Q1 2022

UBAM – EUROPE SUSTAINABLE SMALL CAP EQUITY

Quarterly Comment

For Professional Investors in Switzerland or Professional Investors as defined by the relevant laws.
Fund classification under Sustainable Financial Disclosure Regulation (SFDR): Article 8

Market Comment

- Despite the ongoing war in Ukraine, equity markets recovered from the middle of March. Investors continued to focus on movements in oil prices, which rose by around 30% in the first few days of March. Although they then fell back, Brent crude still ended the month 7% higher.
- In the US, consumer sentiment was dragged down by economic concerns but above all rapidly rising prices, despite a very solid labour market as shown by stronger-than-expected job creation figures for February. Annual inflation rose to 7.9% in February, with service prices accelerating sharply on top of rising energy costs. However, confidence levels remained high in the manufacturing sector, and even rebounded in services. As expected, the Fed raised its key interest rates by 25bp for the first time since 2018 and announced plans to start reducing the amount of assets on its balance sheet in the near future. The Fed's governors are expecting to raise rates another six times this year, confirming that taming inflation is the US central bank's main priority.
- In the eurozone, hostilities in Ukraine caused a sharp drop in consumer sentiment, which had an impact on consumer spending. Business confidence fell only slightly in both manufacturing and services, but the future activity component of the IFO index collapsed. Inflation continued to rise, as it did everywhere else, and is heading over 6%. The ECB adopted a tougher tone than expected, saying it was prepared to end asset purchases at the start of the third quarter.
- In China, tighter restrictions to combat rising Covid-19 case numbers affected PMI indices, which fell back below 50.
- Global equity markets ended the first quarter of the year in the red with -5.36% (MSCI ACWI*). In the US specifically, the S&P 500* index was down by -4.70% during the first quarter with a noticeable outperformance of the Value segment over the Growth one (-9.09% q/q for the Russell 1000 Growth* and -0.89% q/q for the Russell 1000 Value*). In this context the MSCI Europe* delivered -5.32%, outperforming the MSCI Europe Small Cap* with -9.78%. Finally, the Emerging markets delivered -6.98%, again with a high dispersion. Brazil was up +35.92% and on the other side, China was down – 14.19%.
- The IPPC (Intergovernmental Panel on Climate Change) published a report at the end of February: this is the report by the second working group (WG), which focuses on "impacts, adaptation and vulnerability" (WG I, which had a report out last summer, focuses on "the physical science basis of climate change"). "This report recognizes the interdependence of climate, ecosystems and biodiversity, and human societies and integrates knowledge more strongly across the natural, ecological, social and economic sciences than earlier IPCC assessments."

** net total return index*

Sources: UBP, Bloomberg Finance LP.

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Performance Review

- During the first quarter of 2022, UBAM - Europe Sustainable Small Cap Equity** returned -11.8%, compared to a return of -9.8% from the MSCI Europe Small Cap Index.
- The largest positive contributors to relative returns included Recticel (insulation materials), Salmar (salmon farming), Befesa (steel dust recycling), Aixtron (semiconductor equipment). Recticel completed the sale of its engineered foams business, enabling the smooth transition to company that is fully focused on insulation materials for the construction industry. The company remains materially undervalued as the market has not digested the changing profile of the business. Salmar benefited from strong salmon pricing and operational progress. Befesa performed well on the back of rapidly rising metal prices. Aixton continues to benefit from strong end market demand for its products and delivered strong full year results.
- The Largest negative contributors to relative returns included Dometic (leisure equipment), Strix (electronic equipment), Volution (ventilation equipment), Fluidra (swimming pool equipment). Dometic suffered from continued supply chain disruptions, although the end market demand for its products remains strong. Strix, Volution and Fluidra suffered during the first quarter of the year as investors rotated out of more growth oriented sectors of the market and in the case of Strix and Volution due to cautious outlook statements at their recent results.

** net total return index   ** Class IC, EUR net of fees*

Sources: UBP, Bloomberg Finance LP.

Portfolio Activity

- During the quarter we initiated new holdings in Irish listed healthcare services provider Uniphar and French listed IT consultant Wavestone. Uniphar is benefiting from increased levels of outsourcing in the healthcare industry and is expanding its focus from whole distribution to areas such as commercial services and early access programmes which are faster growing and offer better returns. The company has committed to CDP disclosure and has begun to link management remuneration to the delivery of its sustainability targets. Wavestone is benefiting from higher corporate spending on digital transformation and is well positioned to advise companies on how to incorporate sustainability considerations into their IT spending plans. We also took delivery of shares of European property logistics company CTP as part of the takeover of Deutsche Industrie REIT.
- Elsewhere in the portfolio we continued to build our holdings of Van Lanschott (wealth management) and Uponor (construction materials) after their addition to the portfolio at the end of 2021. Against a challenging market backdrop we also decided to add to some of our more defensive holdings such as Alk Abello (allergy vaccines), Virbac (animal health), LondonMetric (UK property), DCC (distribution), Salmar (salmon farming) and Biffa (waste management). We also decided to reduce the weight of our holdings in more energy intensive names in the portfolio such as Befesa (steel dust recycling), Gerresheimer (healthcare equipment), and National Express (transport) as well as holdings in more consumer oriented companies such as Moncler (luxury goods) and WH Smith (travel retail).
- Finally, we exited our holdings of Wetherspoon (leisure) and Unifiedpost (software). Wetherspoon's earnings prospects are challenged by inflationary pressures, and Unifiedpost has suffered from higher than expected financing costs and slower than expected execution of its strategy.

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

Outlook

The global scenario reflects moderate growth, higher inflation and tighter monetary regime:

- Global growth scenario for 2022 has been revised down under combined oil shock and lower demand. Europe looks the most exposed, while US and China are less directly impacted.
- On the positive side, one can note:
  - Resilient manufacturing sector (PMI above 50) and still positive economic surprises
  - Solid trend in labor and rising wages
  - Fiscal support still active in Europe and China
- Central banks will raise key rates further to regain control on inflation and re-anchor inflation expectations.
- Governments in Europe should take new fiscal measures to mitigate negative shocks on purchasing power and sectors.

Geopolitics will play a bigger role in the path of stock markets in the future than in recent history:

- Global trade patterns will undoubtedly adapt to a new normal. Self-sufficiency will be valued more dearly, in terms of energy, raw materials and manufacturing capability. There are some areas of the global economy which are now too concentrated to disrupt, for example, much of the semi-conductor supply chain, but other areas will experience government mandated near-shoring.
- The source and supply of commodities will be re-assessed with ‘friendly’ trading blocs grouping together for resilience and untrustworthy dominant regions becoming disrupted where possible.
- Large areas of the sustainable universe will receive an upgrade to underlying growth, for example renewable energy (self-sufficiency) and efficiency (powerful tool in the reduction of fossil fuel use).

Sources: UBP.

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