THE DRIVE YOU DEMAND

UBAM - EUROPE SMALL CAP EQUITY

Quarterly Comment | Q2 2019

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

Market Comment

- The second quarter ended with positive performance across asset classes which marked the reversal of the weakness we observed during the month of May. Indeed, while economic data published in June was weak and the trade outlook remains uncertain, investor sentiment improved as both the Federal Reserve and the European Central Bank indicated that there would be further monetary stimulus to address low levels of inflation and slowing economic growth.
- This lead to +4.9% expansion of the MSCI Europe ex-UK index which corresponds to a full recovery of what was lost in May, while the UK market was up a similar +4.0%. In other geographies, the American market performed strongly with the S&P500 up +7.1%, followed by the emerging markets index (MSCI EM) up +4.7%. Strong returns were achieved on the credit side too, +2.4% for the Euro Treasuries and +1.0% for the US Treasuries. While counterintuitive at first sight, the rally in both asset classes was made possible by the continued expectation of rate cuts which is now combined with anticipation of more quantitative easing.
- While we concluded the first quarter with hints of an economic slowdown, this was confirmed during the second quarter which was a period of greater volatility with a wider divergence between economic indicators and financial market performance. Indeed, trade uncertainty persisted, tariff implementation started, and political tensions did not reduce. Investors took this into account in May but found support for further bullishness in April and June.
- Overall, this made the quarter a strong one (equities up +4%) which allowed a strong first half. The US S&P year-to-date performance is +18.5%, followed by Europe (MSCI Europe ex-UK) at +18.1% and the UK FTSE100 up +13.1%. A slower performance was seen in emerging markets with the MSCI EM index up +10.2%.
- Politically, the US and China have pursued trade negotiations. Investors will probably find some relief in the fact that the worst case scenario has been avoided for now, but the continued uncertainty and potential degradation of the relationship is likely to weigh on the short-term sentiment. This is visible through Consumer Confidence and Manufacturing PMI levels which decreased throughout geographies when looking at 3-months aggregates.
- In the UK, the major event was Theresa May stepping down which was followed by a Conservative Party leadership race and renewed uncertainty around Brexit. It is still very likely that parliament will prevent a no-deal Brexit unless this is communicated by the population in either a referendum or a general election.
- Overall, the second quarter of this year has seen a reversal in economic indicators suggesting a widespread slowdown but this has not been visible in global markets as investors found conviction and support for their optimism in the supportive central bank messaging.

All performance figures are given net of fees unless stated otherwise.
Past performance is not a guide to current or future returns. See full disclaimer at the end of the document.

Performance Review

- During the first quarter of 2018, the UBAM Europe Small Cap Equity Fund returned 14.05%, compared to a return of 14.2% from the MSCI Europe Small Cap Index.

- During the second quarter of 2019, the UBAM Europe Small Cap Equity Fund +3.56%, compared to a return of +1.35% from the MSCI Europe Small Cap Index. Year to date the fund has returned 18.10%, exceeding the index return of 15.74%.

- Positive stock selection amongst our holdings of industrial services and healthcare companies contributed strongly to relative returns during the period. Particularly strong contributions came from healthcare services company UDG Healthcare PLC, allergy vaccine company Alk-Abello AS, diagnostics company Diasorin SPA, engineering and consulting firm Arcadis NV, and business services company Teleperformance TEP. In addition, technology related companies Barco NV and Vaisala OYJ also performed strongly during the period. For UDG Healthcare, improving cash generation and a positive operational update at the company's first half results, coupled with an extremely attractive valuation following a strong derating of the share price over the past twelve months, provided strong impetus for the shares. This was particularly pleasing given our decision to add to our holdings backed by our conviction that the company remains well placed to benefit from long term structural trends towards outsourcing in healthcare services and will continue to drive growth both organically and via M&A. Alk-Abello benefited from continued strong results from its allergy vaccine tablet sales both in Europe and in the North America, proving that management's strategy is yielding positive results. Exceptionally strong cash generation, improved balance sheet metrics and signs of progress towards the sale of Brazilian clean energy assets helped drive renewed investor interest for Arcadis, a company that is very well placed to benefit from continued strong demand for its environmental engineering and consulting services. Teleperformance reported strong Q1 sales figures, with reported sales growth close to 10% and strong commercial momentum. Barco is benefiting from the launch of its next generation technology in cinema projectors and the resulting strong order book development. Finally, Vaisala showed improved momentum in orders for industrial measurement, a part of the business which provides a positive mix impact with higher margins than the traditional weather measurement business.

- Elsewhere, disappointing returns from compound semiconductor company IQE, hotel company Dalata Hotel Group PLC, and retailer WH Smith detracted from relative returns in the second quarter. IQE suffered from concerns about trade talks and the impact on future sales from the US ban on Huawei products and associated supply chain disruption. Dalata's share price consolidated gains made during the first quarter against a backdrop of slowing visitor numbers to Ireland during the month of May. WH Smith's share price also consolidated gains made during the first quarter in June, only to make a strong recovery after the end of the period. We believe the outlook for the business and in particular for growth from its international operations remains strong.

All performance figures are given net of fees unless stated otherwise.
Past performance is not a guide to current or future returns. See full disclaimer at the end of the document.

Portfolio Activity

- During the quarter, we introduced a number of new holdings to the fund, including BooHoo Plc, Evotec SE, and Virbac SA. Complete exits were made from holdings of Urban Exposure PLC, SMCP LTD, IQE PLC and Logista SA.
- With respect to new additions to the fund, BooHoo is an international online clothing retailer which is producing strong topline growth and industry leading profitability from a strong test and repeat model and brand positioning. We believe that recent additions to the management team and potential for further international expansion will help the company to continue to exceed mid-term market expectations. Evotec provides contract research and development services to pharmaceutical and biotech customers, an area that is growing rapidly driven by outsourcing trends. In addition to Evotec's excellent pre-clinical screening platform which provides customers with significant cost saving potential, the company is also developing a co-owned portfolio of pre-clinical and clinical projects, which provides significant optionality for the future. Virbac is an animal health business with strong market positions and a strong focus on innovation. Current management are making good progress reducing debt and improving profitability in the North American market, and we feel that future continued improvements are being underestimated by the market.
- We exited our holding of Urban Exposure after results continue to disappoint against expectations, taking advantage of a window of liquidity in the shares. We sold our holding of SMCP on concerns about a deterioration of trading conditions in the French market and a challenged outlook for 2019, also enabling us to slightly reduce our exposure to more cyclical consumer names in the portfolio. We sold our holdings of Logista given a lack of visibility from management on the future growth potential from its FMCG and healthcare distribution businesses and concerns that market will continue to de-rate the shares. Finally, we took the difficult decision to exit our holding of IQE given the potential need for the company to raise capital if market conditions continue to deteriorate in 2019. Longer term we believe that the company remains in an excellent position to drive strong growth from its portfolio of market leading compound semiconductor solutions, and may look to re-visit the stock in the future.
- Elsewhere, we slightly trimmed a number of our holdings of good quality growth names which had performed exceptionally well year to date as this style attracted significant investor interest in an environment of declining yields. Examples included Thule AB, Teleperformance TEP, UDG Healthcare PLC, DCC PLC and Diasorin SPA. Towards the end of the quarter we made tentative steps to move this capital selectively into quality cyclicals where we believe valuations are beginning to look attractive.

Outlook

- European equity markets have recovered significant ground in the first half of 2019, against a backdrop of more challenging macroeconomic conditions and slowing earnings growth, boosted by a more accommodative stance from central banks and a softening of the tone of the US-China trade discussions. We believe that there is a likelihood of continued market volatility into the second half of the year as we see evidence of further deterioration in the outlook for corporate earnings coming into the second quarter earnings season. Nevertheless, any sign of stabilisation of economic indicators combined with a further improvement in international trade discussions could provide positive impetus for equities.
- Against this backdrop we maintain a more balanced portfolio with a good blend of quality growth business with sustainable returns and companies with improving returns, self-help stories which can drive earnings and cash flow regardless of the economic backdrop. We continue to find opportunities to invest in high-returning, competitively advantaged business that we believe can become future bigger companies, especially given the inefficiencies inherent in the small and medium capitalisation segments of the market.

All performance figures are given net of fees unless stated otherwise.
Past performance is not a guide to current or future returns. See full disclaimer at the end of the document.

Disclaimer

This is a marketing document and is intended for informational and/or marketing purposes only. This document is confidential and is intended only for the use of the person(s) to whom it was delivered. This document may not be reproduced (in whole or in part) or delivered, given, sent or in any other way made accessible, to any other person without the prior written approval of Union Bancaire Privée, UBP SA or any entity of the UBP Group ("UBP"). This document reflects the opinion of UBP as of the date of issue.

This document is for distribution only to persons who are Qualified Investors in Switzerland or Professional Clients, Eligible Counterparties or equivalent category of investors as defined by the relevant laws (all such persons together being referred to as "relevant persons").This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. It is not intended for distribution, publication, or use, in whole or in part, in any jurisdiction where such distribution, publication, or use would be unlawful, nor is it directed to any person or entity to which it would be unlawful to direct such a document. In particular, this document may not be distributed in the United States of America and/or to US Persons (including US citizens residing outside the United States of America).

This document has not been produced by UBP's financial analysts and is not to be considered as financial research. It is not subject to any guidelines on financial research and independence of financial analysis.

Reasonable efforts have been made to ensure that the content of this document is based on information and data obtained from reliable sources. However, UBP has not verified the information from third sources in this document and does not guarantee its accuracy or completeness. UBP accepts no liability whatsoever and makes no representation, warranty or undertaking, express or implied, for any information, projections or any of the opinions contained herein or for any errors, omissions or misstatements. The information contained herein is subject to change without prior notice. UBP gives no undertaking to update this document or to correct any inaccuracies in it which may become apparent.

This document may refer to the past performance of investment interests. **Past performance is not a guide to current or future results.** The value of investment interests can fall as well as rise. Any capital invested may be at risk and you may not get back some or all of your original capital. In addition, any performance data included in this document does not take into account fees and expenses charged on issuance and redemption of securities nor any taxes that may be levied. Changes in exchange rates may cause increases or decreases in your return.

All statements other than statements of historical fact in this document are "forward-looking statements". Forward-looking statements are not guarantees of future performance. The financial projections included in this document do not represent forecasts or budgets, but are purely illustrative examples based on a series of current expectations and assumptions which may not eventuate. The actual performance, results, financial condition and prospects of an investment interest may differ materially from those expressed or implied by the forward-looking statements in this document as the projected or targeted returns are inherently subject to significant economic, market and other uncertainties that may adversely affect performance. UBP disclaims any obligation to update any forward-looking statement, as a result of new information, future events or otherwise.

It should not be construed as advice or any form of recommendation to purchase or sell any security or funds. It does not replace a prospectus or any other legal documents that can be obtained free of charge from the registered office of a fund or from UBP. The opinions herein do not take into account individual investors' circumstances, objectives, or needs. Each investor must make his/her own independent decision regarding any securities or financial instruments mentioned herein and should independently determine the merits or suitability of any investment. In addition, the tax treatment of any investment in the fund(s) mentioned herein depends on each individual investor's circumstances. Investors are invited to read carefully the risk warnings and the regulations set out in the prospectus or other legal documents and are advised to seek professional advice from their financial, legal and tax advisors. The tax treatment of any investment in the Fund depends on your individual circumstances and may be subject to change in the future.

The document neither constitutes an offer nor a solicitation to buy, subscribe for or sell any currency, funds, product or financial instrument, make any investment, or participate in any particular trading strategy in any jurisdiction where such an offer or solicitation would not be authorised, or to any person to whom it would be unlawful to make such an offer or invitation.

Telephone calls to the telephone number stated in this presentation may be recorded. When calling this number, UBP will assume that you consent to this recording.

UBP is authorised and regulated in Switzerland by the Swiss Financial Market Supervisory Authority and is authorised in the United Kingdom by the Prudential Regulation Authority. UBP is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority.

Any subscriptions not based on the funds' latest prospectuses, KIID, annual or semi-annual reports or other relevant legal document shall not be acceptable. The latest prospectus, articles of association, KIID and annual and semi-annual reports of the funds presented herein (the "Funds' Legal Documents") may be obtained free of charge from Union Bancaire Privée, UBP SA, 96-98, rue du Rhône, P.O. Box 1320, 1211 Geneva 1 ("UBP"). The Funds' Legal Documents may also be obtained free of charge from UBP Asset Management (Europe) S.A., 287-289 route d'Arlon, 1150 Luxembourg, Grand Duchy of Luxembourg. The Funds' Legal Documents may also be obtained free of charge from Union Bancaire Gestion Institutionnelle (France) SAS, 127, avenue des Champs-Elysées, 75008 Paris, France.