

UBAM – US EQUITY GROWTH

Quarterly Comment

For Professional Investors in Switzerland or Professional Investors as defined by the relevant laws

UBP Asset Management LLC (the “Manager”), a U.S. based subsidiary of Union Bancaire Privée, UBP SA, serves as the Investment Manager to UBAM – US Equity Growth.

Market Comment

- The S&P 500 N.R. finished the quarter in positive territories with +8.79% performance at the end of September. Growth has been outperforming blend stocks this quarter with a performance of +13.15%. Value delivered a positive performance as well over the same period with +5.40%. Sector wise, consumer discretionary with +18.86%, industrials with +12.46% and materials with +12.35% have been outstanding. Energy delivered the worst sector performance with -18.10%, followed by consumer real estate with +1.18% and financials with +3.32%.
- In July the number of new coronavirus infections rose steadily, first in various US states and then in Europe, as well as other areas including Australia and China, fueling fears of a second wave of the pandemic. However, the surge eased towards the end of the month as facemask and social distancing rules were tightened to curb the outbreaks. After the sharp GDP contraction in Q2, the end of confinement and reopening of economies in June has led to a rebound in major economies: industrial production and retail sales have spiked and sentiment both in manufacturing and in services were back to positive growth levels.
- Investors, optimistic about the global growth trend and the rapid development of a COVID-19 vaccine, continued to favor risk assets in August. Activity indicators were generally good, confirming that the recovery seen once lockdown was lifted was continuing. Nonetheless, the economic data for August showed some weakness following the strong, widespread rebound that had been in place up to July: in the United States, household confidence dipped and unemployment claims rose. However, sentiment indicators for industry and services stayed, for the most part, on their upward trends, while job creation was steady, meaning unemployment fell once again. The big surprise was the sharp rise in inflation with recoveries in energy prices as well as in the transport, healthcare and housing sectors.
- After five months of practically uninterrupted rises, equity markets finally gave up some ground in September, especially in the United States. Despite COVID-19 infection rates increasing in several countries and the US presidential election campaign hitting its stride, economic indicators were generally positive in September. In the United States, confidence in the manufacturing sector continued to rebound, but production data were disappointing in some sectors. As was the case last month, inflation was stronger than expected. Turning to the US Federal Reserve, the FOMC officially announced its new monetary strategy which had previously been outlined at Jackson Hole. At his appearances before Congress, Jerome Powell was cautious – and perhaps even worried – about the economy, calling for new budgetary support measures. Meanwhile the negotiations between Republicans and Democrats made scant progress.

Sources: UBP, Bloomberg Finance LP.

Performance Review

- In the third quarter 2020, the fund* returned net +11.02% versus +13.15% for the Russell 1000 Growth Index, corresponding to a difference of -2.12%. The underperformance in the quarter was mainly due to stock selection.
- The largest detractor in the quarter was the stock selection within Consumer Discretionary. Not owning Tesla caused 93pbs of underperformance. This stock is a benchmark holding and was up 98.65% in the quarter.
- Stock selection within Materials (-0.49%) and Financials (-0.34%) has also been challenging. This underperformance can be explained mainly by the fund investment in Ecolab and Citigroup. Both positions lagged their respective sectors.
- On the positive side, the selection in healthcare delivered +0.99%. The largest contributors included Zoetis (+20.84%) and Danaher (+21.88%) along with not owning Abbvie and Eli Lilly which were down during the quarter.
- Sector allocation also negatively affected the fund in the quarter (-0.64%). The biggest impact came from the fund's overweight in Real Estate (-0.39%) which is the result of strong convictions in selected growth stocks like AMT and Equinix, which are characterized as REITS and operate in conjunction with the telecom and cloud computing technology sector.

Portfolio Activity

- There were no major changes to portfolio holdings during the third quarter.
- During the third quarter, the increased portfolio positions sizes included Apple, Amazon, Nike, and Salesforce. This was purely driven by an outperformance of these stocks, rising 27%, 14%, 28% and 34%, respectively vs. the Russell Growth and S&P indices which were up 13% and 9%, respectively. Apple stock spiked, on soon to be launched first generation 5G iPhone 12 ushering a possible "supercycle" like 2014's iPhone 6 launch and a four for one stock split. Amazon, Nike, and Salesforce all reported stellar earnings numbers, with addition momentum on Salesforce.com on being included in the Dow Jones Index.
- The fund's weightings declined in Hexcel, American Tower, and Estee Lauder. Hexcel and American Tower underperformed the market, down 26% and 6%, respectively. Additionally, the managers trimmed both names as Hexcel's continued to be hampered by late cycle recovery and lower expected new build expectations from the airline industry. American Tower saw some weakness due to concern over its newly signed agreement with the merged Sprint--T-Mobile. Meanwhile, the managers trimmed Estee Lauder after rising 16% in the quarter on its strong performance relative to their expectations of slow recovery in travel retail than the market is pricing

Sources: UBP, Bloomberg Finance LP.

* Class IC, USD net of fees

Outlook

- A recovery in 2021 remains in sight thanks to a progressive rebound in consumption and investment, strongly supportive economic policy and prospects of a vaccine.
- While COVID cases and lockdowns hit developed economies at a time when they were close to full employment, the return to full employment will only occur progressively during the course of 2021 and 2022.
- The 2021-2022 inflation outlook points towards a progressive firming trend, but with some volatility. COVID and the associated lockdown were a deflationary shock, but a new trend is emerging post-lockdown in terms of prices in housing, healthcare and transport that should refuel some pressure on core inflation, besides volatile energy and food prices. If a vaccine appears rapidly and if fiscal policy turns more aggressive in the US (reducing inequalities), demand could be boosted further by booming credit and wages, that could push inflation on a higher medium-term trend.
- With the crisis, monetary policymakers have aggressively cut rates, injected liquidity and extended asset purchase programmes more actively than in 2008. Monetary policy has created an accommodative monetary environment to mitigate the recession and avoid a major financial crisis. This aggressive policy response should remain in place if growth remains on an uncertain trend, with low inflation and high unemployment. The Fed will abandon the strict 2% inflation targeting in favour of average inflation targeting, allowing them to tolerate temporary surges in inflation without a need to tighten key rates. As a result, no rise in key rates should be expected in the US in 2021, and the first adjustment may be postponed to 2022 or later under the current inflation and unemployment scenario.

Sources: *UBP*.

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