UBAM – GLOBAL 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 sharp rise in inflation and in energy prices, 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.
- In the US, consumer sentiment was dragged down by economic concerns but above all rapidly rising prices, despite a very solid labour market. Annual inflation rose to 7.9% in February. As expected, the Fed raised its key interest rates by 25bp for the first time since 2018 and announced plans to start reducing the amount of assets on its balance sheet in the near future. In the eurozone, hostilities in Ukraine caused a sharp drop in consumer sentiment, which had an impact on consumer spending. The ECB adopted a tougher tone than expected, saying it was prepared to end asset purchases at the start of the third quarter. In China, tighter restrictions to combat rising Covid-19 case numbers affected PMI indices, which fell back below 50.
- Global equity markets ended the first quarter of the year in the red with -5.36% (MSCI ACWI). In the US specifically, the S&P 500 index was down by -4.70% during the first quarter with a noticeable outperformance of the Value segment over the Growth one (-9.09% q/q for the Russell 1000 Growth and -0.89% q/q for the Russell 1000 Value). In Europe, the MSCI Europe delivered -5.32%. In this contect, the convertible bond universe suffered. The Refinitiv Global Convertible Bond Index EUR Hedged (the “index”) declined by 6.7%. The negative impact from the fixed income component of the asset explains less than one quarter of the total performance, the main driver being the underlying stocks.
- In the first quarter. Global markets introduced only $7.9 billion of convertible bonds, experiencing a meaningful drop as a result of the rise in equity volatility, rising financing cost, waning demand, and declining share prices. Repeat issuers were the main source of supply with US companies Snap, Lumentum and Wolfspeed being the sole 3 new bonds, whose issue amount is above $750 million. Europe and Asia both issued about $1.2 billion out of the $7.9 billion.

Performance Review

- With a net return of -6.96% in Q1, our global strategy underperformed by 0.28%. Region-wise, all regions had a negative impact. Europe underperformed the other regions although with a higher exposure, the US remained the largest detractor of performance. In terms of sectors, Energy was the sole contributor to the strategy’s performance. Conversely, Technology, Consumer Discretionary and Communication concentrated the losses. At issuer level, top absolute contributors in Q1 include Pioneer National Resources, (US Energy), Expedia (US Consumer Discretionary), SolarEdge Technologies (US Technology) and TotalEnergies (Europe Energy). Main detractors were Shopify (US technology), Etsy (US Consumer Discretionary) and Okta (US Technology).
- The “Growth” segment continued to suffer with a correction in valuation multiples for mid-sized high growth names along with the rise in interest rates. Despite the defensiveness of the convertible product, the underperformance of our underlying

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stock universe weighted on the relative performance versus equities. Despite the ongoing war in Ukraine, our market recovered from the middle of March. The slowdown in the de-rating of Technology stocks as well as renewed M&A activity from Corporates as well as Private Equity funds supported the recent convertible performance. M&A targets mainly involved SaaS (Software as a Service) companies, that constitute a large share of the US technology convertible market.

Portfolio Activity

- At March-end, the average equity sensitivity of UBAM – Global Convertible Bond stands at 46.9% (+0.8pts q/q), 1.2pts above its index. The strategy's interest rate sensitivity remains low, at 1.5 for a 3.4-year duration. The average credit spread of the portfolio increased over the quarter but our credit profile remains very solid. Particularly, we were not exposed to any of the 3 Russian names that collapsed during the quarter.
- From a geographical standpoint, the fund is primarily exposed to equity markets through investments in the US (32%). Investments in Europe account for 11% and Asia and Japan for 3%. Relative to the index, the portfolio exhibits an average overweight stance to Europe (+6pts equity sensitivity) while it is less exposed to the US (-3pts) and Asian (-2pts) markets. In comparison to the US, the European market offers overall better credit profile on top of a differientating opportunity set, including in the higher growth segment: Where the US is dominated by software company, Europe offers more diversification notably in consumer discretionary businesses.
- During the quarter, we maintained a disciplined, convexity-driven approach with a strengthened focus on "quality-growth" companies. We switched some existing investments towards convertible bonds with more balanced profiles (e.g. Square in the payment industry; Snap or Okta). Next to these arbitrages, we added smoothly balanced exposure in replacement to convertible bonds with lower return expectations after the market correction. Specifically, despite the quiet primary market, we participated actively in Snap, Wolfspeed and BE Semiconductor launches. In late March, we sold our long-term position in Conmed, a surgical equipment supplier, taking advantage of the recent strength of its performance. We also built a significant position in the marketplace company Sea Ltd. After large profit taken end of last year in the name, its stock price has more than halve since the beginning of the year.

Outlook

- The world economy is now expected to grow by 3.3% in 2022, as opposed to 4% expected at the end of last year. Output was resilient at the start of the year but is likely to grow at below its potential rate in developed countries and China in the first half of the year. Geopolitical concerns, rising inflation and its impact on real incomes, worsening supply-chain problems caused by the war in Ukraine, and the closure of production centres in China represent significant headwinds.
- We think that the case of investing in Convertible Bonds is reinforced by this lack of visibility in a world of rising interest rates. Although the recent behaviour hasn't provided what one could expect, we think that this represents an opportunity rather than putting into question the long-term benefit of the asset class.
- Entering into 2022, we have been communicating on the opportunity offered by the underperformance of the underlying stocks of the asset class compared to equity markets. The first quarter of the year has reinforced this pattern and creates even more opportunities from our point of view. We think that in a world of decelerating economic growth (consequent to the fight against inflation, the war in Ukraine & the reopening tailwind fading), the Growth thematic will at some point be chased by investors. The asset class, being tilted towards this thematic, should benefit from this trend once it materializes.

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