Q2 2020

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 +20.37% performance at the end of June. Growth has been outperforming blend stocks this quarter with a performance of +27.73%. Value delivered a positive performance as well over the same period with +14.05%. Sector wise, consumer discretionary with +36.32%, information technology with +32.02% and materials with +27.79%% have been outstanding. Utilities delivered the worst sector performance with +2.06%, followed by consumer staples with +7.51% and financials with +11.90%.

- In April, lockdown measures have been put in place almost everywhere in the world and economic indicators have reflected the drop off in activity in various countries. The best examples of this can be found in the sharp fall in business confidence, especially in the service sector, and in the dramatic rise in unemployment and record job-destruction in the United States. The Fed has expanded its bond-buying scheme to include lower-quality corporate bonds and has announced an increase in the amounts for other credit markets. The Congress voted extra money to support small and medium-sized businesses.

- In May, in the US, industrial production, services and retail sales have collapsed as a result of the health crisis. Consequently, 20.5 million jobs were lost in April, pushing unemployment up to 14.7%. Nonetheless, reasons for optimism about the recovery emerged with the gradual fall in weekly jobless claims, an improvement in certain activity indicators and an increase in both household and business confidence. On the back of the economic and health crisis, geopolitical tensions between the US and China increased not only on the trade front, but also in terms of policy on Hong Kong.

- In June, in the United States confidence indicators for industry and services rebounded from their lowest points to return to just below the symbolic 50 level, indicating a progressive recovery in activity. The return of strong job creation in May (2.5 million) completely baffled consensus expectations and took the markets by surprise. Retail sales also recovered strongly across all sectors, as did household confidence. The Fed declared that it would make direct purchases on the high-yield corporate bond market and it tweaked its direct lending support measures.

Sources: UBP, Bloomberg Finance LP.

Performance Review

- In the second quarter 2020, the fund* returned net +24.28% versus +27.73% for the Russell 1000 Growth Index, corresponding to a difference of -3.45%. The underperformance in the quarter was mainly due to stock selection.

- The largest detractor in the quarter was the stock selection within Consumer Discretionary, which cost 0.75% of underperformance. 46bps of this underperformance was caused by not owning Tesla, which is a benchmark holding and was up 106.07% in the quarter.

- Stock selection within Financials (-0.67%) has also been challenging. This underperformance can be explained by the fund investment in Berkshire Hathaway (-2.36%) and JP Morgan (+5.60%). Both positions lagged the MSCI USA Financials Net Return Index (+12.96% during Q2).

- On the positive side, Paypal, an Information Technology company, benefited from the social distancing evolution that pushed more people to buy online. Paypal delivered +81.98% during the second quarter and benefited the fund by 55bps. West Pharma, a leading packaging component maker for injectable drugs, which was up 49.35% in the quarter, benefited the fund by 28bps.

- Sector allocation also negatively affected the fund in the quarter (-0.89%). The biggest impact came from the fund's overweight in Consumer Staples (-0.72%) and the fund's overweight in Real Estate (-0.43%) 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. On the positive side, the fund benefited from its underweight in Industrials (+0.35%).

Portfolio Activity

- The managers sold two stocks in the quarter, Berkshire Hathaway and TE Connectivity.

- Despite having $133BN of cash on its balance sheet earning very little, Berkshire Hathaway has been slow to invest this cash as they see "limited opportunities" and the cash balances can support a "worst case scenario." The company has been negatively affected by Covid-19 and the managers saw better opportunities to deploy these funds.

- TE Connectivity, a global sensor and connector company, has been negatively affected by a slowdown in auto, industrial and commercial transport space. The company has increasingly been affected by a slowdown in global auto sales and the move to hybrid and fully autonomous vehicles seems farther off than the market is expecting. The managers saw better opportunities for growth elsewhere and redeployed these funds.

- The fund increased position sizes in Apple, Amazon and ServiceNow, taking advantage of market weakness in the quarter and redeploying new capital to increase positions in these core holdings

Sources: UBP, Bloomberg Finance LP.

** Class IC, USD net of fees*

Outlook

- After a sharp recession in H1-20, economic activity is expected to rebound in Q3 and to recover progressively in H2-20 and 2021. Renewed COVID cases in some US states and across Latin America refuel uncertainties about the pace of the rebound after the global lockdown, but recovery progress should still continue. Economic policy should continue to support labour while central banks stand ready to extend assets purchases in H2-20 if necessary.

- The next reporting season is already around the corner. Earnings growth will arguably trough in Q2 before a slow recovery in the following quarters. In the US, earnings growth rate is expected to fall by 43% y/y (after -13% in Q1), with losses anticipated in the consumer discretionary and energy sectors and profits in the industrial sector almost at zero. With most companies having withdrawn guidance in April, the Q2 reporting season will give investors the opportunity to get their first meaningful post-lockdown earnings guidance for this year and next. We expect managements to stay very cautious.

- We believe that slower and more volatile growth favours a focus on active, sub-sector and stock selection, which takes into account the transformative changes occurring across multiple axes, many of them having already been accelerated by the pandemic.

Sources: UBP.

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.Union Bancaire Privée, UBP SA Rue du Rhône 96-98 | P.O. Box 1320 | 1211 Geneva 1 | Switzerland **ubp@ubp.com** | **www.ubp.com**