UBAM – GLOBAL HEALTHCARE CONVERTIBLE BOND

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

- After an exceptional year in 2021 in terms of equity performance, the first quarter of 2022 was characterized by equally exceptional volatility. The exponential rise in inflation, the beginning of the Fed’s rate hike cycle, as well as the invasion of Ukraine are all elements that have weighed on investor sentiment and the performance of stocks and bonds.
- Eventually, global equities ended the quarter down 5.0% (MSCI World TR). In the US specifically, the S&P 500 index closed the quarter down 4.6%. This is the 2nd worst start to a year for the index since 2009 (only the 2020 fall at the time of the Covid crisis was worse). In this context, the S&P Healthcare index loss 2.6% over the quarter, +2.0% above the broad S&P 500 index.
- In line with global equities, the convertible bond universe suffered. The Refinitiv Global Hedged Convertible Bond Index (USD Hedged) declined by 6.4%. However, US Healthcare convertible segment, measured by BofA US Healthcare Convertible Index, did slightly better over the same period with a decline of 6.0%.
- In the first quarter, global markets introduced **7.9** billion of convertible bonds, with the US Healthcare segment contribution only **1.15** billion.

Performance Review

- For the quarter ended 31 march 2021, the UBAM – Global Healthcare Convertible Bond Fund (IC USD) returned -4.55% after fees. During the first quarter specifically:
  - The healthcare theme, first, turned out to be positive, as revealed by the outperformance of the US Healthcare equity index over the broad US equity market in Q4 (+2.0% - see above).
  - The choice of convertibles to get exposure to the healthcare equity market (“the structuration”), turned to be negative (-3.4% underperf. q/q of the BofA US Healthcare Convertible Index vs S&P Healthcare index) with a significant negative contribution of interest rate on convertibles (roughly -2% over the period).
  - Lastly, in the convertible bond universe, the outperformance of our strategy vs. the BofA US Healthcare Convertible Bond index USD[1] in Q1 comes mainly from our choice to exclude non-plain vanilla convertible bonds which typically include preferred shares from large cap healthcare issuers. Volatility mitigation was partially driven by our allocation approach which tends to provide core segment performances by reducing sector-related risk outliers while focusing on liquid securities.
- At the firm level, top contributors over the quarter were Pacira Pharmaceuticals (Pharma & Biotech), Jazz Pharmaceuticals (Pharma & Biotech) and Envista Holdings (Healthcare Equipment). On the opposite end, holdings in Omnicell (Healthcare Equipment), Guardant Health (Healthcare Equipment) and Qiagen (Pharma & Biotech) detracted.

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

Portfolio Activity

- Within the UBAM – Global Healthcare Convertible Bond portfolio, the first quarter was marked by:
  - Liquidity-related adjustments (e.g. Alphatec 2026; Conmed 2024, Insmed 2025)
  - Credit or accounting quality-related trades (e.g. 1Life 2025; BridgeBio Pharma 2027 & 2029; Novavax 2023)
  - Limited risk-taking on sector outliers (e.g. Haemonetics 2026; Oak Street Health 2026)
  - Additions to the investment universe and portfolio (e.g. Travere Therapeutics 2029; Tandem Diabetes 2025; Natera 2027)
- During the quarter, the portfolio reported a turnover of 170% with an average realized beta versus the Healthcare equity index of 0.5.

- At March-end, UBAM – Global Healthcare Convertible Bond exhibits an expected beta of 0.6 versus healthcare equity index with nearly 4/5 of expected Healthcare equity index volatility.

Outlook

- Healthcare has been in secular growth for several decades due to positive demographic trends which is unique to this sector. We see Healthcare as a safe haven in a world with elevated geopolitical risks, high inflation and decelerating global growth. The equity asymmetric nature of the convertible bond instrument makes them compelling assets for those who wish to **maintain an equity exposure whilst dialling back their risk a bit**.

- The change of tone from the Fed last November led to a historical derating in CB underlying and performance versus equity. we tend to head to a period of decelerating economic growth which is usually positive for the growth thematic. It offers an **attractive entry point into the healthcare convertible bond space**, relative to broad healthcare equities.

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