



THE DRIVE YOU DEMAND



UBAM - 30 GLOBAL LEADERS EQUITY

Quarterly Comment | Q4 2019

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

Market Comment

- ◆ The last quarter of 2019 added to gains achieved earlier in the year, with the MSCI AC World posting more than 8% in total return over the period. The biggest gains were recorded by Emerging Market equities which rose by 12%, followed by US and Japanese equities up around 8%. European and Swiss equities were each up around 5%. Over the full year, Swiss equities outperformed global equities with 30.6% absolute performance for the SPI versus close to 27% for the MSCI AC World.
- ◆ The Fed announced unchanged policy rates in December, which is expected to be maintained throughout 2020. Along with the prospect of a truce in the US-China trade war, this has helped to boost market optimism for the end of the year. Nevertheless, US manufacturing PMI reached a new low of 47.2 for December with Boeing's decision to stop its 737 Max production weighing on confidence.
- ◆ Despite earnings season's overall results being better than feared, cyclical sectors suffered the biggest earnings downgrades while technology and healthcare sectors posted upgrades. Global equities' earnings growth was revised down from 1.5% to 0.2% for 2019 versus 9.9% for 2020. US equities are expected to deliver 1% in earnings growth for the full year 2019, while European Equities are at -1%, projected to rebound to close to 10% for 2020. Swiss equities are still expected to deliver around 8% of earnings growth for 2019 versus 10% expectations for 2020. In terms of valuation, the MSCI AC World continues to trade at around 16x 12 months forward PE, close to its long-term average.
- ◆ In line with the Fed and the ECB, the SNB kept target rates unchanged in December, renewing its willingness to intervene in the foreign exchange markets as necessary. The Swiss PMI finished the year back at 50.2 showing improvement with the KOF leading indicator also rebounding strongly to 96.4 versus 92.6 in November. The unemployment rate remained stable at 2.3%, with inflation flat at -0.1% month on month.
- ◆ After short lived market rotations over the first nine months of the year, all sectors of MSCI AC World returned positive performances over the last three months of 2019. While Healthcare and Information Technology were top performers (+12.6% and +13.9% respectively), Consumer Staples and Utilities were the bottom ones (+0.94% and +1.1% respectively). YTD all sectors also returned strong performances with Information Technology leading with +46.9% in return and Energy lagging with +11.6%.

- ◆ UBAM - 30 Global Leaders Equity returned +8.7% in gross return in the fourth quarter of 2019, slightly underperforming the MSCI AC World NR by 0.2%. Over the full year, the fund has posted 34.8% in absolute return with close to 8.2% in gross excess return. Over the quarter, sector allocation contributed to 46bps of relative outperformance mainly from the absence of exposure to Utilities, Real Estate and Energy, which underperformed the overall market. This was offset by -51bps from stock selection, primarily in Healthcare and Information Technology names. The currency effect also cost 18bps of performance mainly from the underweight of Emerging Market currencies which appreciated over the period.
- ◆ In terms of individual stocks, the overweights in Sika, Partners Group and LVMH were the biggest contributors to performance over the period (+60bps, +34bps and +33bps respectively). Sika's share price appreciated 28.3% over Q4 2019 as the company reported accelerating organic growth for Q3 19 at +6% which stands in stark contrast to the growth dynamics observed at its competitors. Sika remains a strong performer over the year with 49% price appreciation as analysts continued to publish their 2020 outlooks with the name being among the top picks for quite a few. Partners Group was also a strong contributor over Q4 and the full year 2019, with a price appreciation of close to 55% over 2019. Over Q4 2019, Partners Group was up 19.3% as the investment manager profited from sell-side price target upgrades and positive industry outlooks for 2020. LVMH's share price appreciated 17.4% over Q4 2019 as the luxury name reported a strong Q3 beat across all categories with an 11% organic sales growth, despite protests in Hong Kong. LVMH also announced a deal acquiring Tiffany allowing the company to reinforce its positioning in the growing global jewellery market.
- ◆ The main detractor over Q4 2019 were the overweight in McDonald's, the absence of exposure to Apple and the overweight in Ecolab (-57bps, -52bps and -37bps respectively). McDonald's share price lost 7.5% over the quarter after posting Q3 profit and revenues below estimates and further announced a CEO change after a company policy violation of employee relationship. Apple gained 31.4% over Q4 2019 after reporting quarterly earnings above market consensus with the services division up 18% year over year, representing the main driver of sales. Ecolab dropped 2.3% over the quarter after a 31.9% rally over the year. The company reported Q3 EPS results in line with estimates while revenue missed; it also narrowed FY 2019 earnings outlook. On the other hand, Ecolab reached an agreement with Apergy to separate and merge its upstream energy business in a USD 4bn deal announced in December 2019.

Portfolio Activity and ESG

- ◆ No position switches were made on the portfolio level during Q4 2019. As Prudential (PRU LN) shareholder, and in the context of the spin-off of its' asset management unit (1 for 1), newly listed M&G shares (MNG LN) were received on Oct 23rd in the portfolio. The team decided to sell MNG LN entirely from the 30 Global Leaders portfolio as it doesn't comply with the team's investment process, having a market cap below USD 10bn with no history of high and stable CFROI.
- ◆ At the end of December 2019, the 30 Global Leaders portfolio had an MSCI ESG rating of AA superior to that of the MSCI AC World of A. The fund's ESG quality score was at 7.4 also higher than the average 5.6 of the best 80% ESG score rated positions of the benchmark. The fund does not hold any laggard stocks (rated CCC or B), versus 8% laggards for the MSCI AC World. The portfolio has a 61% lower weighted average carbon intensity than its benchmark with 72.3 tons of CO2 emissions / USDm sales vs 186.2 for the MSCI AC World. The portfolio, being underweight low CFROI sectors such as Utilities and Energy, has historically exhibited a 90% lower carbon footprint than its

benchmark (as measured in tons of CO2 output per USDmn invested). In terms of Global Norms compliance, the 30 Global Leaders Equity portfolio did not hold any position under the “Fail” and “Non-Compliant” status on UN Global Compact indicator by both data providers MSCI ESG Manager and Sustainalytics. In addition to the environmental and Global Norms criteria, the portfolio also returned better average social and governance indicators than its benchmark, namely on labor and diversity; demonstrating the portfolio’s overall positive impact positioning versus the MSCI AC World.

Outlook

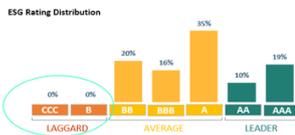
- ◆ Despite short-lived sector rotations, equity markets ended the year on new highs, fully recovering from the Q4 2018 drawdown. The downward earnings growth trajectory did not reverse over the year as global equities ended 2019 with 0.2% earnings growth expectation versus close to 6% projected at the beginning of 2019. 2020 projections of 9% earnings growth are based however on possibly stretched rebounds particularly in the Energy and Materials sectors. While European and US PMIs do not seem to have bottomed out, consumer confidence remains resilient on stable inflation and labor conditions which could provide support for markets in 2020.
- ◆ The high and stable CFROI approach of the 30 Global Leaders Equity strategy has delivered superior value creation and quality bias through different market conditions, and with very low portfolio turnover as only two portfolio positions were changed over 2019. Despite a strong market performance in 2019 and short rotation attempts into lower quality and value stocks, the strategy has shown strong alpha generation with more than 8% relative performance. Given the low risk from carbon and other ESG matters, and the quality bias in terms of low indebtedness, large capitalisation and high levels of value creation, the proven strategy is expected to continue doing well, especially during potentially volatile/sideways periods.

Main ESG and Carbon Metrics – UBAM 30 GLOBAL LEADERS EQUITY

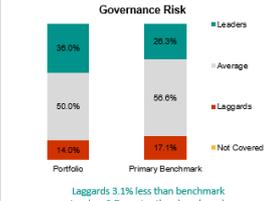
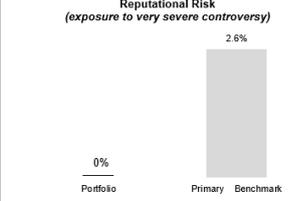
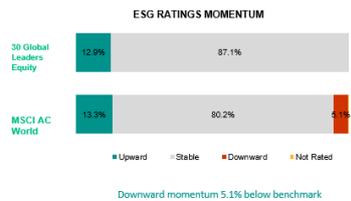
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ESG Scores

30 Global Leaders Equity



MSCI AC World

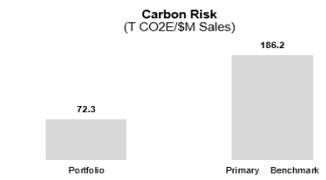


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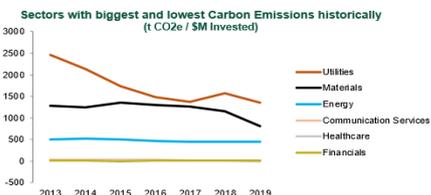
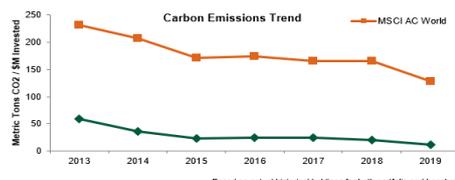
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Carbon Footprint

UBAM - 30 Global Leaders has at least 60% less carbon intensity risk than its benchmark (Emissions/Sales)



UBAM 30 Global Leaders has historically had 90% lower carbon footprint than its benchmark (based on 1mn Investment)



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Select Labor and Social KPIs – UBAM 30 GLOBAL LEADERS EQUITY

	5 Year Growth in Employees %	Percentage of Women Employees %	Companies with boards having at least 30% Female Directors*	Companies with Employee Protection in Whistle Blower Policy	Companies with CSR / Sustainability Committee	Training and Professional Development Score (0-10) *
UBAM-30 Global Leaders Equity	6.3	44.0	47%	97.0%	53.3%	5.05
MSCI AC World	6.2	36.8	25%	76.0%	22.1%	4.32

Source : Bloomberg - 31.12.2019

* Source : MSCI ESG Manager - 31.12.2019 - Female Directors extends to board of directors, supervisory and management boards.

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