Q4 2020

UBAM - GLOBAL FINTECH EQUITY

Quarterly Comment (2nd October 2020 – 31st December 2020)

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

Market Comment

- In Q4, all major equity markets posted strong positive returns. The MSCI AC World finished up +14.7%. At regional level, emerging equities were up +19.7%, US equities +12.1%, Japanese equities +11.2%, and European equities +10.8%. In 2020, the MSCI AC World returned +16.3%, US equities +18.4%, Emerging equities +18.3% and Japanese equities +7.4%, while European equities were down -3.3%.
- In anticipation of an economic recovery in 2021, global equities achieved positive returns despite the second wave of the pandemic and the successive announcements of renewed restrictions across Europe and the United States. The positive news flow around successful Covid-19 vaccine trials led to a cyclical recovery benefiting sectors that had been severely hit by the pandemic. The results of the US election as well as the announced extensions of supporting policy measures in the US and in Europe further fuelled market performance.
- 12-month forward earnings estimates were upgraded in all major regions over the last month of the year, with the earnings revision ratio turning slightly positive everywhere. At the global level, earnings momentum remained the strongest for the cyclical sectors, in particular materials, consumer discretionary and financials. Among the major markets, 2021 EPS growth rate estimates range from +16% for Switzerland to +48% for the eurozone, with the US towards the low-end of the range (+20%) and emerging markets in the middle (+34%), though with sharp disparities between countries. The major valuation metrics for global equities moved up over the quarter. Global equities' 12m forward PE edged up to 19.9x, only marginally lower than back in August, the price-to-book ratio rose to 2.4x – its highest level since 2007 – and the 12m fwd ROE continued to move higher, too.
- In Q4, all sectors of the MSCI AC World finished the quarter in the green, with Financials, Energy and Materials being the best performers. Within the Fintech thematic, it was generally the smaller, riskier and more cyclically exposed companies that fared the best in the last quarter of the year. On the other hand, large established business models like the big card networks for instance hardly moved – the latter being impacted by renewed restrictions on international travel leading to lower cross-border transaction volumes.

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

Performance Review

- UBAM - Global Fintech Equity returned +12.4% versus +14.9% for the MSCI AC World since the launch of the fund on the 2nd October 2020. Stock selection detracted the most with -4.3%, particularly in the Financials and Consumer Discretionary sectors. The currency effect also negatively impacted relative performance with -99bps, mainly due to the underweight in Emerging Markets and the non-exposure to Japan, whose respective currencies continued to appreciate against the USD. On the positive side, sector allocation contributed +2.8%, due to the fund's as well as the thematic's large overweight in the IT sector, whereas Fintech has no exposure to the Healthcare and Consumer Staples sectors, which were among the weakest performers in Q4.
- In terms of individual names, the exposure to StoneCo along with the overweights in MSCI and Square were the major contributors over the quarter (+1.2%, +58bps and +57bps respectively). The Fintech company StoneCo was up +59%. The share price surged after the company published better than expected Q3 2020 results and indicated accelerating total payment volume trends (excluding the "coronavoucher" subsidies boost). MSCI's share price appreciated +29% over the period, as ETF AUM reached new all-time highs in November, providing an ever-larger recurring revenue base for their indices business. Square was up +28% as the company published very strong Q3 results, especially in their Cash App business which showed 173% year-on-year growth excluding revenues from Bitcoin and came a big step closer to profitable scale.
- The biggest detractors over the period were the overweights in S&P Global, Alibaba and Nexi (-99bps, -97bps and -75bps respectively). S&P Global was down -9% over the quarter despite solid results leading to small but still positive earnings revisions. The stock suffered from the sector rotation out of quality companies ("compounders") and some concerns about the acquisition of IHS Markit announced on November 30. Alibaba's share price depreciated -19% after the suspension of the Ant IPO and the Chinese government launching a monopoly probe into several of the Chinese mega cap internet companies, compounded by fears of US based investors that the company could end up on the "blacklist". Nexi was down -3% since the launch of the fund due to concerns about the impact of renewed lockdowns on Q4 revenues as well as their ambitious large-scale synergy plans with regards to their merger with Italian payments peer SIA which was shortly after followed by their announcement of a merger with Nets.

Portfolio Activity

- No major change was made in the portfolio in October.
- In November, the team increased the position in IHS Markit, as the company continues to display solid organic revenue growth which translates into double digit EPS growth, as well as high margins and consequently strongly improving CFROI levels.
- In December, the position in Alibaba was sold as some of the major margin and profit drivers of their Fintech arm Ant Group are at risk from regulatory driven refocusing on lower margin payments businesses only. In addition, with the timeline for an eventual Ant IPO now unclear the team's intention to convert the Alibaba holding into Ant Group shares after the separate listing is no longer valid.

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Outlook

- Our base case for global equities remains an expected market return of around 10% in 2021, driven by substantial EPS growth from 2020’s depressed levels but some multiple reversion towards longer-term averages from currently rather elevated levels. We are looking for a slow return to normal life, but the path back to growth could be quite diverse regionally, depending on the persistence of the second wave of Covid-19 infections and concurrent confinement measures by governments.
- UBAM – Global Fintech Equity is focused on proven business models that are already highly profitable. In practice, the team selects companies with above-average value creation potential and attractive growth opportunities that are supported by long-term structural trends.
- While one currently observes a general risk on trend – especially in the technology sector – which led to a preference for early stage, unprofitable companies in the Fintech universe, the team remains convinced that value creation will prevail as a major performance driver over the longer-term.
- The portfolio continues to offer attractive exposure to different themes and trends within the Fintech industry while maintaining a good balance between stocks that are benefitting in the current environment and reopening plays that should work once restrictions get lifted and “normal” life resumes.

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