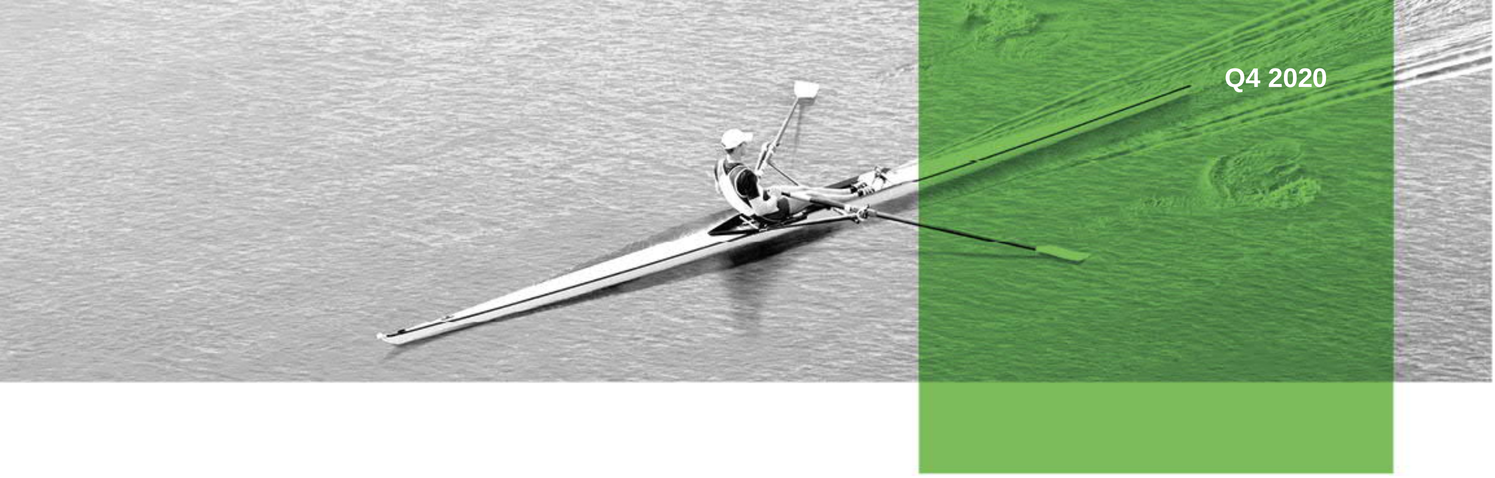

UBAM – Multifunds allocation Flexible

Quarterly Comment | Q4 2020

For Professional Investors in Switzerland or Professional Investors as defined by the relevant laws.

Market Comment

- Markets were exhibiting similar recent trends up until the middle of the fourth quarter, when on the 9th of November encouraging phase III trial data from Pfizer Inc' s COVID-19 vaccine prompted a dramatic rotation. The rotation was pronounced globally and had significant ramifications across the risk spectrum. Moderna Inc. then followed up with their phase III trial results which illustrated a 90% efficacy rate for its vaccine. This was then followed by AstraZeneca Plc in partnership with Oxford University and the results of their phase III trial results, illustrating a 60% efficacy going up to 90% after alterations in dosage, however some irregularities prompted the company to conduct a new trial phase. Overall, the fact that three separate vaccines each with an efficacy rate above 50%, which is the minimum level required for regulatory approval, have been successful in phase III trials means the market and economies can start to look beyond the pandemic. Adding further impetus to the bullish narrative driving markets, the US Dollar remained weak throughout the quarter which was particularly supportive for EM-related assets.
- Overall within developed markets there was a cyclical impulse behind price action with small cap equities outperforming their large cap peers in most regions, whilst cyclical sectors also broadly led their defensive counterparts.
- This culminated in a very strong fourth quarter overall for the higher beta ends of the market relative to lower beta disciplines. At the world level, the MSCI World Value Index finished the fourth quarter +15.9% vs. +12.6% for the MSCI World Growth Index. The dispersion remained vast however on a full year basis with Value -0.3% vs. +34.2% for the Growth Index. Energy (+26.9%), Financials (+23.7%) and Industrials (+15.5%) led the way during the fourth quarter relative to the traditional defensive sectors; Utilities (+9.6%), Health Care (+7.0%) and Consumer Staples (+6.4%). Financials were buoyed by a steeper US yield curve with the spread between the US 10 Yr Treasury and the 2yr finishing at 0.8%, the steepest since late 2017.

Sources: UBP, Bloomberg Finance LP.

Performance Review

- The Fund outperformed its primary composite benchmark by +84bps in the fourth quarter. Return drivers were broad at both the regional and underlying manager levels, however within equities the primary attribution came from the more cyclically orientated ends of the spectrum. In the UK, the JOHCM UK Growth Fund (+30.2% vs. +10.6% MSCI UK TR Index) had an exceptionally strong quarter with a number of its active overweight positions in the smaller cap ends of the UK market prospering on the back of a soft Brexit deal. Elsewhere, core active overweight positions in the large cap value ends of the market also fared well on the cyclical impulse we experienced within markets. On the Continent, the Mandarine Valeur Fund (+22.9% vs. +10.5% MSCI Europe TR Index) prospered due to similar cyclical characteristics. In Asia, the GLG Japan CoreAlpha Fund (+13.7% vs. +11.7%) was also a beneficiary of the cyclical rotation with active names from within the Financial and Automotive industries outperforming the broader market. In the US, attribution from the Robeco US Premium Fund (+20.0% vs. +16.3% S&P 500 Index) and the Vulcan Value Equity Fund (+17.2%) was also a key contributor with both funds benefiting from the cyclical rally, whilst the financials overweight for Robeco prospered on the back of a steeper US yield curve.
- Price action within sovereign bond markets was strong overall, however stronger returns were to be found in the higher beta ends of the credit and emerging market debt spectrums given the buoyancy in risk sentiment more broadly. New issuance remained very strong in the fourth quarter culminating in the strongest year in both IG and HY markets since records began as companies looked to extend existing debt maturities and lock in low rates of borrowing given the contraction of credit spreads seen since the more volatile months of Q1. Key drivers to Fund performance included the Vontobel EMD Fund (+6.3%), the Western Macro Bond Opportunity Fund (+6.2%) and the PIMCO Income Fund which finished +5.1% given the buoyancy in EMD-related assets and corporate credit markets more broadly.

Sources: UBP, Bloomberg Finance LP.

Portfolio Activity

- Some elements of the equity portfolio were reduced towards the end of the fourth quarter, particularly from the more cyclical ends of the portfolio. Higher quality cyclicals are broadly back to where they started the year pre-COVID and although they should continue to be buoyed by positive earnings momentum over the near term, there is room for disappointment in the short term given how extended the moves have been. This is not to say that we have reduced risk significantly in the portfolio, the activity has been more skewed towards crystallising gains made from the portfolio changes initiated during the summer. Reductions were primarily done from the Mandarine Valeur Fund and JOHCM UK Growth Fund. The fund finished the period with a broadly benchmark neutral equity weight (~58%), whilst fixed income (26%) continues to be the primary underweight given the limited array of compelling opportunities we currently find across the asset class. A 16% cash weighting enables us to deploy capital should compelling opportunities present themselves over the short term..

Sources: UBP, Bloomberg Finance LP.

Outlook

- The vaccination rollout is for now giving markets a glimmer of hope that economies may return to some degree of normality during the second half of 2021. Although these programmes are dispersed by country, some have made good ground already on the rollout front. In the UK for instance, 5 million people have now received their first vaccination, more than the number of people who have actually had the virus. The over 80 year old cohort of people has almost been fully vaccinated with their first dosage and this age group has been the most vulnerable to the virus by far. According to research, 74% of COVID-19 fatalities in the UK have been in the over 75 year old age group, whilst this cohort only represents 9% of the entire UK population. It may not be long therefore until the effects of vaccinations become visible in the daily cases and fatality data.

- For their part, markets continue to look broadly beyond the immediate term challenges of combating COVID-19, whilst additionally remaining buoyed by unprecedented liquidity from the world's central banks and governments. The much talked about degree of pent-up demand also remains a key support to economies once reopening ensues. In the US for instance, it is estimated that the consumer has an additional $1.4tr in excess savings since the crisis began. The key question to perhaps answer is by how much has this already been priced into markets?

- The added benefit for equities today is the advantage of lower fixed cost bases which has certainly supported margins. Through furlough and other government support schemes, companies have been able to swiftly and aggressively cut fixed headline costs, far quicker than they have been able to during past recessions. The operating leverage that now resides in companies leaves them well positioned for an economic recovery which often correlates with increasing corporate revenue. The convexity to a normalising growth backdrop is perhaps the greatest in cyclical equities today.

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