

UBAM – TECH GLOBAL LEADERS EQUITY

Quarterly Comment

For Professional Investors in Switzerland or Professional Investors as defined by the relevant laws. The classification of the fund(s) as per the Sustainable Finance Disclosure Regulation (SFDR) is available on ubp.com or in the latest prospectus.

Market Comment

- After two consecutive months of relief rallies, global equity markets gave back some gains and ended December in the red. The last quarter of the year was nevertheless positive for major equity markets. The MSCI AC World ended Q4 up +9.8%, with +9.7% gains for Emerging Market equities, +9.6% for European Equities, +7.6% performance for US equities, +4.3% for Swiss equities and +3.3% for Japanese equities. This brought the full yearly loss for global equities down to -18.4%, the biggest annual loss since 2008.
- US inflation moderated again in November with +0.1% m/m increase versus +0.3% expected and +0.4% increase in the prior month. The yearly headline trend also declined from +7.7% y/y to +7.1%, while core inflation eased more moderately from +6.3% to +6.0%. The Fed remained attentive to inflationary risks and raised rates by 50bps in December. Business confidence declined in December with the US ISM Manufacturing coming in below 50 at 48.4. US GDP figures were nevertheless revised up for Q3 from +2.9% q/q SAAR to +3.2%, supported by firmer private and public consumption. Eurozone Q3 GDP figure also came in better than expected at +2.3% q/q, reflecting resilient post-pandemic household consumption and tourism. The ECB increased key rates by 50bps in December, with a hawkish tone on inflation trends. The SNB also increased its key rates by 50bps, citing inflationary pressures from abroad and price increases spreading across various categories of goods and services that continued to put upward pressure on inflation.
- Global equities traded near the long-term average forward PE ratio at 15.0 at the end of December, with 2022 earnings growth expectations steady at +10.1%, up from +7% at the start of the year, while 2023 expectations were further reduced to +2.8%, down from +9% at the start of the year. In fact, significant margin pressure is expected for companies which do not have enough pricing power to offset the likely weakening consumer demand in 2023.
- All sectors of the MSCI AC World ended Q4 in positive territory except for Consumer Discretionary. Industrials and Energy were the best performers while Financials and Healthcare contributed the most to the index performance, owing to their more important weight. Top contributing names over the period were Exxon Mobil, JP Morgan and Chevron Corp, while bottom contributing names were Tesla, Amazon and Apple. Value was among the best performing investment style QTD and YTD, while Growth and Quality underperformed the broader MSCI AC World index over both periods, driven by higher interest rates' impact on long duration stocks. The 2023 earnings expectation for Growth stocks stood nevertheless at +11% vs only +2% for Value stocks at the end of December 2022.

Performance Review

- UBAM - Tech Global Leaders Equity delivered +5.9% in gross performance in the last quarter of 2022 versus +9.8% for the MSCI AC World. The MSCI AC World Information Technology index gained +5.8% over Q4, underperforming the larger global equities universe.
- Over the fourth quarter of the year, the biggest contributors to performance were the absence of exposure to Tesla as well as the overweights in ASML and Mastercard (+84bps, +76bps, +62bps respectively). Tesla dropped -53.6% over the period pressured by rising interest rates' impact on growth stocks, worries of slowing demand, and concerns around Elon Musk's distraction following his Twitter acquisition. ASML rose +26.9% after the company boosted its 2023 outlook despite economic uncertainties, announcing also a EUR 12bn share buyback and exploring new acquisition opportunities. Mastercard was up +22.4% despite a soft Q4 revenue guidance. The company nevertheless reported Q3 revenue and earnings that came ahead of estimates, with cross-border driving top-line growth amid strong travel demand. The company also announced raising quarterly dividends by 16% with USD 9bn share repurchase program.
- The main performance detractors in Q4 were the overweights in Apple, Marvell Technologies and Salesforce (-62bps, -58bps and -46bps respectively). Apple lost -5.9% after announcing a scale back on its self-driving car and delaying launch until 2026. The name also came under pressure on concerns that protests in China could delay iPhone shipments. The company announced several plans to move production outside of China into India along with more chips sourcing from the US. Apple delivered strong Q4 results on sales and earnings, setting it apart from the other Big Tech announcements. Marvell Technologies dropped -13.6% after missing estimates for Q3 results, on top of a soft guidance for Q4 driven by uncertainties around China and slowdown in datacenter-related demand. Salesforce was down -7.7% as the company reported higher Q3 results, but lower guidance for Q4 along with the surprise departure of its co-CEO.

Portfolio Activity

- Over Q4, Meta (formerly Facebook) was sold on mounting headwinds to advertising spending, margin dilution linked to the transition to Reels, and continued value destructive investments in the metaverse without a clear business case. Amazon was also sold in Q4 as the team forecasts its CFROI® (Cash Flow Return on Investment. Source: Credit Suisse Holt) level to collapse in 2022 as a result of both slowing online consumer demand and an increased capex intensity to support Prime's 1-day delivery and its datacenters (AWS) expansion.
- On the other hand, a position in Oracle was initiated. The company offers a defensive profile in comparison with the rest of the tech universe. Oracle focuses on database and enterprise resource planning (ERP) workflows, making it less cyclical than global IT companies. Cerner acquisition (closed in June 2022) reinforced this defensiveness as it mainly serves healthcare clients. Cerner ensures double digit top line growth in 2023 and long-term growth is driven by healthcare customers' database modernization. Arista Networks was also added to the portfolio in Q4, a leading provider of cloud networking solutions for datacenters, mostly selling switches, cards and transceivers supported by a proprietary EOS software making the overall solutions both customizable and scalable. The company gained shares against Cisco in the past several years and is ideally positioned to be at the receiving end of Cloud customers structurally increasing capex.



- ESG considerations are fully integrated in each step of the fundamental investment process with a focus on a lower carbon risk objective. At the end of December 2022, the portfolio had a AAA rating with 9.6 quality score versus AA and 8.1 respectively for the MSCI AC World, as well as a lower weighted average carbon intensity than the benchmark with 13.2 tons of CO2/\$m sales vs 161.0 for the MSCI AC World index.

Outlook

- After turbulent markets in 2022 driven by inflation pressures and valuation compression, 2023's expectations are starting to reflect downward earnings revisions that could lead to an extended period of volatility into the new year. An active investment approach should protect investors from the lower quality part of the market with more downside risk for earnings as well as the pressures that Big Tech companies are facing. The defensive positioning of the Tech Global Leaders Equity strategy has been reinforced over Q4, favoring companies with stable and less cyclical CFROI® profiles, while remaining exposed to structural growth trends.

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