UBP FLEX - BELL GLOBAL EX-ASIA SMID CAP EQUITY

Quarterly Comment

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

Market Comment

- Major equity markets ended the first quarter of 2021 in the green, with the MSCI AC World Index gaining +4.2%. European equities took the lead in Q1 with a return of +8.0%, followed by Japanese and U.S. equities with +6.3% and +5.8% respectively. Emerging Markets returned +2.3%.
- The year started with some volatility following concerns around the deployment of COVID-19 vaccines and the evolution of virus variants. The start of the earnings season, however, revealed positive earnings momentum for cyclical sectors. This trend was met by investor optimism for a gradual lifting of confinement measures, vaccination rates progress, and promises of continued stimulus, and further amplified by rising Treasury yields and commodity prices as well as falling credit spreads. The consequential expectations for significantly accelerating global GDP growth led to a significant rebound of "beaten down" sectors like energy and metals & mining.
- The Fed announced no change to its strategy in March and attributed the accelerating trend to higher long-term yields to the improving economic outlook, bolstered by the passage of the American Rescue Plan and progress on vaccinations. Expectations for U.S. GDP growth for 2021 stood at 6.5%, while the unemployment rate came in at 4.5%. The U.S. manufacturing PMI has also reflected an improvement in sentiment increasing to 65 at the end of March, getting closer to historic highs. The rebound was broad-based, with production and new orders seeing the biggest uplift. The Eurozone manufacturing PMI also saw a rebound to 62.5, the highest level since 2017 with new orders strongly improving with optimistic views on future production.
- Looking at small and mid-caps ('SMID') more specifically, the MSCI World SMID Cap Index was up +7.3% over Q1 and continued to strongly outpace the broader market. This ongoing outperformance is mainly explained by the better earnings leverage and lower valuation risk characteristics currently inherent in the global SMID cap segment in comparison to other equity segments which are more expensive today.
- In the current context of market expensiveness, global SMID caps are probably one of the last areas within equities where the balance between fundamentals and pricing remains relatively unscathed. This trend, which represents an ideal entry point into the asset class, is set to continue over the next few years.
- In light of the above elements, UBP Flex - Bell Global ex. Asia SMID Cap Equity is well positioned to benefit from a good array of small and mid-cap companies that grow strongly through a cycle along with highly visible revenue streams, strong customer retention and relatively high ESG standards. Their often very established market positions can help them outperform and grow ahead of larger peers by remaining much focused on their niche businesses that are often less susceptible to broader economic fluctuations and market volatility.
- This strategy focuses on pricing power, balance sheet strength and valuation risk, which are some of the most important company attributes for equity investors to consider during periods of rising inflation and higher interest rates.

Performance Review

- UBP Flex - Bell Global ex-Asia SMID Cap Equity rallied +3.73% (Class IHDq USD, net of fees) over the first quarter of 2021. From a relative perspective, it underperformed the MSCI World SMID Cap Index, which gained +7.34%. January and February saw continued strength in highly cyclical companies and in value names, over which period the Fund lagged. Then in March, market trends normalised and the Fund outperformed strongly.
- Looking at absolute returns, sectors that are benefiting from the economic recovery were the strongest. This favoured the overweight allocation to Consumer Discretionary (17% allocation, 5% overweight), which contributed 1.58% to the Fund’s return. Other sectors that were also strong contributors were Health Care (16% allocation, 5% overweight) and Information Technology (25% allocation, 9% overweight). The underweight allocation to Industrials (10% allocation, 7% underweight) was a slight drag. From a regional perspective, the majority of returns came from the U.S. (55% allocation, 2% underweight) although from a relative perspective the U.S. was a drag in the first two months of the year, before outperforming strongly in March.
- The company that contributed the most to portfolio returns in the March quarter was Zebra Technologies rising +26% (+80bps contribution). The company is a leader in providing barcode scanning hardware and software to the e-commerce, retail and logistics industries. Faster spending by their customers resulted in Zebra reporting strong quarterly earnings and guidance above expectations. Revenue is expected to grow above 10% this year, which should also allow the company to expand their margins and potentially grow profits by 20%. Another strong contributor to performance was Tractor Supply, a U.S. retail farm and ranch store chain selling livestock, pet supplies, agricultural products and other merchandise, which rallied +26% (+63bps contribution). The company has compounded earnings growth at over 15% p.a. during the last decade and has many catalysts to continue this trajectory. Tractor Supply is investing in a transformational ‘side lot’ expansion program to add additional space with a focus on lawn and garden that should increase their addressable market with very little additional overhead costs. These initiatives, in addition to supply chain improvements and growing online sales shall result in excellent profit growth. Pharmaceutical and health care distributor AmerisourceBergen is one of the largest positions in the portfolio and returned +21% in the quarter (+63bps contribution). This is one of the most attractively valued companies in the portfolio at only 13x P/E ratio and rallied strongly as investors allocated more money to cheaply valued stocks. This trend also drove rallies in other names such as supermarket operator Kroger (+40bps contribution) and real estate services company CBRE (+38bps contribution).
- The biggest detractors during the period included: U.S. IT security company Check Point Software (-16%, -39bps contribution) since it did not grow as strongly as expected. The company should accelerate growth in the future and looks attractively valued at only 17x P/E. Ritchie Brothers Auctioneers (-16%, -31bps contribution) suffered in the near term due to new lockdown measures in the U.S., but should grow strongly as the economy reopens; it is now one of the largest positions in the portfolio. Finnish packaging company Huhtamaki was also weak (-12%, -21bps contribution). The fundamentals of these three companies remain strong and the investment team expects good upside potential over the next few months as economic conditions turn more favourable.

Portfolio Activity

- The portfolio remains relatively fully invested holding 3% cash at the end of March. Cash levels are expected to remain around these levels and could be deployed during the upcoming earnings season if opportunities arise.
- From a trading perspective, the focus was on increasing the size of newer positions including banking software platform provider Jack Henry & Associates and machinery auction company Ritchie Brothers Auctioneers. The team has also continued to look for companies that could benefit from an acceleration in economic activity. An attractive mid-cap company that was added to the portfolio in March was Fortune Brands Home & Security. This U.S. company has three segments across plumbing, cabinetry and doors & security. Around 40% of their revenue is generated through home centres and other retailers, which have been doing well through the pandemic. Their remaining sales come through wholesalers and direct to builders, a segment which is now seeing an acceleration and is consistent with the recovery in housing starts and home sales. At a 19x P/E ratio, it is attractively valued considering the earnings upgrades expected over the coming quarters. Double-digit growth in revenue and improving margins should flow through to earnings growth of around 20%, so there should be considerable upside in the name. Other names that were added to in the quarter included Danish enzyme, culture and probiotic company CHR Hansen, U.K. online real estate portal Rightmove, and clinical research organisation ICON which announced what is expected to be a very accretive deal to acquire peer company PRA Health Sciences.
- There were three companies sold from the Fund during the quarter including: dental aligner business Align Technologies, which became excessively expensive after more than doubling since it was added to the portfolio, plus two more value oriented names: telecommunications company Spark New Zealand and drinks producer Britvic that were sold to allow the Fund to build larger positions in the newer names where there is more long term upside. Other trimming activity was to reduce valuation risk in the Fund after a period of good performance. Some examples were Moncler, Kroger, Zebra Technologies, Service Corp and Broadridge Financial Solutions.
- From a sector allocation perspective, the most preferred sectors remain Information Technology (26%, 9% overweight) and Consumer Discretionary (17%, 5% overweight). Health Care remains significant at 16%, although was reduced slightly, whereas the allocation to Industrials was increased to 10%.
- In terms of least preferred sectors, the Fund continues to have no exposure to Utilities (4% underweight) or Energy (3% underweight). From a relative perspective, the largest underweight sectors are Financials (5%, 7% underweight) and Real Estate (2%, 7% underweight).
- From a regional/country perspective, the largest allocation remained to North America which increased slightly with the U.S. at 56% and Canada at 10%. Europe has a 29% allocation including the U.K. at 7%, slightly lower than last quarter.
- At the end of March, the portfolio's top 5 positions were AmerisourceBergen (3.3%), ICON (3.2%), CGI (3.1%), Church & Dwight (3.0%) and Ritchie Brothers Auctioneers (3.0%).

Outlook

- Since the beginning of March, markets have turned more defensive, with stocks of economically sensitive and reopening-levered companies lagging. Valuations also appear to have peaked, especially very expensive growth stocks which have lagged. Year to date, value has rallied 10.8% (in USD) versus a return of only 0.3% (in USD) for growth. This shift in market behaviour appears to be much more rational, with investors once again favouring companies with strong fundamentals.
- Looking forward, the outlook for equity markets remains positive with the narrative all about the ongoing economic and earnings rebound, supported by a base of ultra-easy monetary policy. While investors must remain cognisant of the impact that rising interest rates and inflation could have across the market, there is strong pent-up demand across a vast array of businesses that should flow through to earnings upgrades.
- Investor sentiment should also remain positive now that over one-third of American and over half of British adults have received the COVID-19 vaccination. Countries across the European region are also continuing to rapidly increase the vaccination rates of their citizens.
- 2021 should be a year where many countries post their strongest growth in decades, and where corporate earnings are also expected to set records. This ‘recovery’ is expected to favour small and mid-cap stocks. The MSCI World SMID Cap Index has rallied 100% since the market bottomed just over a year ago, compared to the broader market MSCI World Index which has rallied 79%. This outperformance was also apparent for many years after prior sharp market drawdowns such as the GFC in 2009 and the dot-com bust of 2000.

Disclaimer

This document is intended for informational purposes only. **It is confidential and is intended to be used only by the person(s) to whom it was delivered.** It 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 is for distribution only to persons who are Professional and qualified investors in Switzerland or Professional investors s or an equivalent category of investor 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 at any person or entity at 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 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 makes no representations, provides no warranty and gives no undertaking, express or implied, regarding any of the information, projections or opinions contained herein, nor does it accept any liability whatsoever 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 investors may not get back some or all of their original capital. Any performance data included in this document does not take into account fees, commissions, 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 investors' returns. All statements other than statements of historical fact in this document are “forward-looking statements”. Forward-looking statements do not guarantee future performances.
The financial projections included in this document do not constitute forecasts or budgets; they 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 also disclaims any obligation to update forward-looking statements, as a result of new information, future events or otherwise.
The contents of this document should not be construed as any form of advice or recommendation to purchase or sell any security or funds. It does not replace a prospectus or any other legal documents, which 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 their 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 carefully read the risk warnings and the regulations set out in the prospectus or other legal documents and are advised to seek professional counsel from their financial, legal and tax advisors. The tax treatment of any investment in a Fund depends on the investor's individual circumstances and may be subject to change in the future.
This document should not be deemed an offer nor a solicitation to buy, subscribe to, or sell any currency, funds, products, or financial instruments, to make any investment, or to 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 solicitation. Telephone calls to the telephone number stated in this presentation may be recorded. UBP will assume that, by calling this number, you consent to this recording.
UBP is authorised and regulated in Switzerland by the Swiss Financial Market Supervisory Authority (FINMA). The head office is Union Bancaire Privée, UBP SA, 96-98 rue du Rhône, P.O. Box 1320, 1211 Geneva 1, Switzerland. ubp@ubp.com | www.ubp.com
The fund is registered for distribution to Professional Investors in Luxembourg and for Accredited Investors in Singapore. In Hong Kong, it may only be offered to Professional Investors. This fund may only be distributed to duly authorised local entities. Any subscriptions not based on the funds' latest prospectuses, annual or semi-annual reports or other relevant legal documents (the “Funds' Legal Documents”) shall not be acceptable. **The funds mentioned in the present document are not registered for public distribution in any jurisdiction and no public marketing may be carried out for them.**

This content is being made available in the following countries:

Hong Kong: UBP Asset Management Asia Limited (CE No.: AOB278) is licensed with the Securities and Futures Commission to carry on Type 1 – Dealing in Securities, Type 4 – Advising on Securities and Type 9 – Asset Management regulated activities. The document is intended only for Institutional or Corporate Professional Investor and not for public distribution. The contents of this document have not been reviewed by the Securities and Futures Commission in Hong Kong. Investment involves risks. Past performance is not indicative of future performance. Investors should refer to the fund prospectus for further details, including the product features and risk factors. The document is intended only for Institutional Professional Investor and not for public distribution. The contents of this document and any attachments/links contained in this document are for general information only and are not advice. The information does not take into account your specific investment objectives, financial situation and investment needs and is not designed as a substitute for professional advice. You should seek independent professional advice regarding the suitability of an investment product, taking into account your specific investment objectives, financial situation and investment needs before making an investment. The contents of this document and any attachments/links contained in this document have been prepared in good faith. UBP Asset Management Asia Limited (UBP AM Asia) and all of its affiliates accept no liability for any errors or omissions. Please note that the information may also have become outdated since its publication. UBP AM Asia makes no representation that such information is accurate, reliable or complete. In particular, any information sourced from third parties is not necessarily endorsed by UBP AM Asia, and UBP AM Asia has not checked the accuracy or completeness of such third party information.

Singapore: This document is intended only for accredited investors and institutional investors as defined under the Securities and Futures Act (Cap. 289 of Singapore) (“SFA”). Persons other than accredited investors or institutional investors (as defined in the SFA) are not the intended recipients of this document and must not act upon or rely upon any of the information in this document. The financial products or services to which this material relates will only be made available to clients who are accredited investors or institutional investors under the SFA. This document has not been registered as a prospectus with the MAS. Accordingly, this document and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of this product may not be circulated or distributed, nor may the product be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to institutional investors under Section 274 or 304 of the Securities and Futures Act (Cap. 289) of Singapore ("SFA"), (ii) to relevant persons pursuant to Section 275(1) or 305(1), or any person pursuant to Section 275(1A) or 305(2) of the SFA, and in accordance with the conditions specified in Section 275 or 305 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. This advertisement has not been reviewed by the Monetary Authority of Singapore.