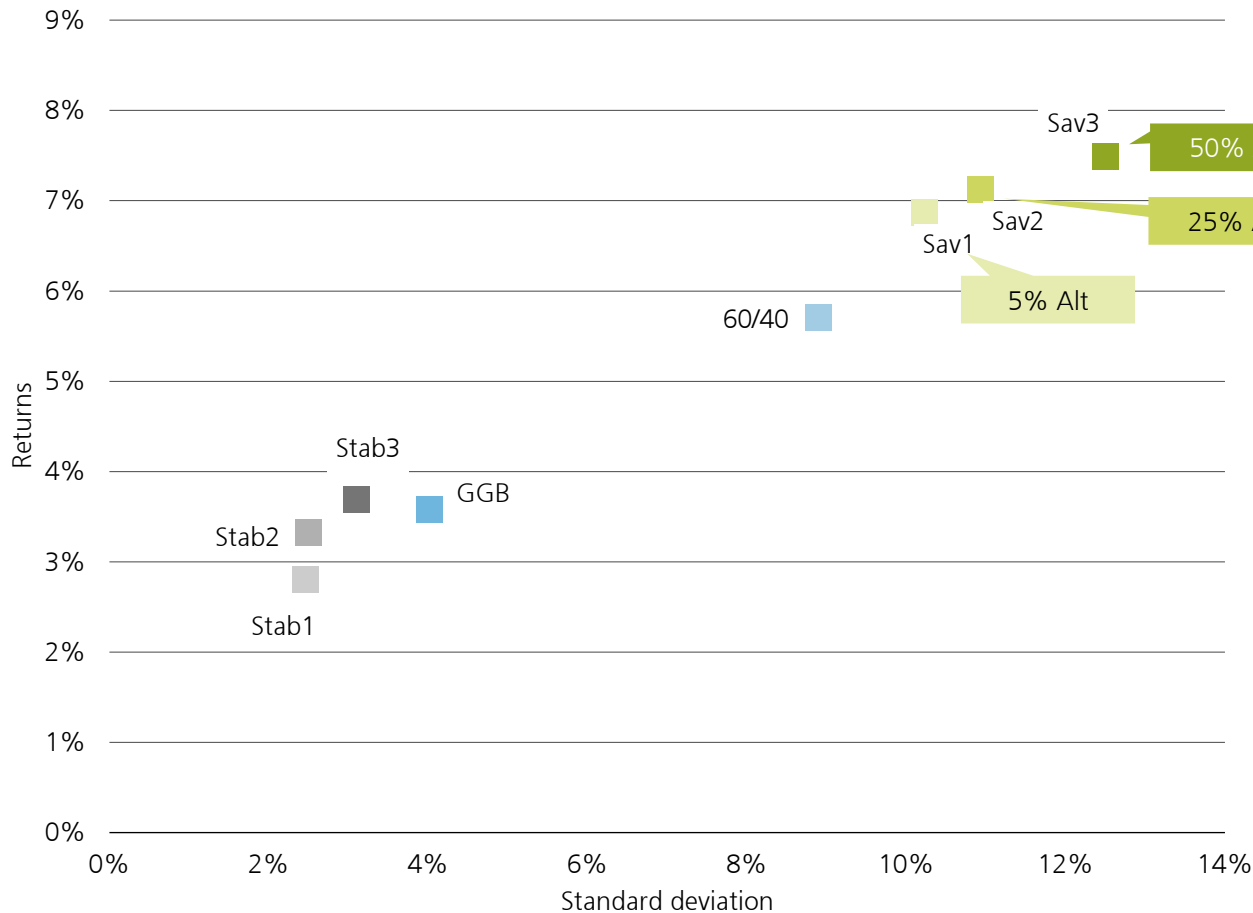


Source: UBS Asset Management. Please note that past performance is not a guide to the future. Data as of end of July 2022.

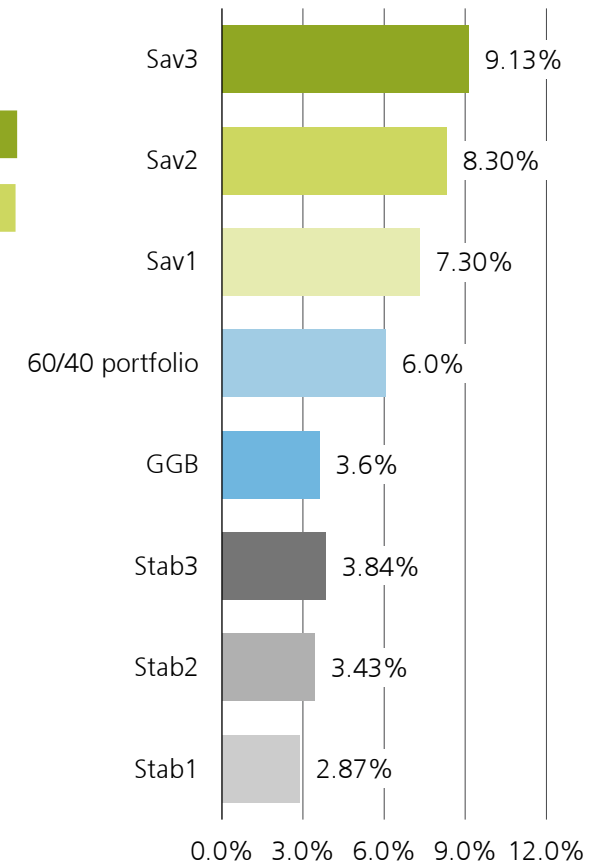
Diversification to improve returns (2)

Based on historical analysis, diversified portfolios provided higher returns; diversification into alternatives boosted returns in saving portfolios

Historical Returns and Standard Deviation, 2003 – 2022 YTD



Returns, 2003 – 2022 YTD



Source: UBS Asset Management. Please note that past performance is not a guide to the future. Data as of end of July 2022.

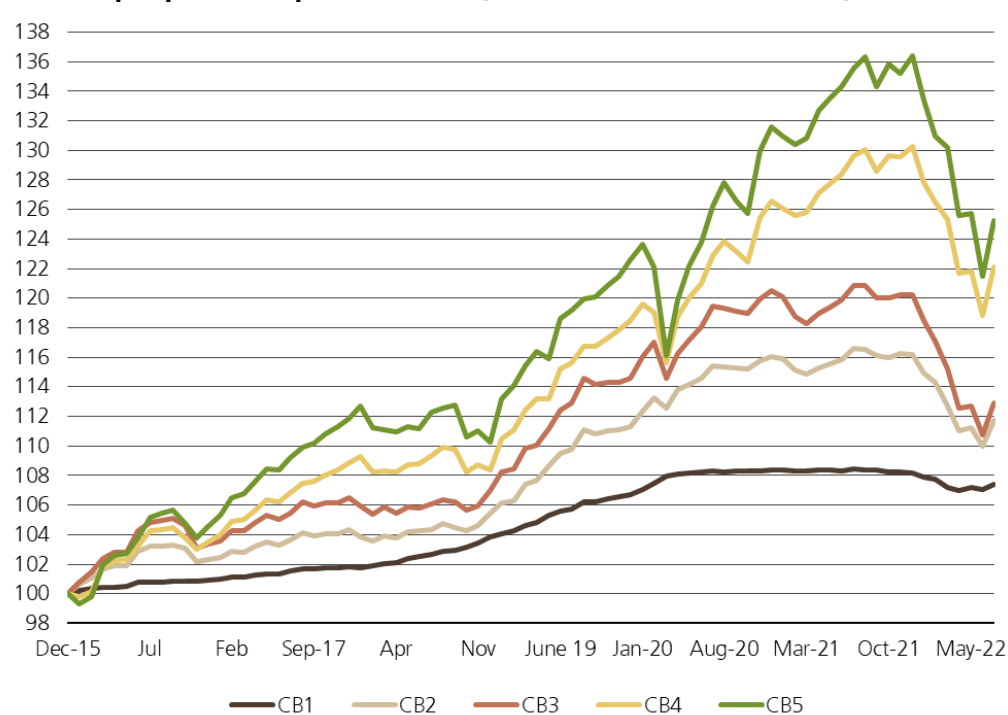
Central Bank portfolios: Recent market performance

Portfolios that included spread products or equities benefited from the rally in risk assets since April 2020, but fixed-income heavy portfolios suffered some of the steepest YTD losses in decades in 2022.

Sample central bank portfolios tracking model output

	CB1	CB2	CB3	CB4	CB5
2022 January	-0.2%	-1.1%	-1.4%	-1.9%	-2.2%
2022 February	-0.1%	-0.5%	-1.2%	-1.1%	-1.8%
2022 March	-0.5%	-1.4%	-1.6%	-0.9%	-0.6%
2022 April	-0.2%	-1.5%	-2.3%	-2.9%	-3.5%
2022 May	0.2%	0.2%	0.1%	0.1%	0.1%
2022 June	-0.2%	-1.1%	-1.8%	-2.4%	-3.3%
2022 July	0.3%	1.6%	2.0%	2.7%	3.0%
Performance 2022 YTD	-0.7%	-3.8%	-6.1%	-6.3%	-8.2%
Performance 2021	-0.2%	0.1%	-0.2%	2.9%	3.7%
Performance 2020	1.5%	4.3%	5.1%	6.8%	7.4%
Performance 2019	2.8%	5.6%	7.1%	9.3%	11.2%
Performance 2018	2.0%	1.0%	0.5%	-0.5%	-1.5%
Performance 2017	0.9%	2.0%	3.1%	5.2%	7.0%
Performance 2016	0.9%	2.3%	3.3%	3.5%	4.6%
Performance 2015	0.5%	0.3%	0.4%	0.3%	0.4%
Performance 2014	0.5%	2.8%	4.1%	3.9%	4.3%
Performance 2013	0.3%	-1.1%	-1.9%	2.4%	3.3%
Performance 2012	0.5%	3.1%	5.0%	5.6%	7.6%
Performance 2011	0.9%	4.1%	5.4%	3.5%	3.1%
Performance 2010	1.2%	3.6%	4.9%	5.6%	6.9%
Performance 2009	1.2%	4.8%	7.0%	8.8%	12.5%
Performance 2008	4.9%	4.2%	2.9%	-3.7%	-7.9%
Performance 2007	6.0%	6.7%	6.7%	7.1%	7.1%
Performance 2006	4.6%	3.8%	4.3%	6.2%	7.8%

CB sample portfolio performance (indexed, 31.12.2015 = 100)



Source: UBS Asset Management model based on publicly available information, using broad indices and funds to replicate Central Banks and Sovereign Wealth Fund's portfolios. For illustrative purposes only. Please note that past performance is not a guide to the future.

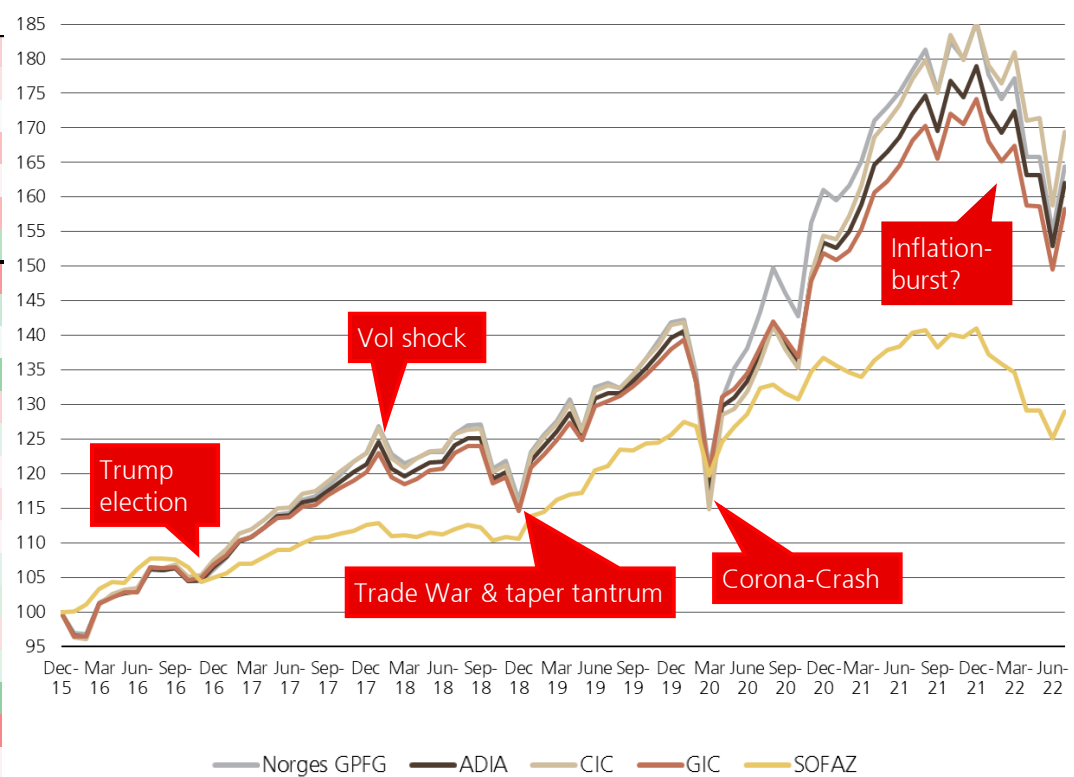
Sovereign Wealth Fund portfolios: Recent market performance

Our model portfolios replicating the Strategic Asset Allocations (SAAs) of several key Sovereign Wealth Funds (SWFs) show that key saving funds performed well since April 2020 due to a dramatic recovery in risk assets, but struggled in 2022 year to date (YTD).

Replicated Sovereign portfolios tracking model output

	<i>Sofaz</i>	<i>Norges GPF</i>	<i>ADIA</i>	<i>CIC</i>	<i>GIC</i>
2022 January	-2.7%	-4.1%	-3.7%	-3.4%	-3.5%
2022 February	-1.0%	-2.0%	-1.7%	-1.4%	-1.7%
2022 March	-0.9%	1.7%	1.8%	2.5%	1.3%
2022 April	-4.1%	-6.4%	-5.4%	-5.4%	-5.2%
2022 May	0.0%	0.0%	0.0%	0.2%	0.0%
2022 June	-3.1%	-6.5%	-6.3%	-7.3%	-5.8%
2022 July	3.1%	6.1%	5.9%	6.6%	5.9%
Performance 2022 YTD	-8.6%	-11.3%	-9.5%	-8.6%	-9.1%
Performance 2021	3.2%	15.1%	16.7%	20.0%	14.7%
Performance 2020	8.8%	13.5%	9.9%	9.1%	10.1%
Performance 2019	13.5%	22.2%	21.5%	23.2%	20.4%
Performance 2018	-1.6%	-5.9%	-4.5%	-5.3%	-3.8%
Performance 2017	7.4%	16.5%	13.6%	14.5%	12.2%
Performance 2016	5.1%	6.5%	6.7%	7.7%	6.4%
Performance 2015	-0.7%	-0.3%	0.1%	-1.4%	0.5%
Performance 2014	5.8%	5.8%	6.8%	6.0%	6.9%
Performance 2013	0.5%	17.3%	15.0%	16.0%	12.3%
Performance 2012	8.9%	13.3%	13.6%	14.2%	13.0%
Performance 2011	4.6%	-1.5%	-2.5%	-4.3%	-0.4%
Performance 2010	9.5%	11.0%	12.7%	14.0%	12.3%
Performance 2009	16.2%	23.1%	23.9%	26.5%	21.5%
Performance 2008	-8.2%	-29.7%	-31.1%	-35.8%	-27.1%
Performance 2007	7.1%	8.0%	5.6%	6.1%	5.4%

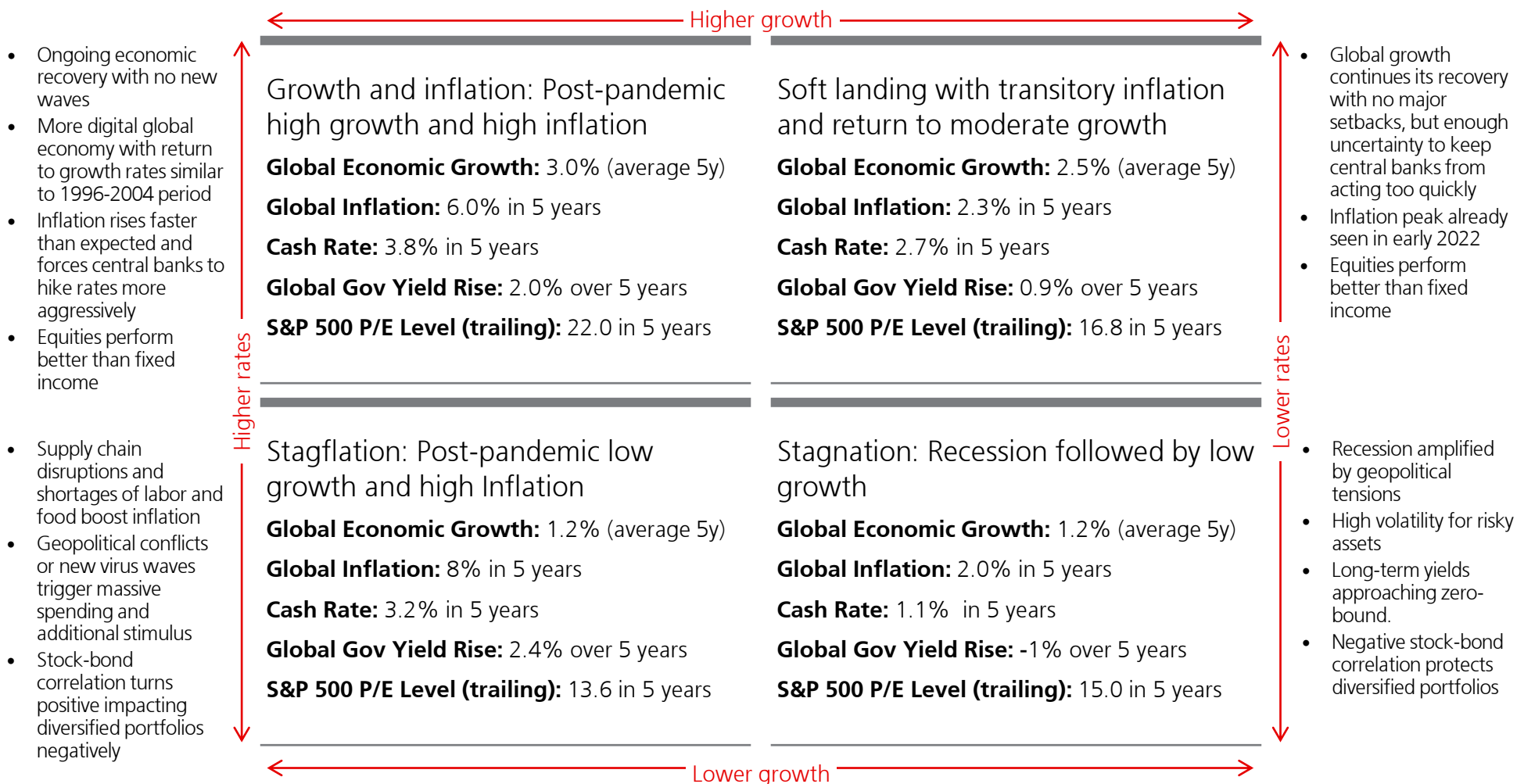
SWF sample portfolio performance (indexed, 31.12.2015 = 100)



Source: UBS Asset Management model based on publicly available information, using broad indices and listed instruments to replicate monthly performance of SWF portfolios. For illustrative purposes only. Please note that past performance is not a guide to the future.

Economic scenarios

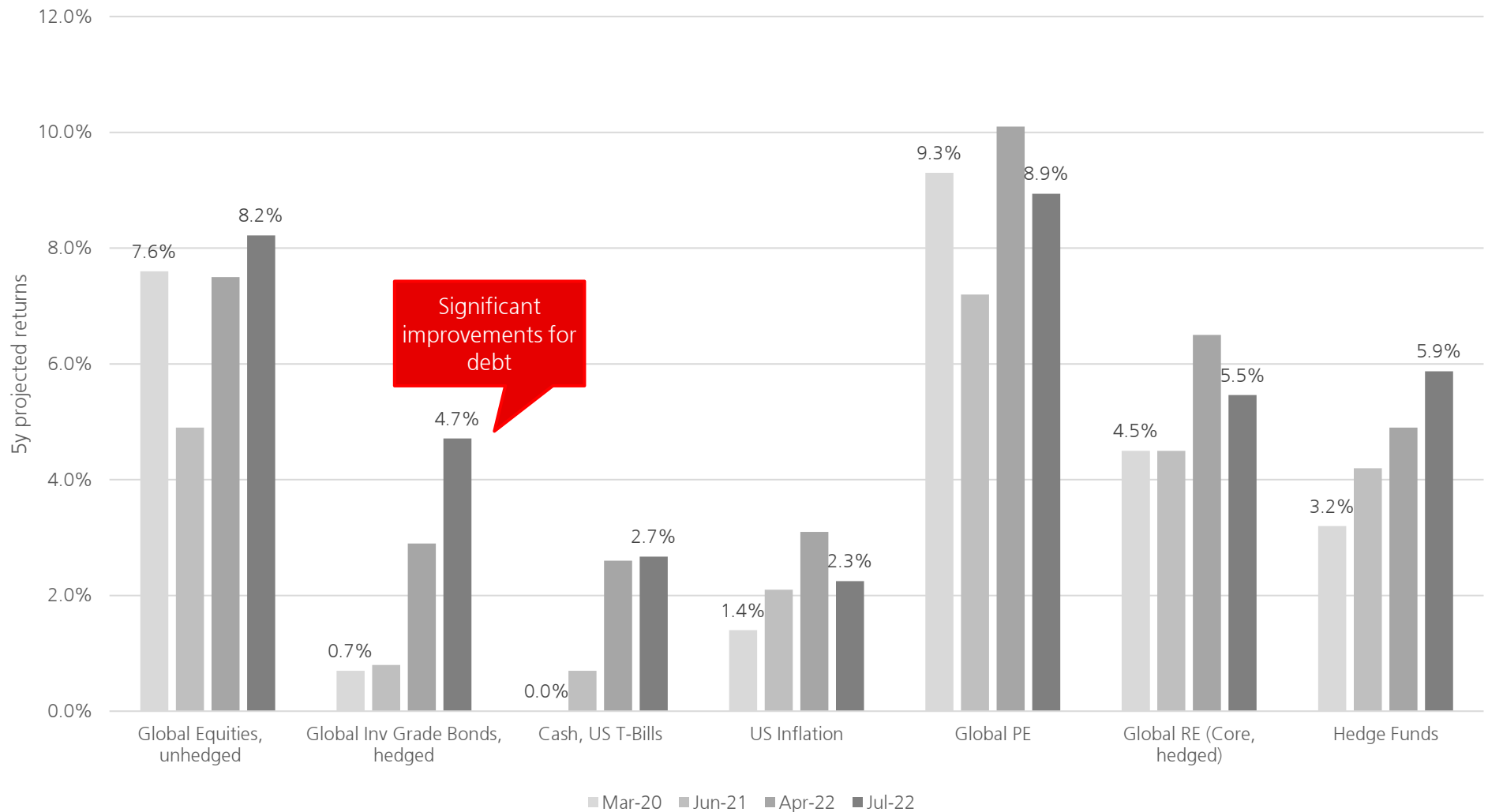
Uncertainty with regards to the end of the pandemic and the inflation outlook remains high but the probability of a prolonged recession has fallen



Source: UBS Asset Management as of Q3 2022. This does not constitute a guarantee by UBS Asset Management.

Recent changes in 5-year capital market expectations

5-year projected returns (in USD) for key traditional and private markets ("Soft landing" scenario)



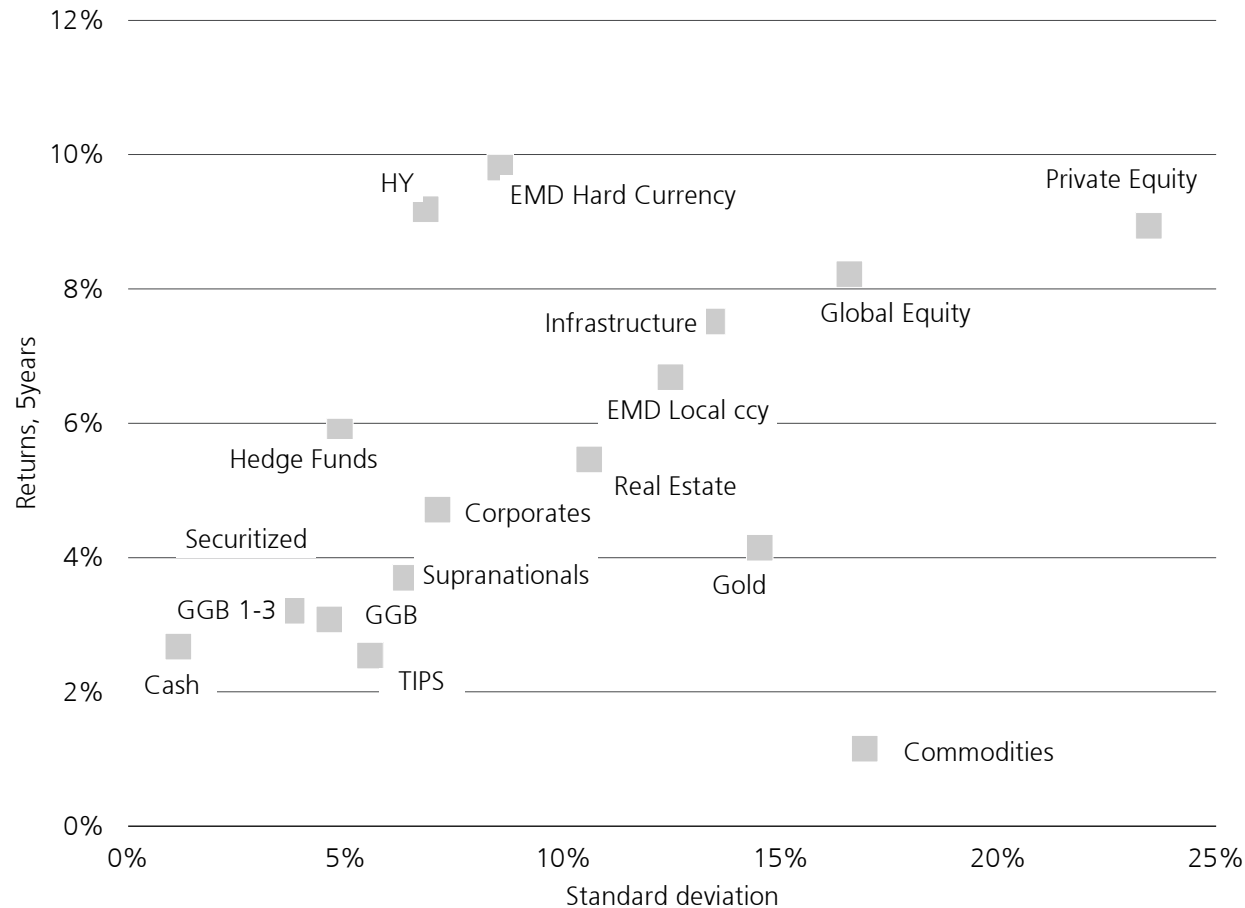
Source: UBS Asset Management as of Q3 2022. This does not constitute a guarantee by UBS Asset Management.

Transitory inflation and moderate growth

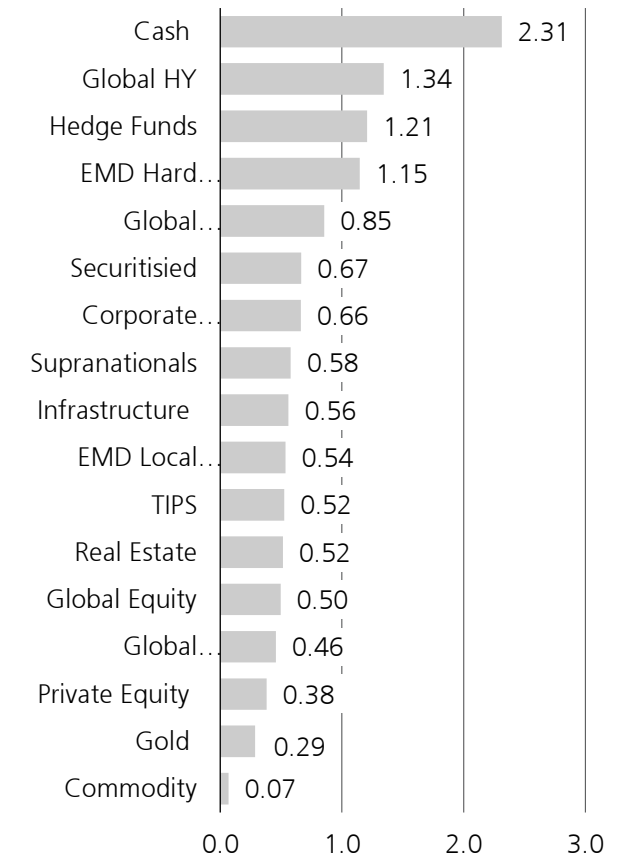


Fixed income with low real returns; equity/alternatives outperform

Expected Returns 5 years and Standard Deviation, %



Return/Risk profile



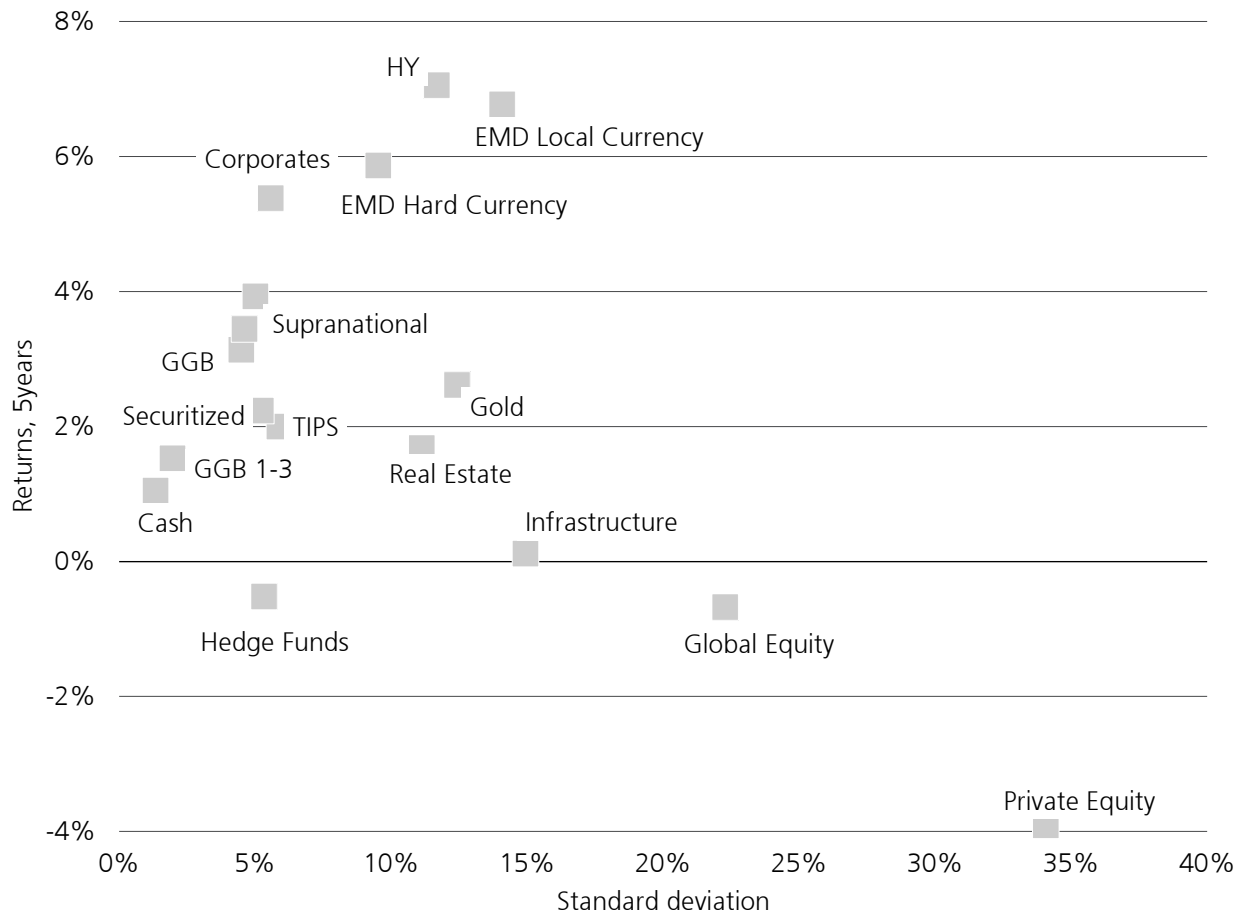
Source: UBS Asset Management. Projections as of Q3 2022. Past performance of investments is not necessarily an indicator of future results.

Stagnation: Recession followed by low growth

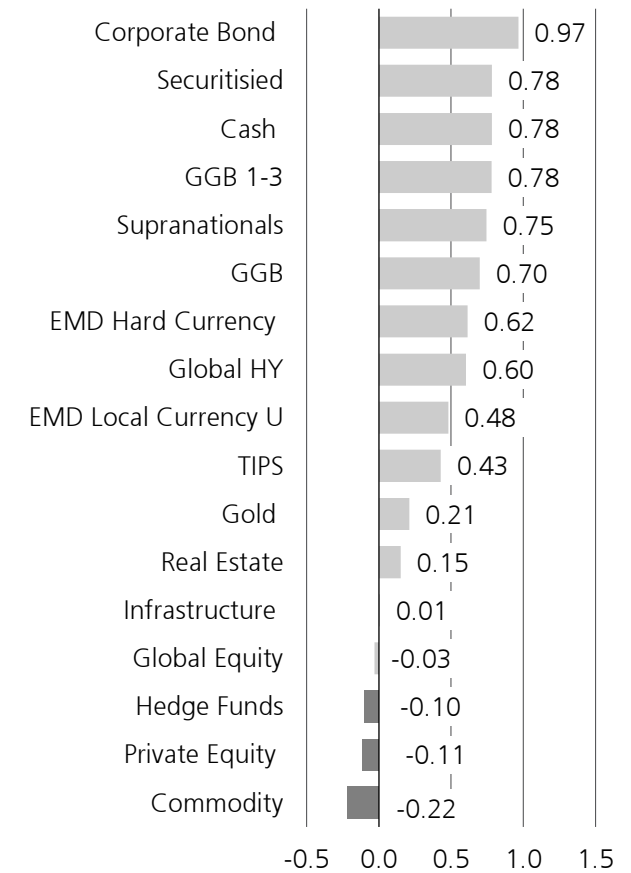


Equities underperform; fixed income assets and certain alternatives preserve capital

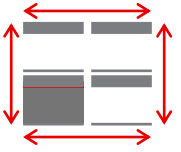
Expected Returns 5 years and Standard Deviation, %



Return/Risk profile



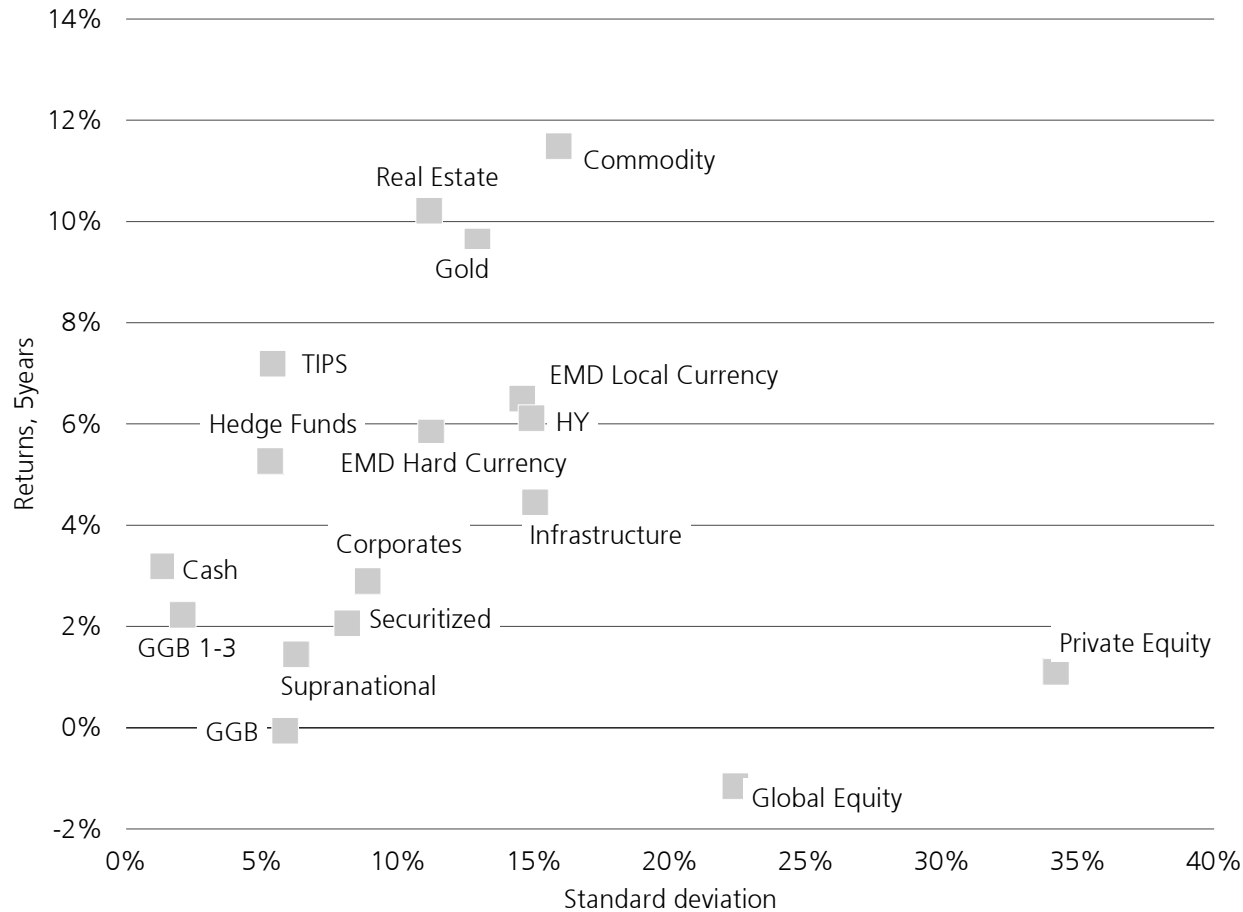
Source: UBS Asset Management. Projections as of Q3 2022. Past performance of investments is not necessarily an indicator of future results.



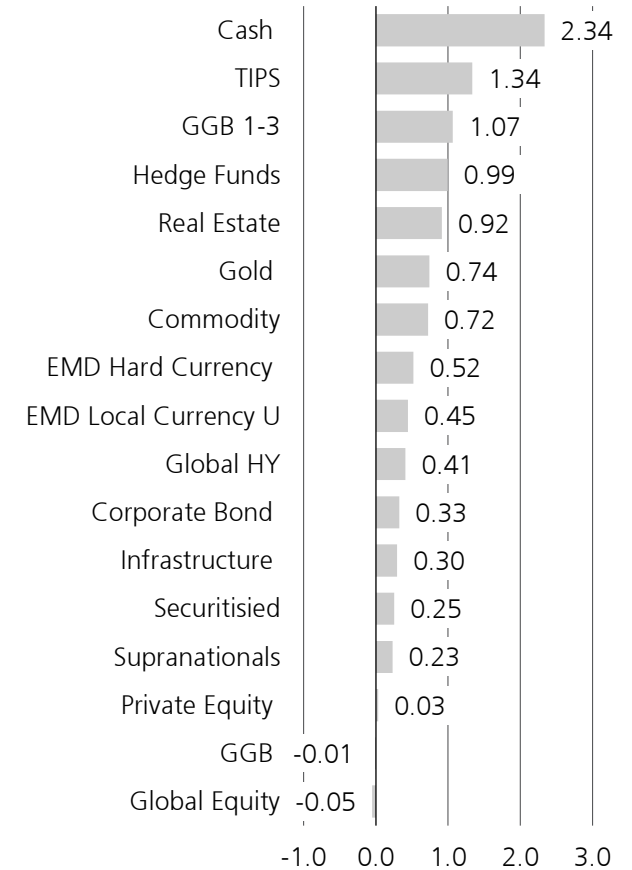
Stagflation: Low growth and high Inflation

Real assets perform well, but most asset classes show negative real returns

Expected Returns 5 years and Standard Deviation, %



Return/Risk profile



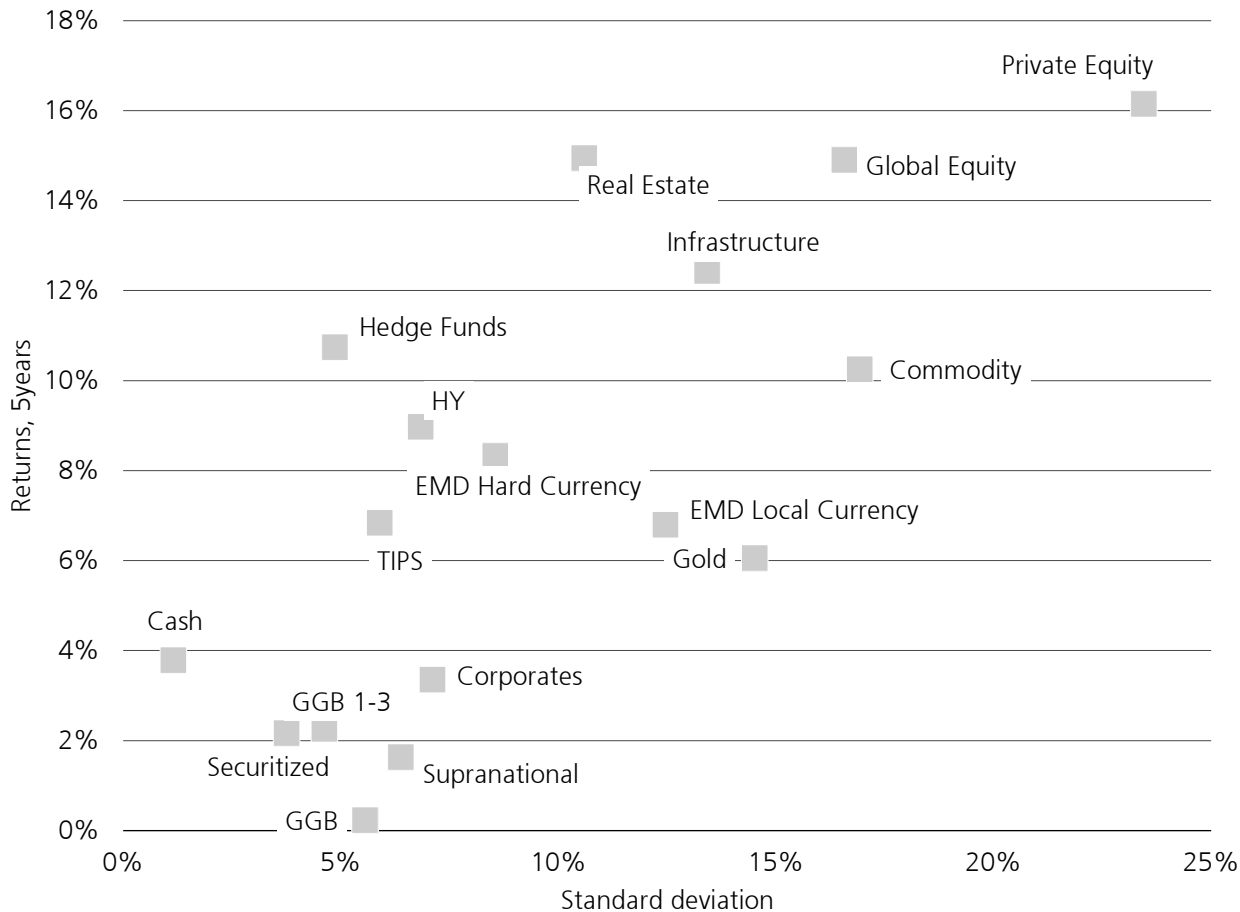
Source: UBS Asset Management. Projections as of Q3 2022. Past performance of investments is not necessarily an indicator of future results.

Growth and Inflation: High growth and inflation

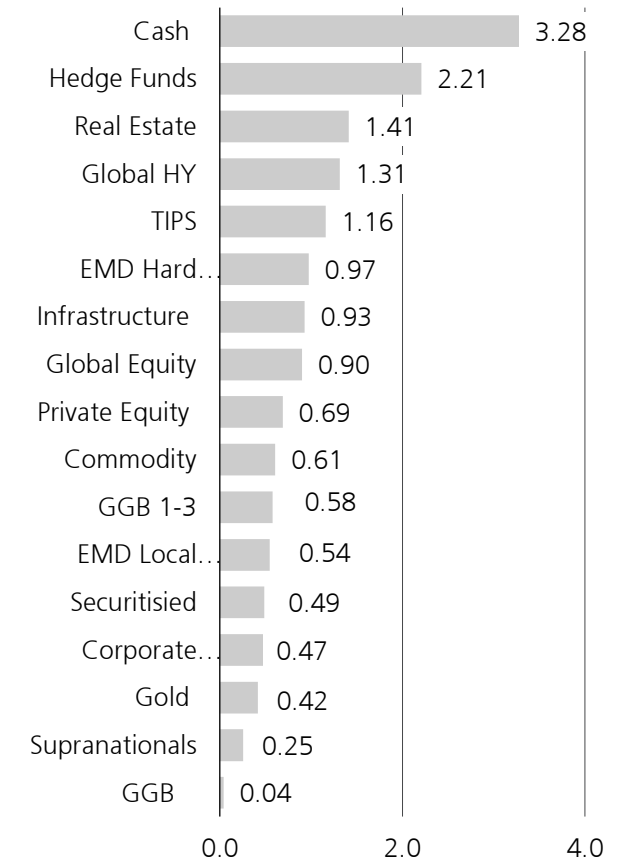


Risk assets do well, while government bonds perform poorly

Expected Returns 5 years and Standard Deviation, %



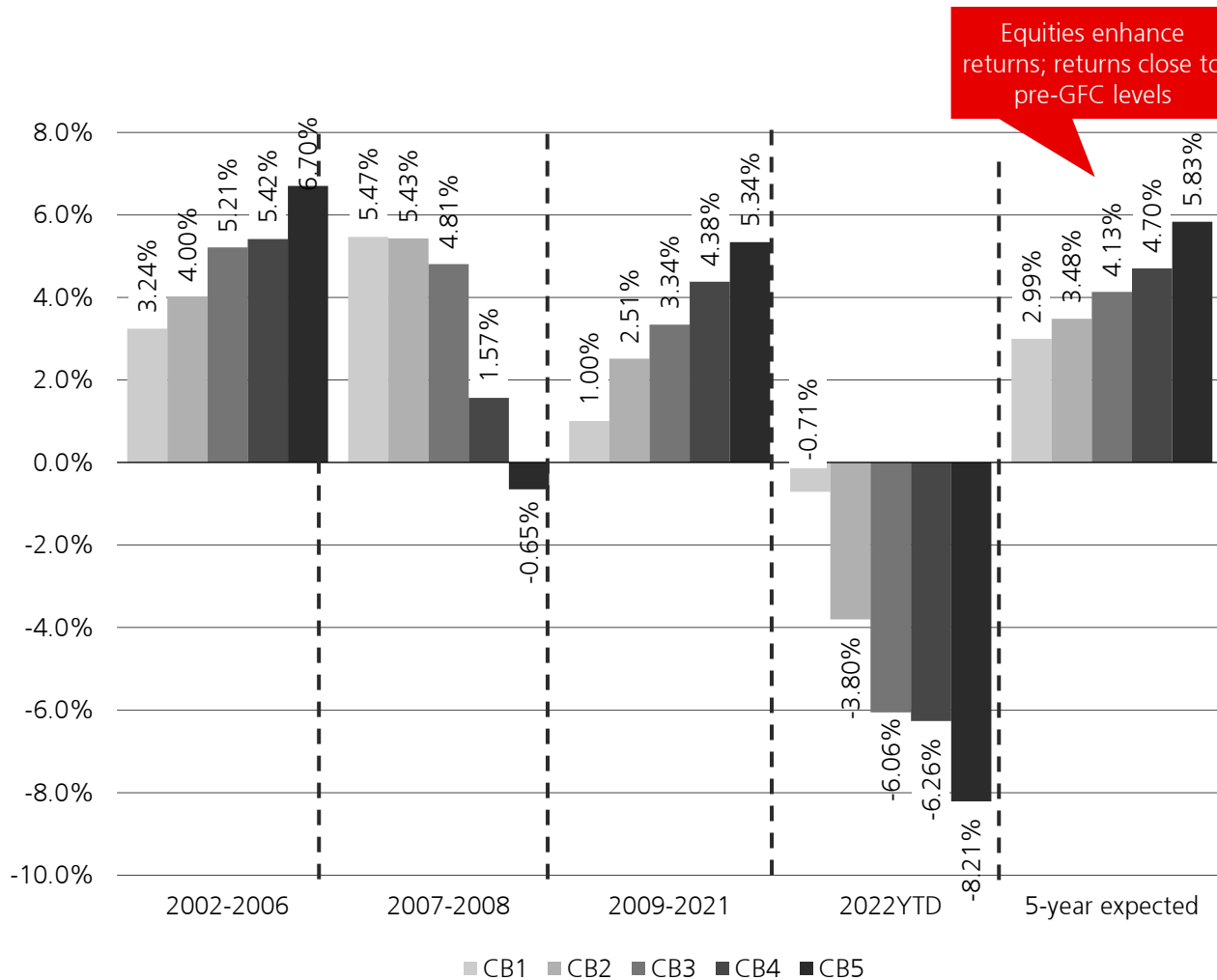
Return/Risk profile



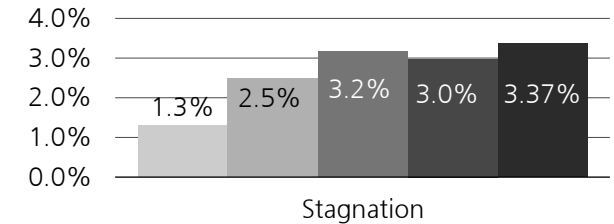
Source: UBS Asset Management. Projections as of Q3 2022. Past performance of investments is not necessarily an indicator of future results.

Sovereign Portfolios – Scenario performances

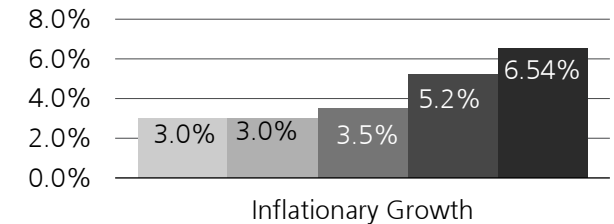
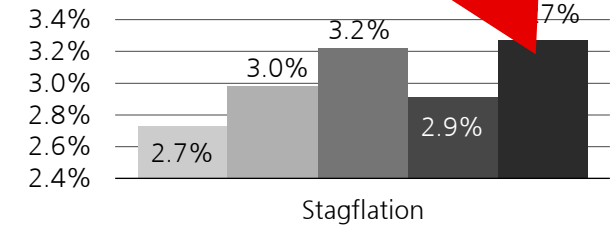
Comparison of Central Bank sample portfolio performance



5-year expected Alternative scenarios



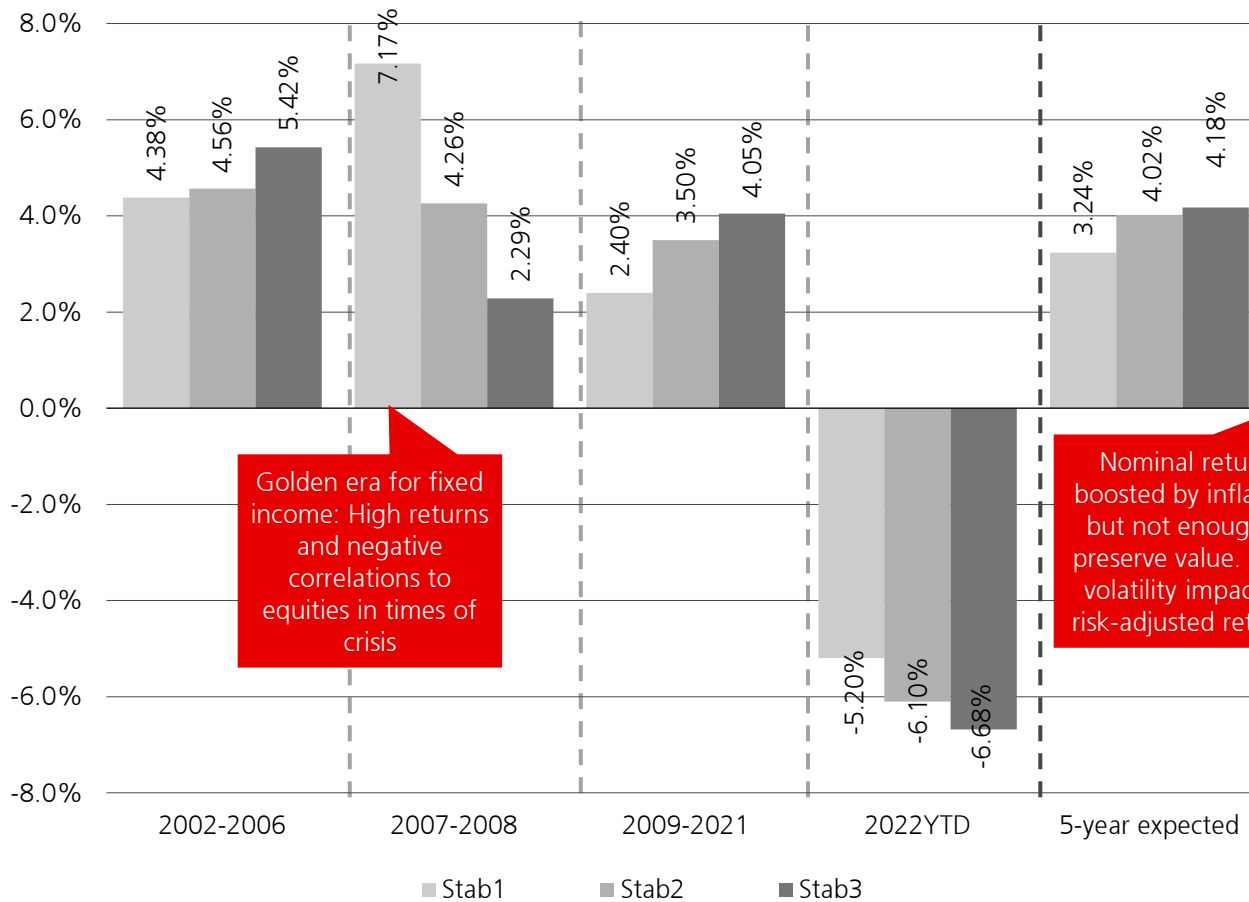
Higher interest rates and positive stock-bond correlations with lower returns



Source: UBS Asset Management. For illustrative purposes only. Projections as of Q3 2022. Past performance of investments is not necessarily an indicator of future results.

Sovereign Portfolios – Scenario performances

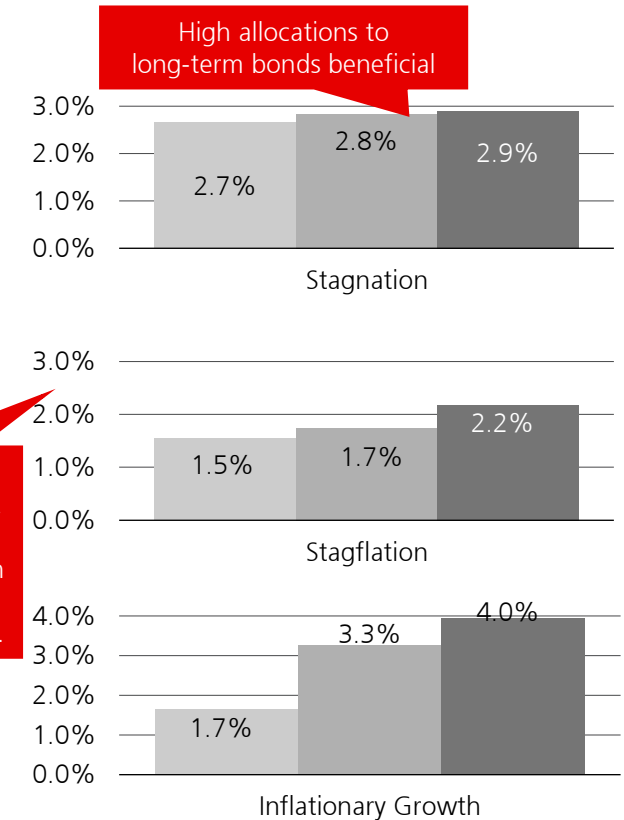
Comparison of Stabilization Fund sample portfolio performance



Golden era for fixed income: High returns and negative correlations to equities in times of crisis

Nominal returns boosted by inflation, but not enough to preserve value. High volatility impacting risk-adjusted returns.

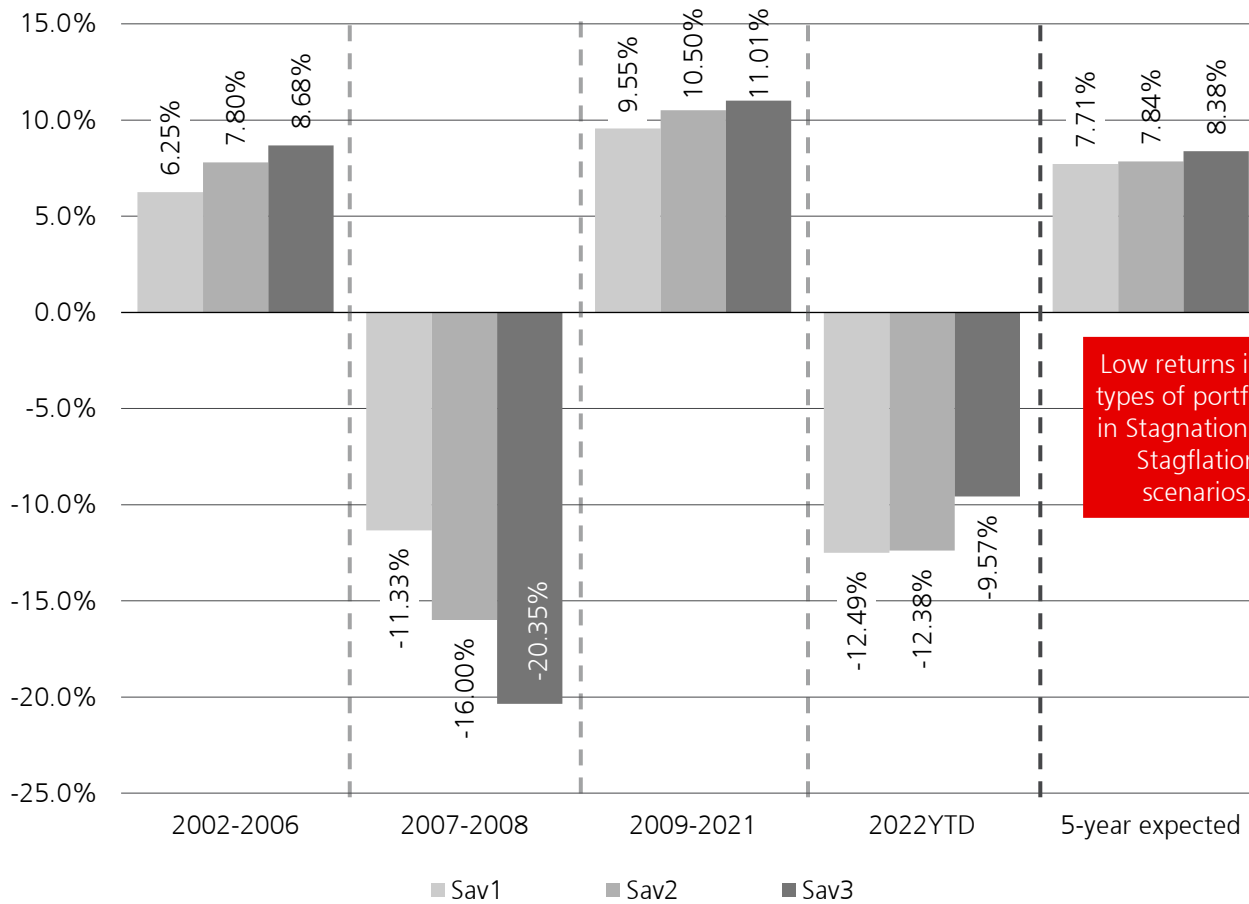
5-year expected Alternative scenarios



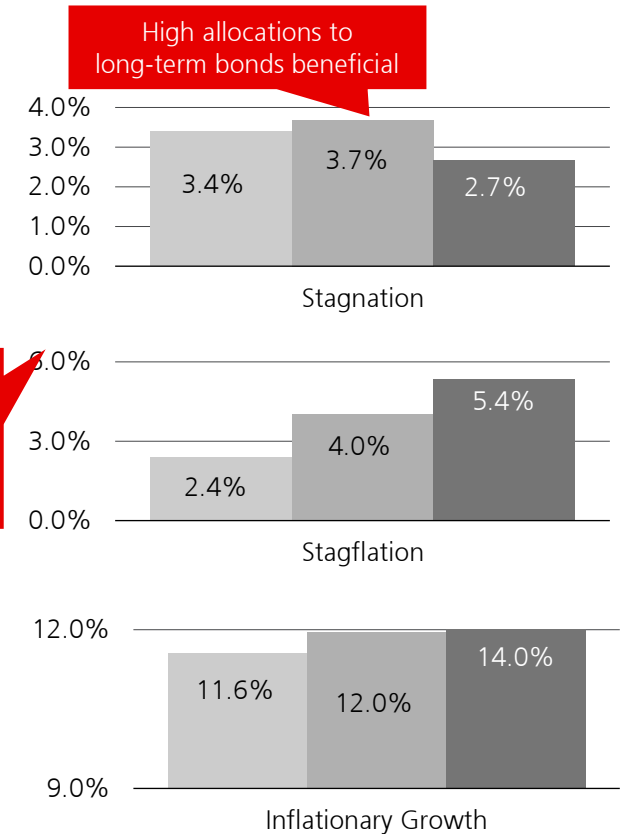
Source: UBS Asset Management. For illustrative purposes only. Projections as of Q3 2022. Past performance of investments is not necessarily an indicator of future results.

Sovereign Portfolios – Scenario performances

Comparison saving fund sample portfolio performance



5-year expected Alternative scenarios



Low returns in all types of portfolios in Stagnation and Stagflation scenarios.

High allocations to long-term bonds beneficial

Source: UBS Asset Management. For illustrative purposes only. Projections as of Q3 2022. Past performance of investments is not necessarily an indicator of future results.

Section 2

Bond Bites: is there a deeper secular change on the horizon? – Jonathan Gregory

What worked before might not work again

A return to the pre-pandemic world will be difficult



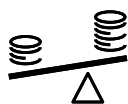
- The choice between **deflation** (recession) or **devaluation** (living with higher inflation) – **it's going to be difficult**



- First too cold, now too hot. It took a lot to get here. **Don't underestimate how hard it might be to get back.**



- "The past is a foreign country; **they do things differently there**".



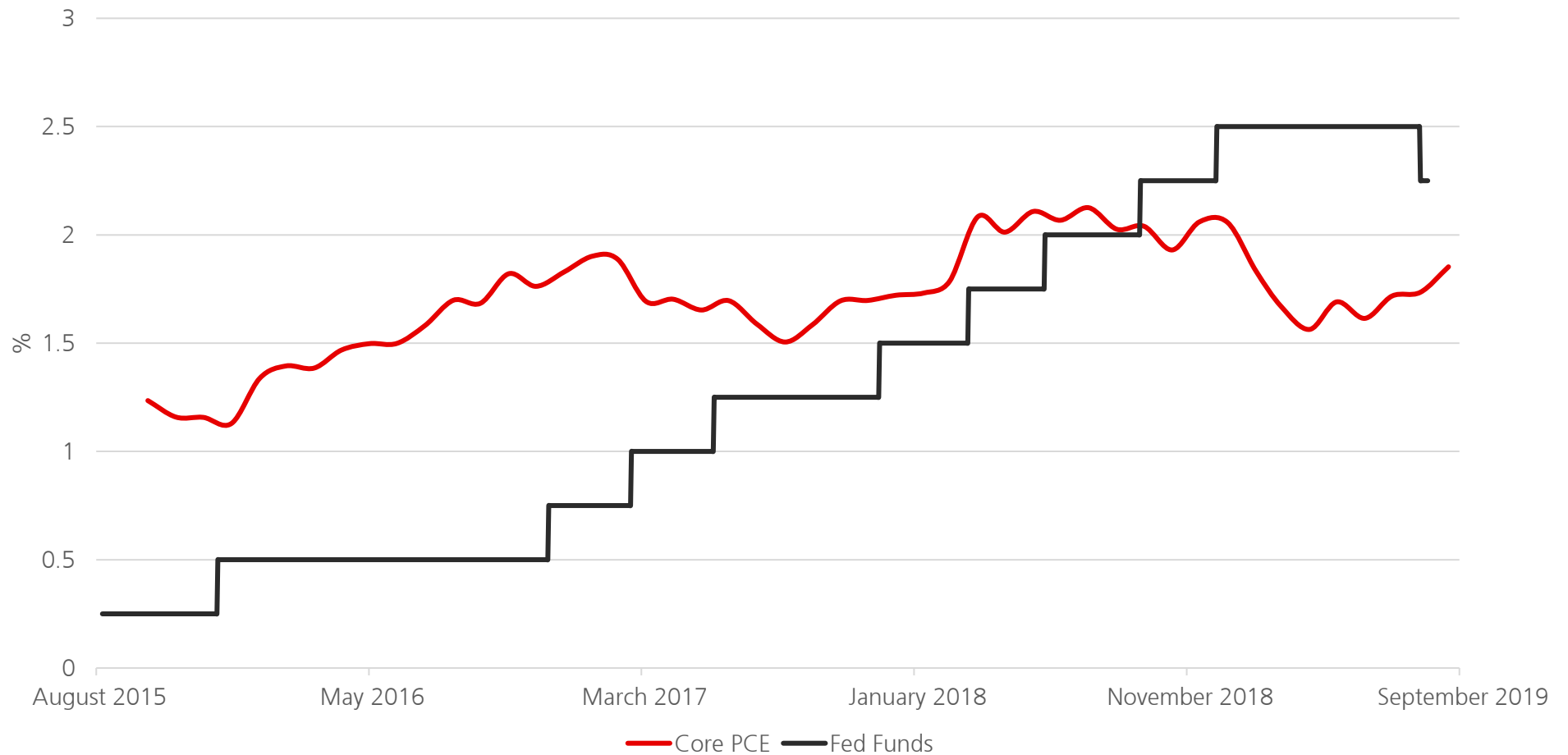
- Monetary and fiscal policy create **winners and losers**, by accident and by design. These will change over time.



- What will the **collateral damage** be of policy normalisation?

Fed Reaction to inflation 2015 to 2019...

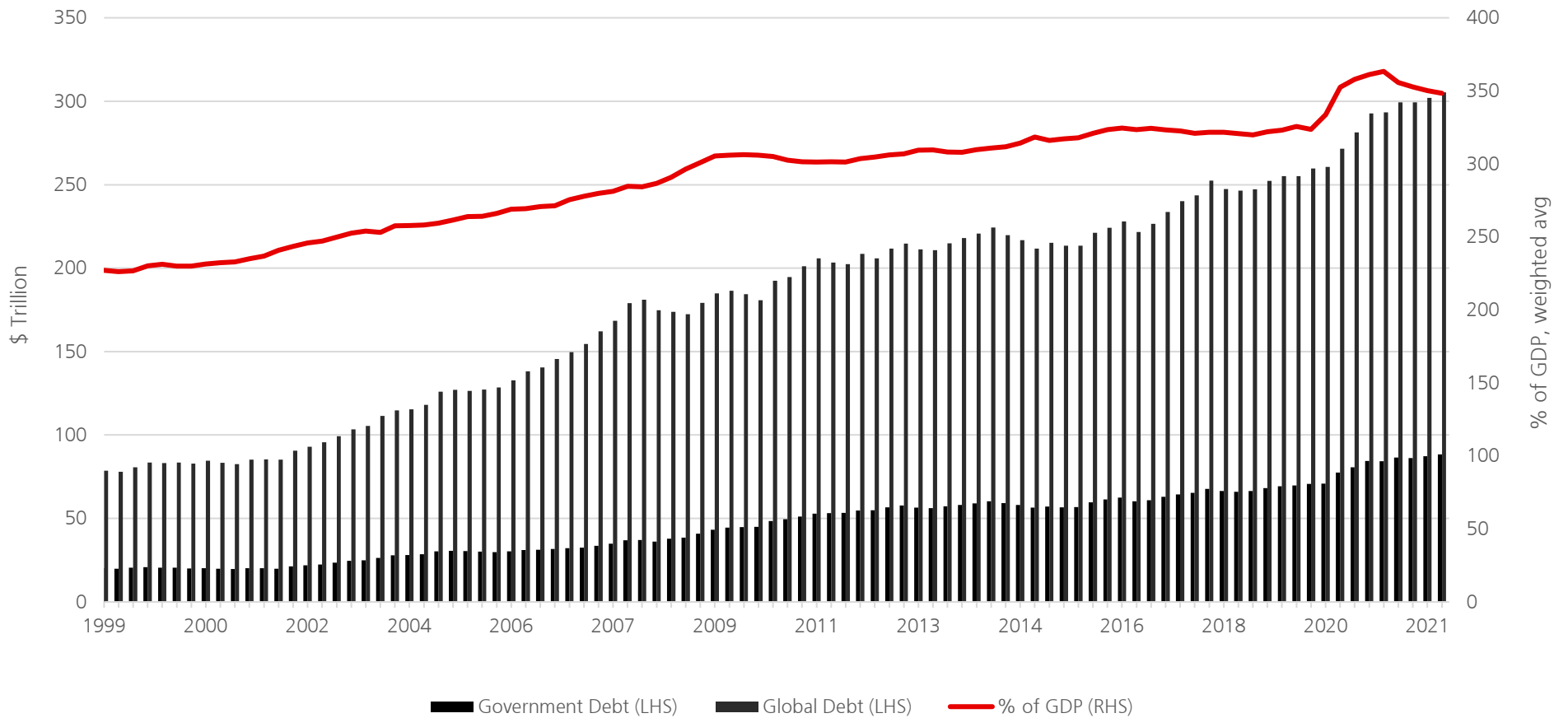
The Yellen Fed certainly did things differently



Source: Bloomberg. Data as of August 2019.

Global Debt Levels

Is there a way back?



Source: IIF. Data as of August 2021.

Conference Board - US Leading Indicators (year-on-year)

Yes, inflation will probably fall in coming months



Source: Bloomberg. Data as of August 2022.

....but the long term trajectory will matter most of all

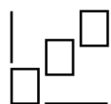
The cyclical versus the structural



- **Fiscal policy** - from austerity to the joy of deficits.
-



- **Monetary policy** - from pre-emptive and forecast based, to delays and outcome based
-



- **The labour share of income** - from the gig economy to new rights for workers
-



- **Globalisation** - from free movement of goods and capital to matters of sovereignty and control
-



- **The green economy** - from cheapest to deliver to greenest to deliver (and questions of energy security)

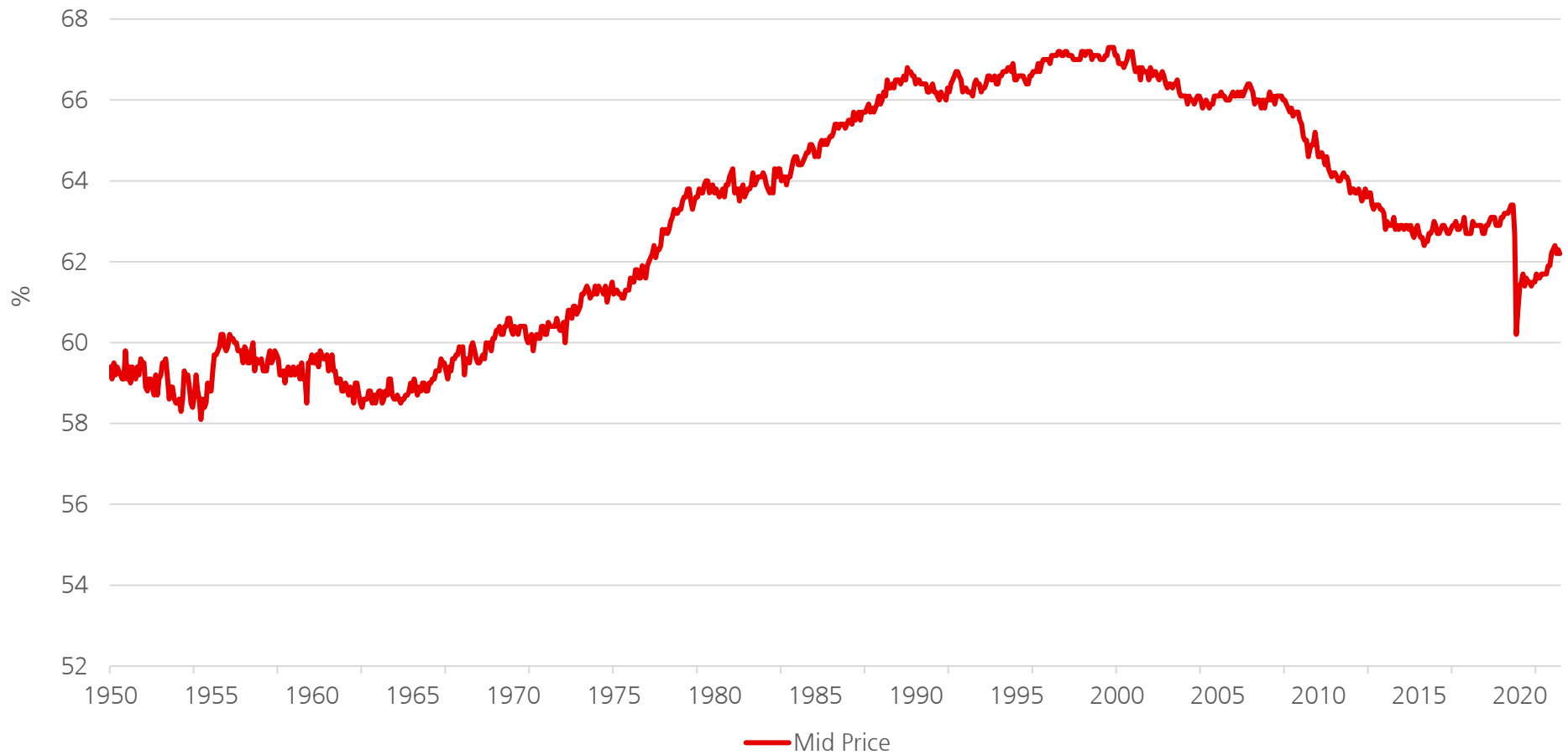
Atlanta Fed: US Wage Tracker Overall Index

... but wage inflation can stay elevated



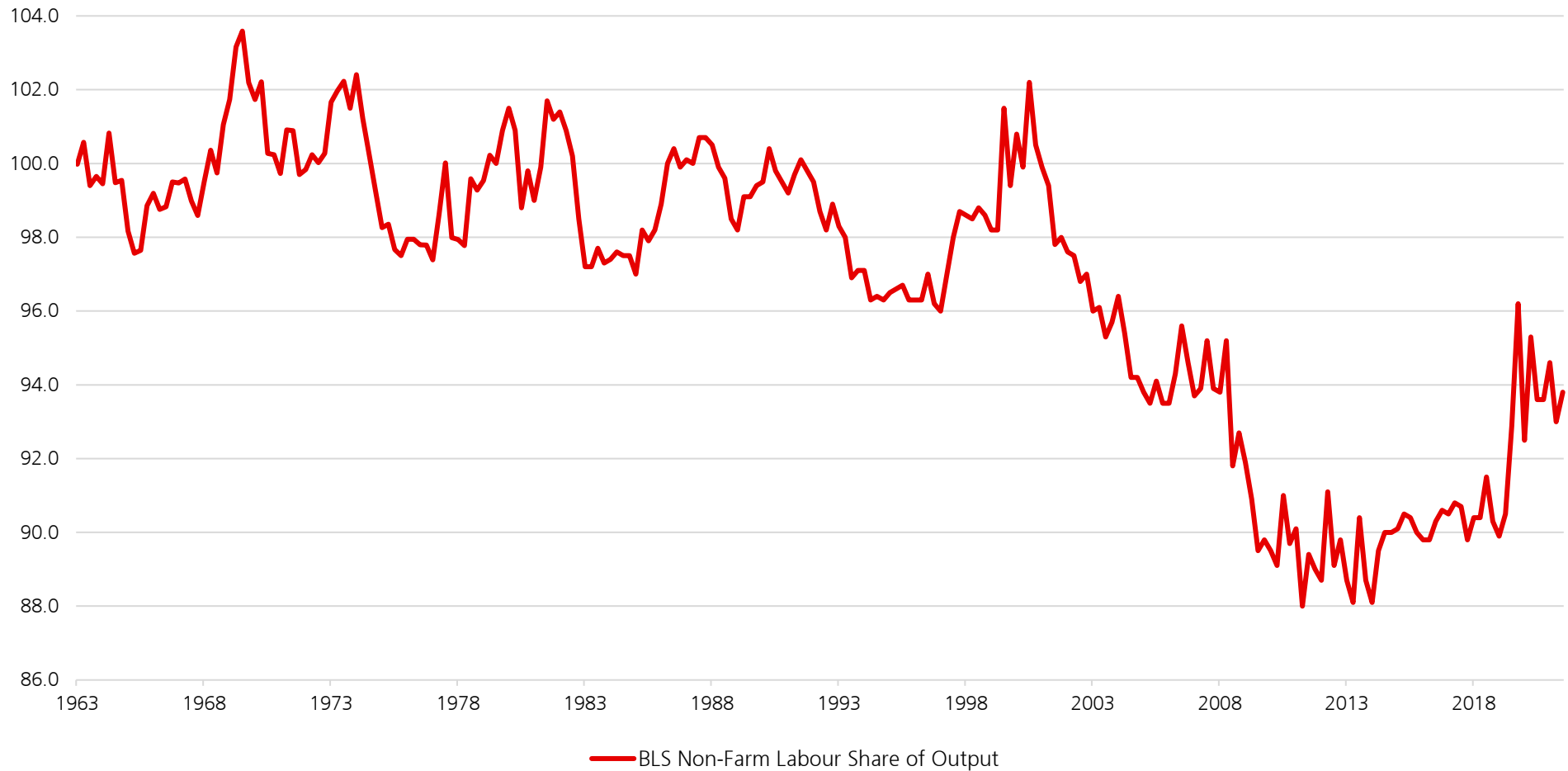
Source: Bloomberg. Data as of August 2022.

US Labour Force Participation



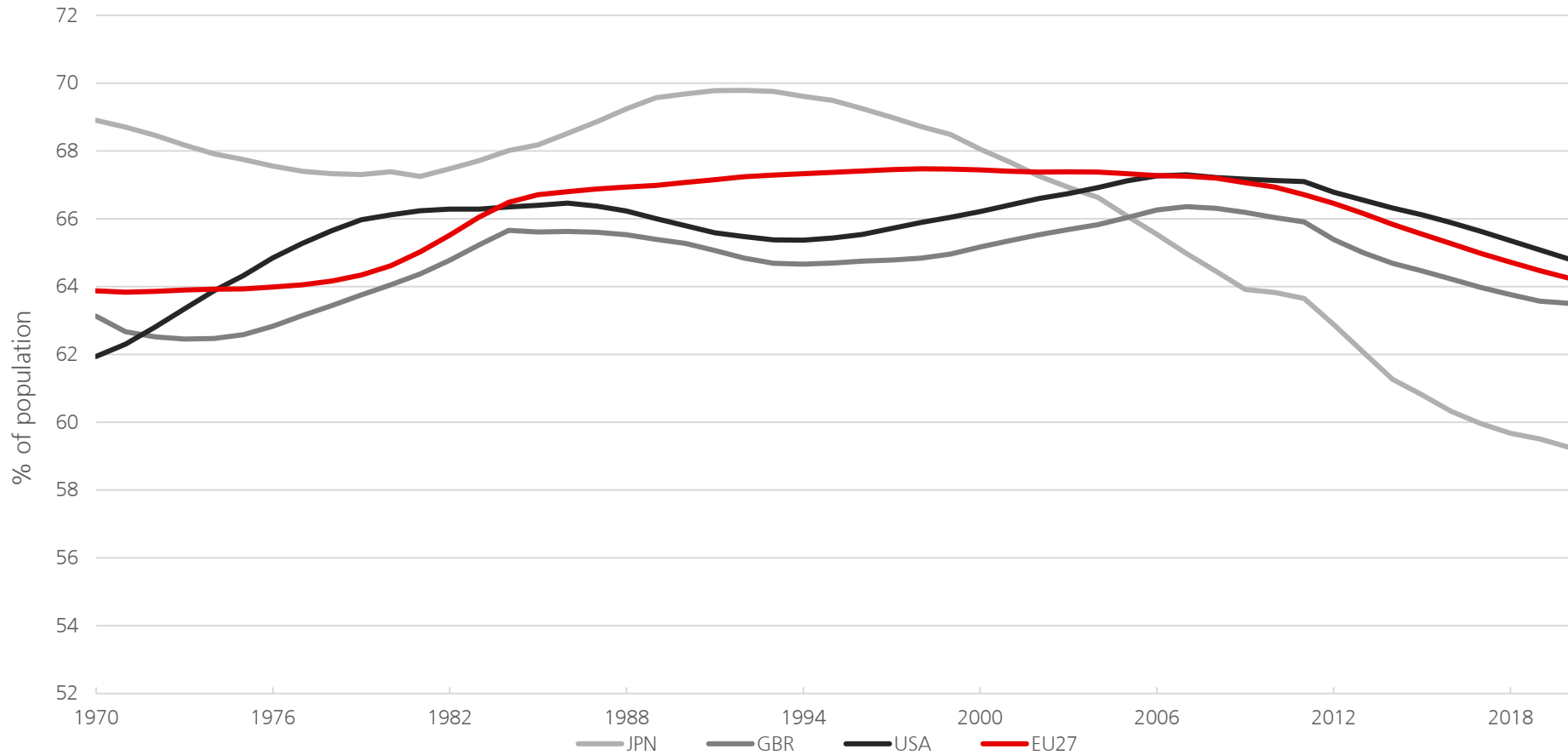
Source: Bloomberg. Data as of August 2022.

BLS Non-Farm Labour Share of Output



Source: . Data as of August 2022 (Index: Q1 1980= 100).

OECD: Working Age Populations



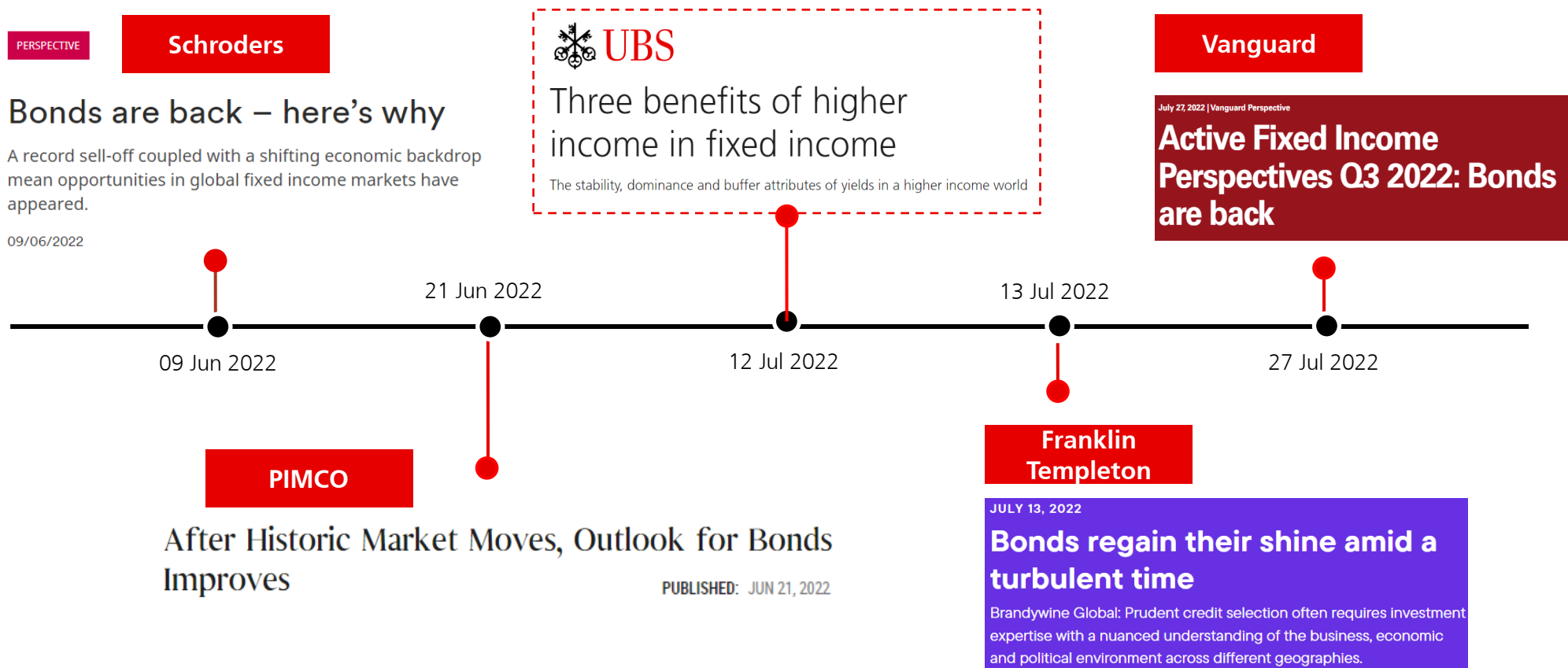
Source: OECD. as of August 2022.

Section 3

Three benefits of higher income in fixed income - Alex Wise

What the street is saying about fixed income

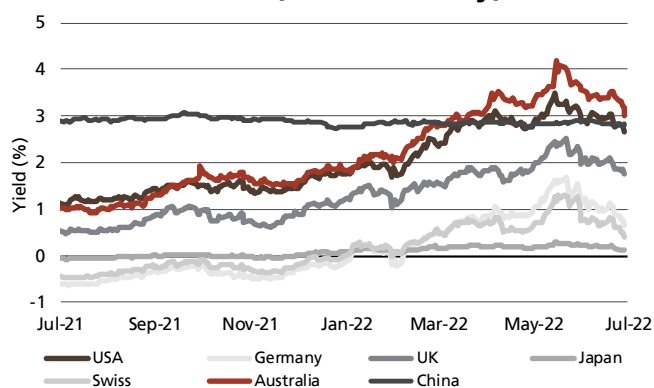
Fixed income is attractive again



Sovereign yields and returns

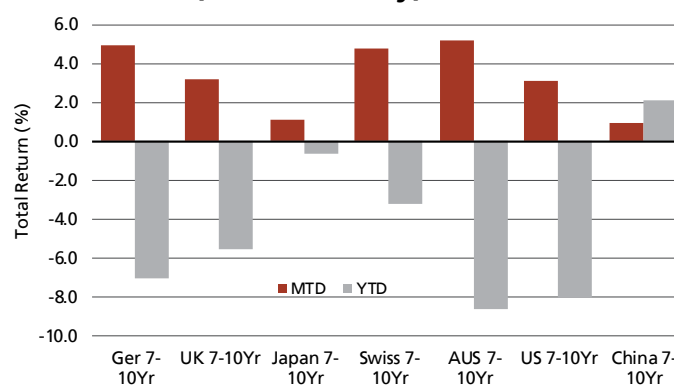
With market dislocations, fixed income investors now enjoy higher risk-free rates (aka lowered sovereign bond prices)

Government Yields (Local currency)



	Yield	MTD Change	3-Month Change	YTD Change	1-Year Change
AUS 7-10Yr	3.02%	-60 bps	-6 bps	+140 bps	+201 bps
Ger 7-10Yr	0.66%	-59 bps	-18 bps	+94 bps	+126 bps
Japan 7-10Yr	0.11%	-13 bps	-8 bps	+10 bps	+17 bps
Swiss 7-10Yr	0.40%	-54 bps	-29 bps	+59 bps	+84 bps
UK 7-10Yr	1.77%	-38 bps	-5 bps	+87 bps	+124 bps
US 7-10Yr	2.66%	-35 bps	-25 bps	+121 bps	+152 bps
China 7-10Yr	2.80%	-9 bps	-6 bps	-6 bps	-10 bps

Total Returns (Local currency)



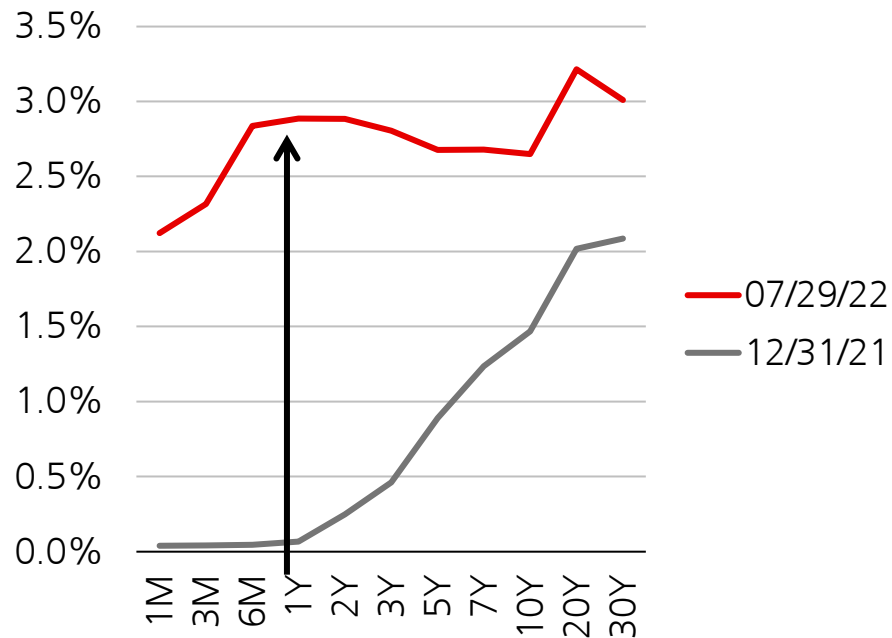
	MTD Tot. Ret.	3-Month Tot. Ret.	YTD Tot. Ret.	1-Year Tot.Ret.
AUS 7-10Yr	5.15%	1.41%	-8.65%	-16.51%
Ger 7-10Yr	4.96%	1.70%	-7.00%	-9.28%
Japan 7-10Yr	1.07%	0.76%	-0.60%	-0.95%
Swiss 7-10Yr	4.76%	3.73%	-3.18%	-5.29%
UK 7-10Yr	3.23%	1.15%	-5.52%	-7.68%
US 7-10Yr	3.06%	2.76%	-8.04%	-9.57%
China 7-10Yr	0.92%	1.23%	2.11%	3.70%

Source: Bloomberg Finance LP, Barclays. Returns in local currency
As of 31 July 2022

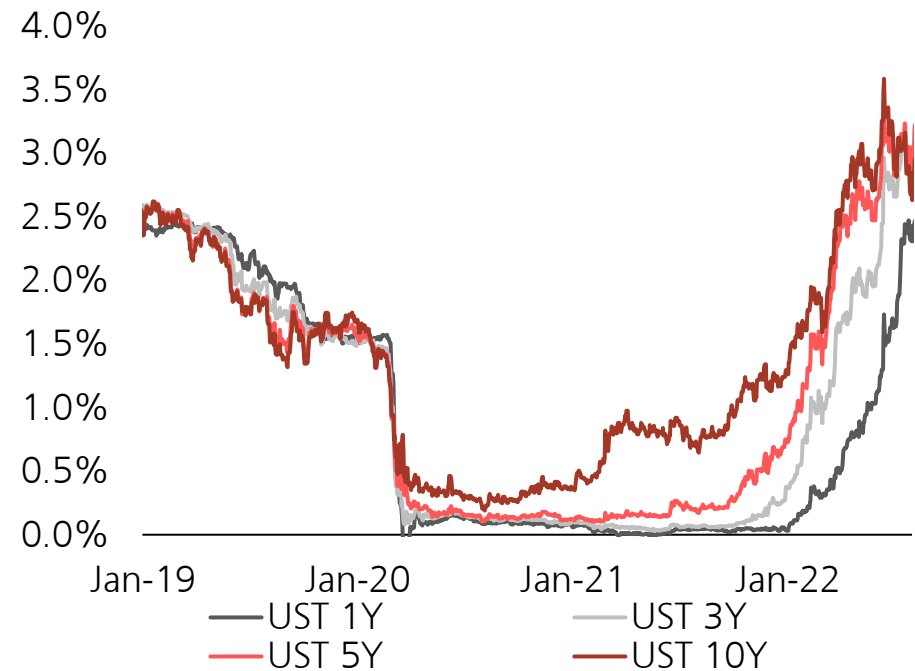
US Treasury yields

The fixed income world changed: US Treasury rates are now meaningfully higher, especially at the short-end

US Treasury yield curve



US Treasury yield (%)

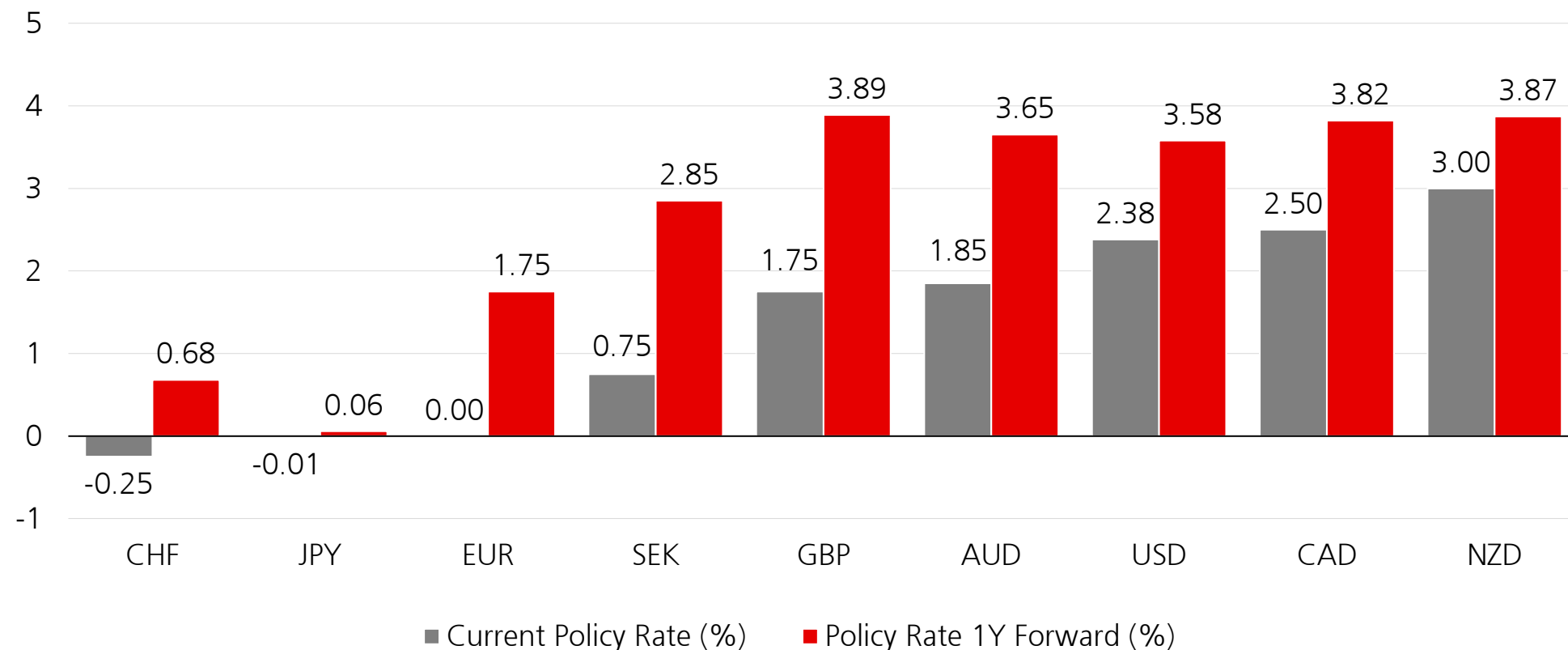


Source: UBS, Bloomberg Finance L.P.
As of 31 July 2022

Developed markets' policy rates

An aggressive tightening path is priced in across developed markets: Market prices reflect expected (and not actual) rate increases

Current and 1Y Forward Policy Rates (%)

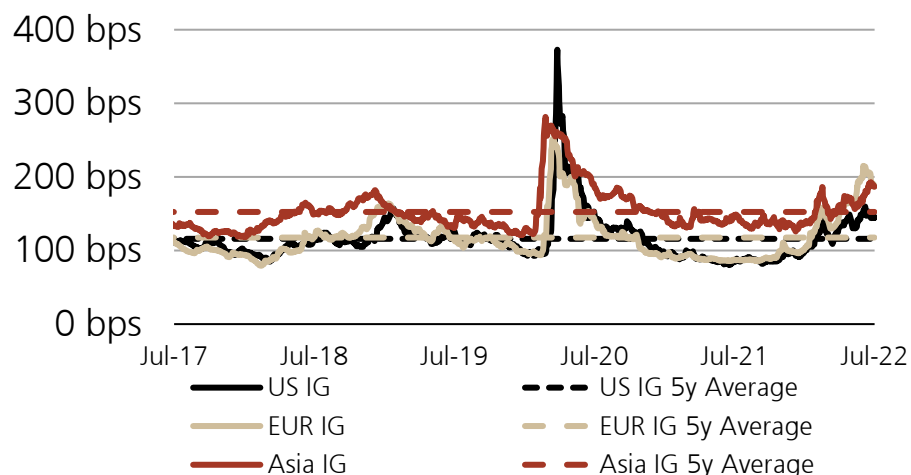


Source: UBS Asset Management, Bloomberg Finance L.P., as of 19 August 2022

Investment grade (IG), high yield (HY) credit spreads

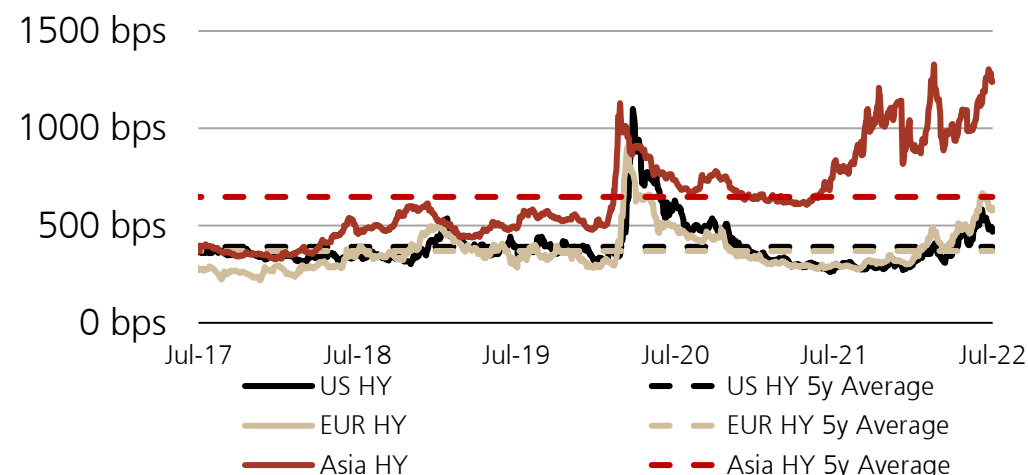
Still wider than 5-year average

Investment grade credit spreads



Spread	US IG	EUR IG	Asia IG
Latest	146	189	187
MTD Change	-5	-16	16
YTD Change	+44	+94	35
All-time wides	618	492	601
All-time tights	76	43	72
Current percentile*	63%	82%	64%

High yield credit spreads



Spread	US HY	EUR HY	Asia HY
Latest	488	593	1204
MTD Change	-33	-10	+90
YTD Change	+111	+245	+564
All-time wides	1971	2013	1327
All-time tights	233	183	154
Current percentile*	58%	74%	99%

For information purposes only. **Past performance is not a reliable indicator of future results.**

Percentile since the inception of each indices: Asia = JACI Index, US = Bloomberg US Corporate, EUR = Bloomberg Pan European Corporate.

Source: Bloomberg Finance L.P., J.P. Morgan, as of 31 July 2022

Negative-yielding debt amount

Drastically decreased to USD 2.6 trillion, meaning more bonds are positive-yielding now

Negative yielding debt (USD trillion)

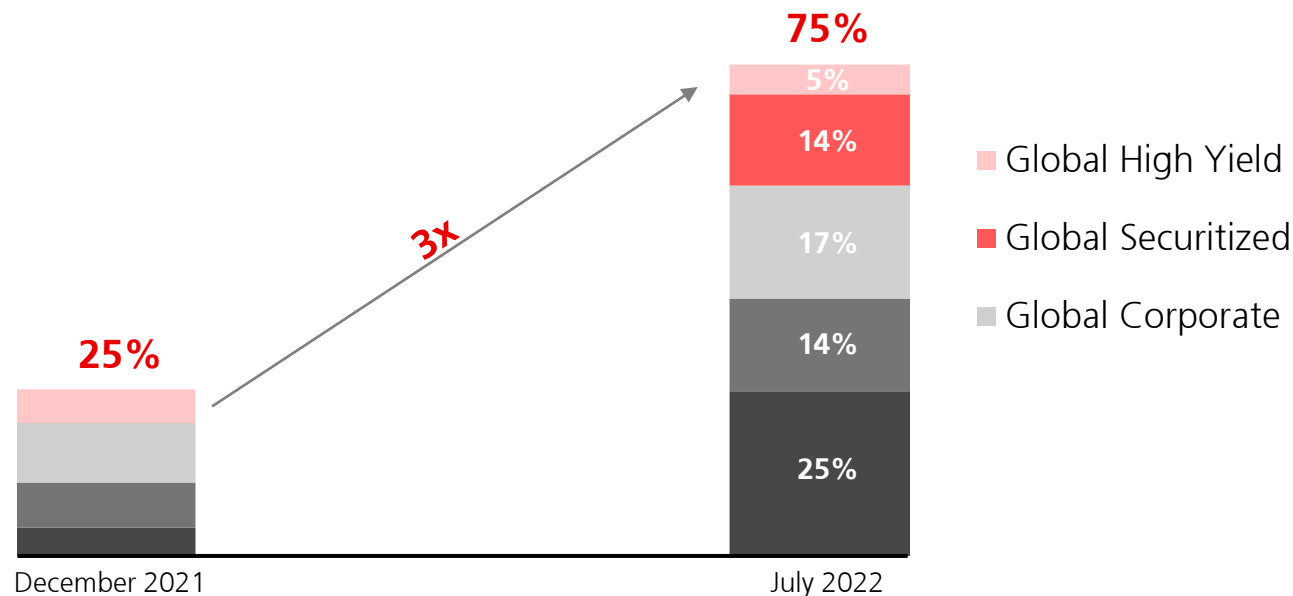


Source: UBS, Bloomberg Finance L.P., as of 17 August 2022.
Bloomberg Global Aggregate Negative Yielding Debt Market Value (USD) Index

More developed market fixed income strategies now yielding 2% or more

Increased portfolio flexibility: Easier to hit yield target without reaching down credit curve nor into longer tenors

% of Global Fixed Income Bond Market returning 2% or more, from December 2021 to July 2022



Source: UBS Asset Management, Bloomberg Finance L.P., as of 31 July 2022

The Global fixed income universe is proxied by the Bloomberg Multiverse Index. The Bloomberg Multiverse index provides a broad-based measure of the global fixed income bond market. The index is the union of the Global Aggregate Index and the Global High Yield Index as it represents investment grade and high yield bonds in local currency terms.

Past performance is not a guide to future results

Attractive bond risk-return profile due to positive return asymmetry

Higher interest rates led to favorable bond return asymmetry

10Y US Treasury yield (%)



Source: UBS, Bloomberg Finance L.P.
As of 18 August 2022

Positive return asymmetry

Potential mark-to-market losses can be offset by a generation of higher yield/income, e.g.:

- If an investor bought a 10Y US Treasury today at a yield of 2.90% and nothing happened, he would essentially earn 2.90% per annum
- If that bond's yield **increased 50bps over the next year** (meaning over a one-year period), then from a mark-to-market perspective, the investor would be **down 1.1%** on their investment
- However, if that bond's yield **fell 50bps** over the next year, then the investor would be **up 7.0%** in a year from now
- The risk-return profile is currently asymmetric in the investor's favor

Higher “break-evens” from higher yields act as “shock absorbers”

“Break-evens”: The magnitude of rate increases needed to wipe out the head start provided by yield income from a total return perspective

Index	Break-even at end Dec 2021 (bps)	Break-even at end July 2022 (bps)	Extra cushion to absorb rising yields (bps)
Bloomberg Global Aggregate Index	17	37	+19
Bloomberg Global Aggregate 1-3 Year Index	38	119	+82
Bloomberg Global High Yield Index	114	201	+87
Bloomberg Global Aggregate Corporates Index	25	59	+33
ICE BofA 1-3 Year Eurodollar Index	63	192	+129
JPM EMBI Global Diversified Index	66	116	+50

“Break-evens” in this context:

In general, the higher the level of yield, the larger the magnitude of rate increases required to generate a negative total return (i.e., wipe out positive contribution from income)

E.g.: **Bloomberg Global Aggregate 1–3 Year Index:**

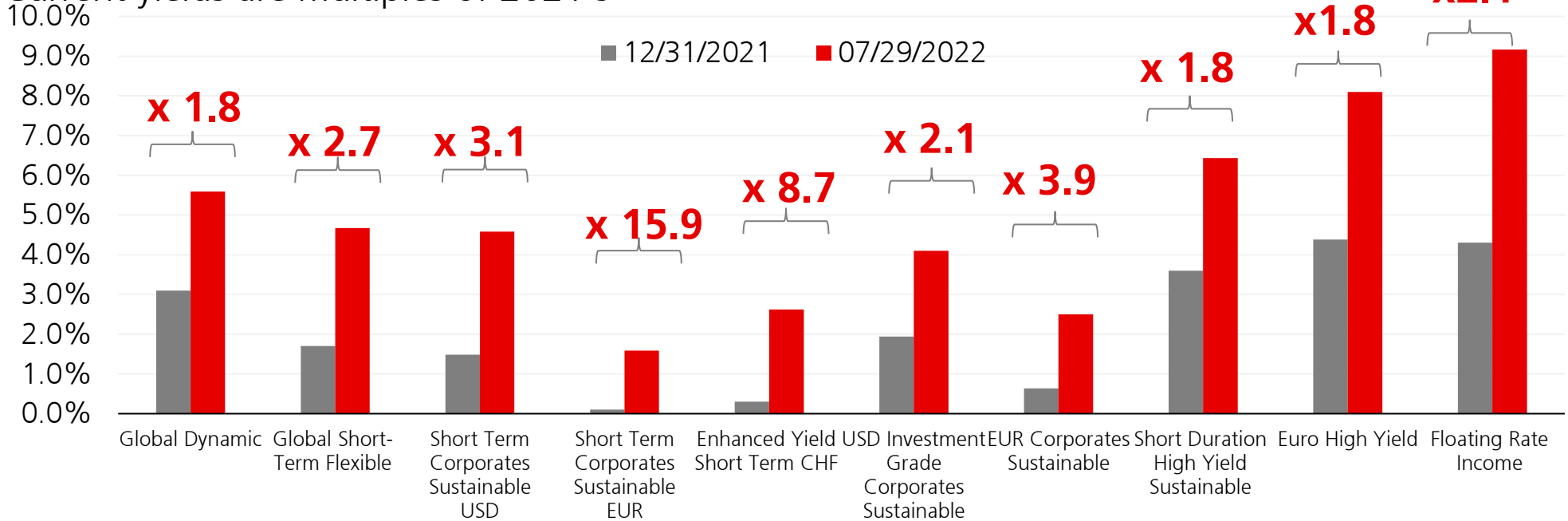
At end 2021: This proxy required just a **38 bps** rise in bond yields to generate a negative return

End July 2022: Requires **119 bps** of yield increases to erase its higher yield advantage

Source: UBS, JP Morgan, Bloomberg Finance L.P.
As of 31 July 2022

Income is back in Fixed Income!

Current yields are multiples of 2021's



**Particularly interesting is: The front end of the yield curve which has less interest rate volatility;
Higher quality bonds should be relatively resilient even if credit spreads widen in the event of a recession**

Source: UBS Asset Management.
As of 31 July 2022

Market has changed: Take advantage of opportunities

Strategies to successfully navigate the path ahead: Be discerning



Where possible,
be flexible

Global Dynamic

Yield : 5.6%
IR duration : 0.4y
Avg Rating : A
AUM USD : 1.2 billion.

Global Short-Term Flexible

Yield : 4.7%
IR duration : 0.6y
Avg Rating : A
AUM USD : 277 million



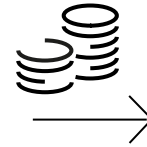
In IG, keep a low interest
rate profile

USD / EUR Short Term
Corporates Sustainable

Yield USD / EUR : 4.6% / 1.6%
IR duration : 2.0y / 1.7y
Avg Rating : BBB+ / BBB+
AUM fund CCY : 689 million /
401million

Enhanced Yield Short Term CHF

Yield CHF : 2.6%
IR duration : 0.2y
Avg Rating : A-
AUM CHF : 411 million



Extending duration in IG may
start to look attractive

USD Investment Grade
Corporates Sustainable

Yield : 4.1%
IR duration : 4.3y
Avg Rating : BBB+
AUM USD : 1.8 billion

EUR Corporates Sustainable

Yield : 2.5%
IR duration : 4.8y
Avg Rating : BBB+
AUM USD : 857 million



In HY, float with the Fed or
keep it short for early movers

Short Duration High Yield Sustainable

Yield USD : 6.4%
IR duration : 1.7y
Avg Rating : B+
AUM USD : 637 million

Euro High Yield

Yield : 8.1%
IR duration : 2.9y
Avg Rating : B+
AUM USD : 1.3 billion

Floating Rate Income

Yield : 9.2%
IR duration : 0.3y
Avg Rating : BB-
AUM USD : 160 million

Source: UBS Asset Management.
As of 31 July 2022, Provisional Data.

Thank you

Any questions?

Massimiliano Castelli, PhD, MSC

Head Global Strategy and Advice, Global Sovereign Markets
Managing Director



Years of financial industry
experience: 20+ years

Education: University of
Rome (Italy), PhD; University
of London (UK), MSc

As Head of Global Strategy and Advice, he analyzes the market trends affecting the investment behavior of central banks, sovereign wealth funds and other state-controlled investment institutions and works closely with the investment teams to provide investment advice and developing tailored investment solutions for this client segment

Max established himself as a global thought leader on the macroeconomic, financial and political trends in sovereign wealth management. He has often been called in by leading institutions as an expert on global economic and financial matters. Max has recently published *The New Economics of Sovereign Wealth Funds* in the Wiley Finance Series, a book providing a thorough guide to sovereign wealth funds, covering the drivers of the industry, how it operates and grows, the interest from and in Western markets and the pivotal role that sovereign wealth funds play in the world economy

In his international professional career, Max has been Head of governmental affairs for UBS in Europe, Middle East and Africa, EMEA Senior Economist and consultant advising governments and corporates in emerging markets on behalf of international institutions

Max holds a PHD in Economics from the University of Rome where he lectured and a MSc in Economics from the University of London. He is a member of the Executive Committee of the Asset Management Investment Council (ICMA) and a Fellow at the Centre for International Markets, Money and Regulations at Bocconi University.

Note: As at March 2021

Jonathan Gregory

Head of Fixed Income UK, Senior Portfolio Manager
Managing Director



Years of investment
industry experience: 37

Jonathan Gregory is Head of Fixed Income in the UK and a senior portfolio manager in the Fixed Income team. He is the lead portfolio manager on all Global Aggregate, Global Credit and UK Fixed Income strategies. He is responsible for all investment decisions taken for and implemented in these strategies.

Jonathan is a member of the Fixed Income Investment Forum.

Jonathan joined UBS Asset Management in 2010, having previously been Head of Credit and Portfolio Manager at Western Asset Management between 1998 and 2009. In that role he was responsible for managing Global, Euro and Sterling corporate bond portfolios and had significant involvement in the credit allocation for Global, Euro and UK aggregate portfolios.

Prior to his 11 years at Western, Jonathan worked for NatWest Markets as a credit rating analyst and in corporate banking. He began his career in the mortgage industry as a loan officer and underwriter.

Note: As at March 2021

Alex Wise

Fixed Income Investment Specialist

Director



Alex Wise is a Fixed Income Investment Specialist within the Fixed Income team with a focus on active Global Fixed Income strategies. In this role he is responsible for communicating our investment capabilities to clients and consultants, working on fixed income business development and responding to client requests.

Alex joined UBS Asset Management in 2013 within the RFP team, having previously undertaken a one-year industrial placement at the firm. He moved into his current role in 2015. His previous experience additionally includes a year at OSTC as a Graduate after finishing university within interest rates and commodity derivative market making.

Alex holds the Investment Management Certificate (IMC).

Years of investment industry experience: 10

Education: Durham University, Ba (Hons)

Note: As at March 2022

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