

# UBAM – GLOBAL CONVERTIBLE BOND

## 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](http://ubp.com) or in the latest prospectus.

### Market Comment

- After strong month of October, volatility returned to both equity and bond markets in November into the first half of December as investors exited earnings season and began to prepare for a change in Fed policies looking ahead. These pivots came amidst a renewed acceleration in new COVID-19 case counts around the world. The last days of December helped risk assets jumping to new highs thanks to reassuring news flow on the sanitary front.
- Eventually, global equities ended the quarter up 7.9% (MSCI World TR), bringing their performance over 2021 to 22.4%. In the US, the S&P 500 index progressed by 11.0% quarter-on-quarter; cross-Atlantic, the Stoxx Europe 600 index achieved a total return of 7.6% q/q; in sharp contrast, the Nikkei 225 index ended the year in negative territory, down -2.1% q/q (all performance expressed in local currencies). In terms of investing styles, the “Growth” play outperformed the “Value” overall, as revealed by the MSCI World Growth index up 8.2% q/q, +97bps ahead of the Value index.
- Sharp performance dispersion within the “Growth” segment – to the detriments of mid-sized companies and sub-industries largely represented within the convertible bond market (e.g. software, food delivery...) – combined with Asian markets’ weaknesses weighted down on global convertible bonds’ performance in Q4 and contribute to explain the gap with global equities.
- In the fourth quarter, global markets introduced \$24 billion of convertible bonds, with the US contributing \$16bn, Asia \$5bn, Japan \$2bn and Europe \$1bn. Overall in 2021, global convertible issuance thus totaled \$148bn including \$84bn in the US, \$33bn in Asia, \$23bn in Europe and \$7bn in Japan. Together, the Tech (24%) and Consumer Discretionary (23%) sectors represented half of 2021’s global new issues.

### Performance Review

- Global convertible bonds (represented by the Refinitiv Global Convertible Bond index hedged in Euro, “the index”) returned -1.24% q/q. With a net return of -1.36% in Q4, the performance of our global strategy was aligned with that of its universe. Region-wise, our investments in the US and Europe had a positive impact whereas the Asian bucket detracted overall. In terms of sectors, Tech, Materials and Utilities were the main contributors to the strategy’s performance. Conversely, Communication and Consumer Discretionary concentrated the losses. At issuer level, top absolute contributors in Q4 include On Semiconductor (US Information Tech), Broadcom (US Information Tech) and Silicon Laboratories (US Information Tech). Main detractors were Snap (US Communication Services), Chegg (US Consumer Discretionary) and Shimao Services (Asia Industrials).
- In sharp contrast with 2020, 2021 was a tough year for convertible bonds when compared to equities: Q1’s cyclical shift, followed by a mega cap-driven growth recovery – two segments little represented in our universe – came at a cost. 2021 weaknesses, however, deserve to be put into perspective: last year, the same factors had led to a massive outperformance versus equities. Looking both at 2020 and 2021, the convexity benefits of the asset class played its role. Over this full market cycle, **our global flagship strategy managed to capture 60% of global equities’ performance with only half their volatility and maximum drawdown.** Compared to traditional corporate bonds now, the outperformance is massive: +17% (after fees) over the same period for our strategy vs. the BBG Global Agg Corporate TR Index with yet similar max. drawdown level.

## Portfolio Activity

- At December-end, the average equity sensitivity of UBAM – Global Convertible Bond stands at 46.1% (-5pts q/q), 2.5pts below its index. The strategy's interest rate sensitivity remains low, at 1.6 for a 3.6-year duration. The average credit spread of the portfolio slightly tightened over the quarter, closing at 183bps (from 212bps) versus 233bps for the index, reflecting the quality bias inherent to our philosophy.
- From a geographical standpoint, the fund is primarily exposed to equity markets through investments in the US (31%). Investments in Europe account for 12% and Asia and Japan for 3%. Relative to the index, the portfolio exhibits an average overweight stance to Europe (+4pts equity sensitivity) while it is less exposed to the US (-3pts) and Asian (-3pts) markets. In comparison to the US, the European market offers overall better credit profile on top of a differentiating opportunity set, including in the higher growth segment: where the US is largely dominated by software companies, consumer discretionary businesses represent a noticeable share of the European's growth bucket. Following their weaknesses, we see strong catch up potential on these themes entering 2022.
- During the quarter, we maintained a disciplined, convexity-driven approach, arbitrating some existing investments towards convertible bonds with more balanced profiles, therefor building up the overall convexity of the portfolio (e.g. Bilibili in the video games industry; Dexcom, in the medical equipment field; Snap or Live Nation). Next to these arbitrages, we took advantage of recent weaknesses to add, or strengthen, conviction names in the Growth and Leisure/Travel segments (e.g. Bill.com, in the application software industry or Booking.com, travel e-commerce industry). Main additions to the portfolio in Q4 also include participation in the new DigitalOcean (US cloud infrastructure provider). On the other hand, main sales include the Pinduoduo (e-commerce platform), Danaher (medical, industrial and commercial products and services) and Michelin (auto parts manufacturer).

## Outlook

- Global growth has started to moderate to a more typical pace and various countries have been facing a new wave in the COVID-19 outbreak with the rapid spread of the Omicron variant. Proactive risk management has become increasingly key in investors' asset allocation choices and should remain so in this year. **The equity asymmetric nature of the convertible bond instrument makes them compelling assets** for those who wish to maintain an equity exposure entering 2022 whilst dialling back their risk a bit.
- Convertible bonds' appeal is equally strong for those looking for bond-floor defensive features considering the expected start of a Fed tapering / rate hike in the year to come. Thanks to their conversion option, convertible bonds have **much lower interest rate sensitivity** than straight bonds of similar duration. In the past two years already, **convertible bonds noticeably outperformed corporate bonds** with yet comparable level of maximum drawdown.
- In this context, and with the economic cycle set to mature, **greater selectivity focusing on fundamentals will become critical again**. This should benefit the convertible bond market through its large exposure to innovative companies in sectors such as the tech, healthcare, or internet & distribution. The relative weakness of some of these sectors' sub-segments in 2021 (food delivery, payments...) has opened **valuation opportunities** on names that yet exhibit good earnings visibility, robust guidance and enjoy a privileged exposure to long transformation themes, making them less sensitive to macro developments. This makes convertible bonds **strong candidates for investment entering 2022**.
- The record pace in new convertible bond issuance for the past two years has sparked a deep broadening of the investment universe, resulting in a **healthy mix of opportunities** between innovative and well-established companies, as well as between "new economy" and typical "pro-cycle" names. Thanks to their dual nature, convertible bonds give investors the chance to **be actively positioned on these themes with lower volatility and downside risk** than direct equity investments offer over time.

**This is a marketing document and is intended for informational and/or marketing 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 reflects the opinion of UBP as of the date of issue. This document is for distribution only to persons who are Professional clients in Switzerland or Professional Clients 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 the 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.

**Pursuant to Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (the "Disclosures Regulation"), Funds are required to make certain disclosures.**

**Where the Fund falls under the scope of article 6 of the Disclosures Regulation, it has been determined that the Fund does not pursue an investment approach that explicitly promotes environmental or social characteristics or has sustainable investment as their objective. Notwithstanding this classification, the Investment Managers may take account of certain sustainability risks as further described in the fund's prospectus. Where the Fund falls under the scope of article 8 or article 9 of the Disclosures Regulation, the Fund is subject to sustainability risks within the meaning of the Disclosures Regulation. The sustainability risks and principal adverse impacts as prescribed under the Disclosure Regulation are described in the prospectus. In addition, unless otherwise specified, all Funds apply the UBP Responsible Investment policy available on <https://www.ubp.com/en/investment-expertise/responsible-investment>.**

Any subscriptions not based on the funds' latest prospectuses, KIIDs, annual or semi-annual reports or other relevant legal documents (the "Funds' Legal Documents") shall not be acceptable. 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, Switzerland (UBP), from UBP Asset Management (Europe) S.A., 287-289 route d'Arlon, 1150 Luxembourg, Grand Duchy of Luxembourg, and from Union Bancaire Gestion Institutionnelle (France) SAS, 116 avenue des Champs-Élysées, 75008 Paris, France. The Swiss representative and paying agent of the foreign funds mentioned herein is UBP. The Funds' Legal Documents may be obtained free of charge from UBP, as indicated above.

**This content is being made available in the following countries:**

**Switzerland:** 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](mailto:ubp@ubp.com) | [www.ubp.com](http://www.ubp.com)

**United Kingdom:** UBP is authorised in the United Kingdom by the Prudential Regulation Authority (PRA) and is subject to regulation by the Financial Conduct Authority (FCA) and limited regulation by the PRA.

**France:** Sales and distribution are carried out by Union Bancaire Gestion Institutionnelle (France) SAS, a management company licensed with the French Autorité des Marchés Financiers, - licence n° AMF GP98041 ; 116, av. des Champs Elysées I 75008 Paris, France T +33 1 75 77 80 80 Fax +33 1 44 50 16 19 [www.ubpamfrance.com](http://www.ubpamfrance.com).

**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.

**MSCI:** Although Union Bancaire Privée, UBP SA information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the "ESG Parties"), obtain information from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness of any data herein. None of the ESG Parties makes any express or implied warranties of any kind, and the ESG Parties hereby expressly disclaim all warranties of merchantability and fitness for a particular purpose, with respect to any data herein. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein. Further, without limiting any of the foregoing, in no event shall any of the ESG Parties have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Union Bancaire Privée, UBP SA Rue du Rhône 96-98 | P.O. Box 1320 | 1211 Geneva 1 | Switzerland [ubp@ubp.com](mailto:ubp@ubp.com) | [www.ubp.com](http://www.ubp.com)