UBAM – GLOBAL TECH CONVERTIBLE BOND

Quarterly Comment

Marketing communication
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

- While January benefited from a strong risk on momentum, the trend has started to reverse in February after higher than expected inflation numbers and central banks' officials' comments. In the beginning of March markets moved into a risk-off mode on the back of Silicon Valley Bank failure and the loss of confidence crisis impacting Credit Suisse. Interest rate volatility moved to a level lastly saw in 2008 before falling back. Central banks have continued to raise their respective policy rates despite these events in the banking sector The Fed and the ECB rose their policy rates by 25bps and 50bps respectively. Risky asset ended the quarter higher. However, with renewed recession risk, the long end of yield curves have fallen, the US 10-year rate fell by 41bps to 3.46% over the quarter. Despite the return of volatility during March, High Yield credit spreads tighten during Q1 down by 21bps.
- Despite the volatility over the month of March, major equity markets still delivered positive performances over the quarter and global equities ended the quarter up 7.7% (MSCI World TR) and the S&P 500 index increased by 7.5% quarter-on-quarter. The US Technology Select Sector index rose by 21.7% over the quarter, significantly outperforming the broad S&P 500 index.
- The Refinitiv Global Hedged Convertible Bond Index (USD Hedged) returned 2.9% q/q but the US Tech convertible segment, measured by BofA US Tech Convertible Index, outperformed being up 7.6% over the period.
- Primary market confirmed its rebound global markets introduced close to $20 billion of convertible bonds during the first quarter of 2023. The US contributing $12.9bn. The Technology sector contribution reached $2.2bn or 17% of the total amount issued in the US during Q1 2023.

Performance Review

- For the quarter ending 31 March 2023, the UBAM – Global Tech Convertible Bond Fund (IC USD) returned 3.06% after fees. During this quarter specifically:
  - The information technology theme, first, turned out to be positive, as revealed by the outperformance of the US tech equity index over the broad US equity market in Q1 (+14.2% - see above).
  - The choice of convertibles to get exposure to the IT equity market ("the structuration"), was negative, -14.8% underperf. q/q of the US tech equity index vs. our Tech Convertible Bond Universe. Both the BofA US Tech Convertible index and the Bloomberg US Convertible Technology Index also underperformed by 14.0% and 13.98% resepectively.
  - This quarter, the positive performance of our strategy comes from the technology theme allocation while being partially offset by structuration, allocation and the transaction costs.
- At firm level, top contributors over the quarter were Palo Alto (software & services), On Semiconductor (semiconductors & semiconductor equipment) and Insight (hardware & equipment). On the opposite end, holdings in Liveperson (software & services), Bill.com (software & services) and Enphase Energy (semiconductors & semiconductor equipment) detracted.

[1]For indicative purpose only, the strategy has no official benchmark.

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.

Portfolio Activity

- Within the UBAM – Global Tech Convertible Bond portfolio, the first quarter was marked by:
  - Liquidity-related adjustments (e.g. Guidewire 2025, Pagerduty 2025, Tyler Technologies 2026)
  - Credit related trades (e.g. Liveperson 2026, Par Technology 2027)
  - Accounting quality-related trades (e.g. Dropbox 2026 & 2028, Macom Technology 2026, Wix 2025)
  - Security financing-related trades (e.g Alarm 2026, Bentley System 2026, Digital Ocean 202, Vishay Intertechnology 20256)
  - Limited risk-taking on sector outliers (e.g. Docusign 2024)
  - Additions to the investment universe and portfolio (e.g. On Semiconductor 2029).
  - M&A put redemption (e.g. Coupa Software), Call redemption (e.g Silicon Lab 2025)
- During the quarter, the portfolio reported a turnover of 131% with an average realized beta versus the Tech equity index of 0.35
- At March-end, UBAM – Global Tech Convertible Bond exhibits an expected beta of 0.36 versus Tech equity index with nearly 1/2 of the expected Tech equity index volatility.

Outlook

- The January outperformance from low-quality names was pricing excessive optimism and was not justified by the current economic environment. In the foreseeable future inflation should stay above central bank target and higher than experienced in the previous decade. Although economic data suggests that the overall slowdown could be smaller than previously anticipated, 2023 is still likely to be a challenging year for corporates. However, with global inflation pressure easing and rate hikes slowing, the factors holding back consumer demand and corporate earnings should fade throughout the year. That being said we still expect dispersion to be particularly high in the equity markets.
- Recent market events have been a good reminder that uncertainty is still very high, and that markets are fragile. In this context convertible bonds constitute an attractive way to maintain equity exposure whilst containing overall volatility.
- We believe Technology sector should perform better thanks to reduced upside pressure on interest rates in 2023 and attractive valuations at current level. On average the Price-to-sales ratio has fallen by 54% since their 2021 highs for convertible issuer in the technology sector. **Given the high volatility within the tech sector, we believe tech convertible bonds offer a more attractive risk-return profile compared to equities**.

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