

# UBAM – GLOBAL FINTECH EQUITY

## 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](http://ubp.com) or in the latest prospectus.

### Market Comment

- Q4 was a mixed quarter for equity markets, the MSCI AC World ended 2021 with +6.7% in quarterly performance. US equities led in performance with +11% over the period, followed by Swiss equities with +9.3% and European equities with +7.7%. Emerging Market equities and Japanese equities on the other hand lost -1.3% and -1.7% respectively over the quarter. The MSCI AC World delivered +18.5% over 2021, after +16.3% in 2020 and +26.6% in 2019. 2021's strong equity market returns come with a backdrop of strong corporate earnings boosted by a post pandemic recovery in growth, despite supply chain disruptions and rising inflation along with volatility spikes linked to new virus variants and China's regulatory crackdown.
- Earnings revision ratios remained positive in most regions and sectors over the quarter despite the uncertainty linked to the new Omicron variant spread. 2021's earnings growth expectations for global equities rose to 53% with a stable 7% projected for 2022. Valuation levels were marginally lower, with the MSCI AC World trading at a P/E of 18.2x at the end of December on a 12 month forward basis. The US Manufacturing PMI dropped to 58.7 over the month of November, as new orders and production were under continued pressure from supply disruptions and raw material inflation. The employment component was nevertheless stable. The yearly trend in US inflation accelerated to 6.8% yoy for end of November, mainly driven by energy prices. The Fed announced its plan to accelerate the pace of monthly tapering in January and the market now expects 3 rate hikes in 2022.
- The Fintech thematic was down -12% over the last quarter of the year, underperforming the MSCI AC World which was up +6.7%. Many household Fintech names suffered from the rotation towards value and from profit taking over the year after having delivered significant performances through 2020. Payment names came under further pressure over the month of November driven by fears of disruption from rivals and the increased competition of the buy now, pay later (BNPL) offerings. In some regions, those worries were compounded by renewed restrictions on travel, again impacting the recovery in cross-border revenues, and/or macroeconomic concerns. In Brazil for instance, rising policy rates led to higher funding costs for merchant acquirers that cannot necessarily be passed on to customers due to fierce competition.

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## Performance Review

- UBAM – Global Fintech Equity delivered -2.1% versus +6.7% for the MSCI AC World over Q4 2021. Over the full year, the fund has outperformed the Fintech thematic for the bigger part of the year and has fared much better during the November/December drawdown.
- The main contributors to relative performance versus the benchmark over the period were the overweight in Intuit, the position in Swissquote as well as the overweight in IHS Markit (+55bps, +54bps and +32bps respectively). Intuit was up +19% over the quarter after reporting results that topped estimates and raising its full year guidance. Swissquote rose more than +18.4% as growth in its home market continues to accelerate and its crypto trading offer continues to attract new customers. IHS Markit finished Q4 at +14.4% after most of the competition concerns with regards to its takeover by S&P Global have been resolved with the latter agreeing to sell some of IHS Markit's price assessment businesses to News Corp.
- The main performance detractors over the quarter were the overweight in Paypal, the position in Pagueuro and the overweight in Block (-177bps, -97bps and -87bps). Paypal lost -27% after the company lowered its Q4 & 2022 revenue guidance with its Q3 results. Pagueuro dropped more than -48% despite reporting good results, as the Central Bank of Brazil issued a public consultation indicating potential changes to the pre-paid card payment scheme, including a cap on interchange fees. In addition, concerns around the impact of higher interest rates on funding costs weighed on the entire Brazilian merchant acquiring space. Block (previously Square) was down -32.7% over the period after reporting Q3 results that missed expectations driven by meaningful growth deceleration in its Cash App ecosystem.

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## Portfolio Activity and ESG

- Over the fourth quarter of the year, the team participated in two IPOs, W.A.G Payment Solutions PLC, which provides payment and mobility solutions focused on the commercial road transportation industry, and Expensify, which designs and develops corporate payment solutions. The team also initiated a position in Bottomline Technologies, a rare pure play on B2B payments, an area with vast opportunities for further digitalization. On the other hand, the position in Worldline was liquidated on increasing signs of competition in the Fintech space with likely pressure on take rates for merchant acquirers.
- ESG considerations are fully integrated in each step of the fundamental investment process with a focus on a lower carbon footprint objective. At the end of December 2021, the portfolio had an AAA ESG rating with an ESG quality score of 8.8, versus an AA rating and 7.8 score for the MSCI AC World (ratings based on MSCI ESG Research). The portfolio also had a lower carbon footprint than the wider global equities universe with 6.0 T CO2/\$m sales vs 152.3 for the MSCI AC World index. The portfolio is aligned with the Paris Agreement's long-term temperature goal of keeping the rise in global average temperature to well below 2 °C above pre-industrial levels, as reported by ISS Climate Impact Assessment.

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## Outlook

- The Global Fintech Equity strategy remains focused on larger companies that are already profitable or have a very credible investment case for getting there. This has among other things resulted in a higher allocation to data providers and platforms for the strategy, as those are very stable and sustainably high CFROI



businesses, which have held up a lot better than other subsectors of the thematic over the year.

- The outlook for Fintech in general, and payment names in particular is still positive benefiting from structural trends with 10%+ growth expected on card payments relative to cash and checks in the next 5 years. E-commerce trends and technology spending have also been accelerated by the pandemic as online retail continues to gain market share despite most economies reopening. The digitalisation of corporate accounting and payments also offers vast opportunities for companies helping to facilitate this transition.

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