Q1 2021

UBAM – US EQUITY GROWTH

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.

As of April1, 2021, B. Riley Wealth Management, a SEC registered Investment Adviser, serves as the Investment Manager to UBAM – US Equity Growth.

Market Comment

- The financial markets continued to reflect investor optimism about the upturn in economic output and corporate earnings. For the first quarter of 2021, the S&P 500* posted a return of 6.05% and hit new all-time highs. The technology sector underperformed, which meant that European markets fared even better: the MSCI Europe* returned 8.35% with strong gains for both cyclical and defensive stocks. However, many emerging markets lost ground in March, usually for country-specific reasons. For example, the Chinese and Turkish markets both fell 6% during the month and the MSCI Emerging Markets* in USD finished the quarter with a performance of 2.29%.
- Investors were very optimistic **at the turn of the year**, but quickly saw several risks appear on their radar screens. Investor sentiment deteriorated from mid-January onwards because of the spread of new coronavirus variants, slow vaccination roll-outs in Europe and the possibility that the new US president's stimulus package would be reduced in size. Observers were also concerned about extreme price movements in some stocks, driven by hordes of retail investors. In the end, most equity markets fell slightly during January, although some large Asian markets strongly outperformed.
- **In February**, in the US, many economic indicators exceeded expectations, reflecting the rebound in activity. Generally, as the vaccination roll-out progressed and economies started opening up again. In the eurozone, indicators ticked up. While consumer confidence was being undermined by the slow progress of the vaccination campaign and the protracted lockdown, the industrial sector took heart from the prospect of economies reopening. The UK remained resilient despite the strict lockdown, and sentiment indicators recovered with the promise of a gradual lifting of restrictions. As for China, while it remained ahead of developed economies in terms of economic recovery, the traditional lunar new year volatility caused a dip in manufacturing and services sentiment.
- **In March**, the economic outlook continued to improve in the US, with sharp increases in business confidence – in both manufacturing and services – and consumer sentiment. Joe Biden's USD 1.9 trillion stimulus plan, which includes extensive support for households, was finally passed and a USD 2.25 trillion infrastructure plan was presented at the end of the month. In the eurozone, confidence levels in manufacturing and services rebounded even though tougher restrictions on people's movements were introduced during the month. In the UK, confidence increased sharply because of the rapid vaccine rollout and the plan to reopen the economy. In China, the authorities announced a minimum growth target of 6% along with a medium-term strategy that emphasises consumer spending and self-sufficiency in high-tech sectors. China's dialogue with the US remained tense, and the US kept its sanctions in place.

Sources: UBP, Bloomberg Finance LP.

** net total return index*

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.

Performance Review

- In the first quarter 2021, the fund returned net +0.83% versus +0.55% for the MSCI USA Growth Net Total Return Index, corresponding to an excess net return of +0.28%. The outperformance in the quarter was mainly due to positive stock selection.
- The biggest contributor in the quarter was stock selection within Communications Services, which added 0.38% of out-performance.
- Stock selection in Information Technology and Financials were also key contributors to this quarter’s outperformance. The former added 0.37% of outperformance and the latter 0.30%.
- The largest contributors included JP Morgan Chase (+20.66%) and International Flavors & Fragrances (+28.98%) along with not owning Tesla and underweighting Apple, which were down in the quarter.
- JP Morgan benefited from the strong performance of the financial sector during the first quarter, as the S&P 500 financials sector index realized +15.90%.
- International Flavors & Fragrances rose on excitement over its new brand identity and upon the completion of its combination with DuPont’s Nutrition & Biosciences business.
- On the negative side, stock selection in Consumer Discretionary and Consumer Staples negatively affected the fund by -0.32% and -0.25%.
- Sector allocation did not really impact the fund with a performance of -0.09% during the quarter.

Portfolio Activity

- The fund made several position changes in the first quarter. The fund added new portfolio positions in Linde and Boston Scientific and sold out of Becton Dickinson. Linde is the largest industrial gas supplier in the world. It benefits from long-term contracts with customers and high switching costs yielding a strong economic moat. Importantly, the company is helping its clients reduce their carbon footprint and the managers expect the company’s backlog to continue to rise while maintaining project return on capital, as the economies continue to improve hence a rise in utilization rates. Capex should also rise, which is positive for industrial gas project backlogs. Boston Scientific is one of the largest interventional medical device makers globally. The new management team has done a good job of correcting some of the missteps of 2020 and the managers now believe that the company can return to an industry leading revenue growth provider and strong EPS performer too. With strong investment in innovation and product pipeline in new growth areas and a reasonable valuation, it presented a better investment opportunity versus Becton Dickinson which continued to face significant pressure on its base business due to Covid19 pandemic. Becton Dickinson, is the world's largest manufacturer and distributor of medical surgical products, diagnostic instruments and reagents, as well Interventional medical devices.
- During the first quarter, portfolio positions sizes increased in Alphabet, JP Morgan and S&P Global. Alphabet’s stock rose over 17% for the quarter while the fund’s benchmark was up less than 1%. The fund managers actively added to financial exposure in the quarter, by adding to both JP Morgan and S&P Global, because the managers are anticipating a rebound in global growth hence strong competitive position and operating margins. Further, JP Morgan and S&P Global both outperformed the benchmark in the quarter, up 21% and 8%, respectively.
- During the first quarter, the fund’s weightings declined in Pepsi, Kerry Group, Visa and Adobe. In addition to underperforming the benchmark, the portfolio managers trimmed each of these holdings due to less than expected operating

results, free cash flow conversion, regulatory and growth investment and acquisition risk respectively. Pepsi was down 4%, Kerry down 13%, Visa declined 3% and Adobe declined 5%.

Sources: UBP, Bloomberg Finance LP.

** Class IC, USD net of fees*

Outlook

- The US should lead the rebound expected in Q2 thanks to a strong vaccination roll out and the reopening of the economy. US consumers are in the driving seat of recovery:
    - US growth should strongly rebound from Q2 after a firmer than expected Q1; direct payments to households thanks to fiscal support should boost consumption, which also benefits from a positive wealth effect and large savings.
    - Consumption and investment should lead a strong 2021 recovery, where we revised up our GDP forecasts from 6.2% to 6.8%. Strong domestic demand should support inflation and trigger a decline in unemployment, the latter also being targeted by monetary and budgetary policy.
- In the eurozone, slow vaccination rollouts has contributed to the 3rd wave of the pandemic in progress. After contracting in Q1, only modest growth is expected in Q2 and a more significant rebound is postponed to Q3, when more vaccines will become available.
- Fiscal support should serve as the primary economic policy driver, though with ongoing support from monetary policy. We expect central bank strategies to begin diverging more meaningfully.
    - The Fed is seeking for strong growth and high inflation, but will not act to curb rising bond yields, except if financial conditions deteriorate.
    - The ECB increased its bond purchases to decorrelate European bond yields from US ones, due to delayed recovery and moderate medium-term inflation prospects.
    - The Chinese PBOC has adopted a tighter stance, while in Turkey and Brazil banks may hike rates further.
- Overall, we expect more modest equity returns ahead, but the risk of a big drawdown looks limited at present. In addition, we'll need to watch closely the effects of Biden's tax proposal and its impact on specific sectors.

Sources: UBP.

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