

UBAM - GLOBAL EQUITY

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 or in the latest prospectus.

Market Comment

- Q4 was a mixed quarter for equity markets, the MSCI AC World ended 2021 with +6.7% in quarterly performance. US equities led in performance with +11% over the period, followed by Swiss equities with +9.3% and European equities with +7.7%. Emerging Market equities and Japanese equities on the other hand lost -1.3% and -1.7% respectively over the quarter. The MSCI AC World delivered +18.5% over 2021, after +16.3% in 2020 and +26.6% in 2019. 2021's strong equity market returns come with a backdrop of strong corporate earnings boosted by a post pandemic recovery in growth, despite supply chain disruptions and rising inflation along with volatility spikes linked to new virus variants and China's regulatory crackdown.
- Earnings revision ratios remained positive in most regions and sectors over the quarter despite the uncertainty linked to the new Omicron variant spread. 2021's earnings growth expectations for global equities rose to 53% with a stable 7% projected for 2022. Valuation levels were marginally lower, with the MSCI AC World trading at a P/E of 18.2x at the end of December on a 12 month forward basis. The US Manufacturing PMI dropped to 58.7 over the month of November, as new orders and production were under continued pressure from supply disruptions and raw material inflation. The employment component was nevertheless stable. The yearly trend in US inflation accelerated to 6.8% yoy for end of November, mainly driven by energy prices. The Fed announced its plan to accelerate the pace of monthly tapering in January and the market now expects 3 rate hikes in 2022.
- Despite outperforming over specific time periods of the year, the Value style nevertheless ended the year behind the Quality style. Growth also underperformed the overall market while Momentum was the biggest performance laggard over the year. Over the fourth quarter of the year, most sectors contributed positively to the MSCI AC World's performance; except for Communication Services which was the largest detractor. IT, Healthcare and Consumer Discretionary were the top contributors on the other hand. Apple, Microsoft and Tesla were among the best individual contributors to the index's performance over the quarter, whereas Paypal, Alibaba and Moderna were the largest detractors.

Performance Review

- UBAM – Global Equity delivered +7.5% in gross performance over the fourth quarter of the year vs +6.7% for the MSCI AC World, with +0.8% in gross excess return. Stock selection was the major contributor to performance over the period with +78bps mainly in Healthcare and Communication Services, whereas sector allocation had a slight offsetting effect with -8bps.
- Over the fourth quarter of the year, the main contributors to performance were the overweights in Nvidia, Thermo Fisher and Schneider Electric (+84bps; +33bps; and +25bps respectively). Nvidia was up close to +42% over the period, as it reported record quarterly results with a 50% increase in revenues yoy and +9% qoq, driven by gaming, data centers and professional visualisation segments. Thermo Fisher appreciated more than +16% over Q4 after beating estimates with its Q3 delivered results, benefitting from a Covid-19 tailwind for revenues, and further increasing guidance for the year. Schneider Electric finished Q4 at +17.6% also after reporting Q3 organic revenues that came in above expectations and confirming its guidance for the year.
- The main performance detractors over Q4 were the overweight in Sunrun, Sberbank and Veeva Systems (-55bps, -39bps, -36bps respectively). Sunrun lost -22% over the period following pressures on US solar stocks as California proposed new rules and reduced subsidies that could slow solar installations. The company nevertheless still reported good set of results for Q3. Sberbank fell -16.4% despite reporting solid Q3 results but dropped along with other Russian stocks and benchmark after the US warned its EU allies that Russia may be weighing military action on Ukraine. Veeva systems was down -11.3% despite beating estimates for its Q3 results, the company nevertheless provided a more conservative guidance for the year.

Portfolio Activity and ESG

- Over the last quarter of the year, the team exited the position in Paypal on increasing concerns of competition in Fintech and rising risks from the Afterpay acquisition. The company also lowered its Q4 & 2022 revenue guidance on the back of supply chain delays at its merchant base and lower consumer confidence. Global Payments was also exited on ongoing negative Fintech/Payments sentiment. The team decided to sell Oskhkosh on supply disruption and higher input costs, as well as potentially ongoing cost inflation burden in the next quarters. THG was liquidated after recent business disappointment and as a potential split of the company would be seen as negative given its small size. Ocado Group was sold following ongoing negative EPS revisions and concerns over the risk of rising competition and general e-commerce weakness.
- On the other hand, a new position was initiated in NovoNordisk, with a unique positioning as a scale producer and technology leader for diabetes treatment, which allows the company to maintain CFROI levels at around 20% levels while taking some growth opportunities from modern insulins. While there is some competition in this market, and a risk of price intervention especially in the US, the business has proven resilience and can be considered more sustainable than the average pharmaceutical company. Inditex was also initiated in the portfolio over the quarter, on the back of superior logistics positioning during supply chain stress for competition (short term collections, proximity sourcing), as well as an improving CFROI potential to reach 13% in the next years, on limited capex needs (<3% of sales).
- ESG considerations are fully integrated in each step of the fundamental investment process with a focus on a lower carbon footprint objective. At the end of December 2021, the portfolio had an AA ESG rating with an ESG quality score



of 8.3, versus an AA rating and 7.8 score for the MSCI AC World (ratings based on MSCI ESG Research). The portfolio also had a lower carbon footprint than its benchmark with 25.6 T CO2/\$ mn sales vs 152.3 for the MSCI AC World index. The portfolio continues to be aligned with the Paris Agreement's long-term temperature goal of keeping the rise in global average temperature to well below 2 °C above pre-industrial levels, as reported by ISS Climate Impact Assessment.

Outlook

- The team maintains a positive outlook for equity markets for 2022, with robust earnings growth expectations along with normalising consumer and manufacturing environments. 2021's challenges are expected to ease in the second half of 2022, in the form of supply chain de-bottlenecking and inventory rebuild, as production ramps up and inflation peaks are crossed following the adjustments to higher energy and raw material prices. Monetary policy should see gradual adjustments from still accommodative levels in line with the prolonged growth recovery.
- The global equity strategy remains well positioned with continued focus on a fundamental bottom-up selection of value creative quality companies, while at the same time offering exposure to more shorter term growth opportunities with holdings that benefit from the current increase in capex for manufacturing and supply chain improvements.

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