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

- The last quarter of 2023 has been characterized by the shift in central banks' tone. From the end of October, it has appeared clearer that we may have passed the peak in interest rates. According to their December meetings, the ECB reiterated that a potential rate cut is not yet on the table while the Fed sounded more dovish. FOMC members revised their inflation expectation lower and implied that the hiking cycle ended, they even started to discuss the timing for the first rate cut. This accommodative stance combined with slower inflation rate in US and Europe pushed bond yields lower over the quarter. US 10yr yield moved 69bps lower to 3.88%, while in Europe, German and France 10yr yields ended the month 82bps and 84bps lower at 2.02% and 2.56% respectively. After a spike in October, volatility has fallen through November and December across asset classes and the VIX index reached its lowest level of the year in December. High Yield credit spreads tighten over the quarter, down by 69bps and 42bps in the US and Europe respectively. This global decrease in yields fueled a strong rebound in equity markets, in particular for Growth and Technology names.
- Major equity markets rallied and posted strong gains over the last quarter of the year ending at +9.4% (MSCI World TR). In the US, the S&P 500 index increased by 11.7% quarter-on-quarter; cross-Atlantic, the Stoxx Europe 600 index was behind being up 6.8% q/q and the Nikkei 225 index moved higher by 5.2% q/q (all performance expressed in local currencies). In terms of investment styles, there was an outperformance of the Growth segment over the Value +13.4% q/q for the MSCI World Growth index, +9.5% ahead of the MSCO World Value index). In this market with a strong upward momentum, it is not surprising to see small caps outperforming, and Russell 2000 rose by 14.0%.
- Being up 5.2%, convertible bonds exhibited an encouraging behavior showing its capacity to capture 55% of the equity upside. This is more than could have been expected when entering the quarter with an equity sensitivity of 33%.
- Primary market has continued to be strong with $18.2bn issued over the fourth quarter. The US contributing $12.3bn, Europe $3.4bn, Asia $1.2bn and Japan $1.2bn. The primary market ended the year 2023 with a total volume of $79bn, in line with pre-coved trend ($76bn issued annually between 2010 and 2019).

Performance Review

- Over Q4, UBAM – Global Convertible Bonds (IC EUR share class) posted a net return of +5.0% bringing the annual performance to +3.3%. This is behind its Global convertible bonds universe (represented by the Refinitiv Global Convertible Bond index hedged in Euro, "the index") which returned +5.2% q/q and +10.4% in 2023. During Q4, Technology sector has benefited from the strong momentum in Artificial Intelligence, in particular we saw a significant outperformance of Software & Services and semi-conductors names. Therefore, our overweight to the Technology sector explains most of the performance this quarter. Our Healthcare exposure contributed to the performance supported by the rebound of Diabetes & Obesity related businesses (Insulet and Dexcom). At issuer level, top absolute contributors in Q4 include Dexcom (US Health Care Equipment & Services), Zscaler (US Software & Services), and Lenovo (Asia Technology Hardware & Equipment). Main detractors were Royal Caribbean (US Consumer Services), Microstrategy (US Software & Services) and Palo Alto (US Software & Services).

Portfolio Activity

- At the end of December, the average equity sensitivity of UBAM – Global Convertible Bond stands at 43.5% (+6.6/q), above its index. The strategy's interest rate sensitivity moved slightly lower, at 1.6 for a 3.4-year duration. The average credit spread of the portfolio remained relatively stable over the quarter and our credit profile remains very solid at 214bps and lower its index, 383bps.
- From a geographical standpoint, the fund is primarily exposed to equity markets through investments in the US (26.9%). Investments in Europe account for 8.5% and Asia and Japan for 6.7%. Relative to the index, the portfolio exhibits an average overweight stance to Europe (+3.8 pts equity sensitivity), slightly overweight Japan (+1.5pts), while in line with US exposure (+0.2pts) and marginally less exposed to Asia and Pacific (-0.4pts) markets.
- On the back of the strong movements in markets we have been quite active to ensure we maintain convexity level and diversification within the portfolio. Over the quarter we reduced our exposure to the energy transition theme, decreasing our position in the renewable actor Nextera Energy Partners, and closing our position in the solar inverters company Solaredge. We have been taking profits and reducing our exposure to some names such as Airbnb and Schneider Electric or in the semi-conductor space, STMicroelectronics and BE Semiconductor. We moved the portfolio towards convertible bonds with more balanced profiles, and we reinforced Uber and Live Nation. We also increased our position in Zillow, which offer some diversification and exposure to Real Estate. We made a switch from the Biomarin 0.6% 2024 to Biomarin 1.25% 2027. We initiated several new positions in various sectors, such as the exchangeable Citi / L'Oréal, and Western Digital 3.0% 2028. We progressively increased our exposure to Japan through the quarter, adding Sosei 0.25% 2028, Kobe Steel 0% 2030 and Sanro 0% 2028.

Outlook

- When combining the ease in global inflation pressure and the more dovish stance from central banks, it appears clearer that we have seen the peak in rates. This pictures a new environment where downside risk in yields surpasses upside risk, which has historically been supportive for our asset class. When it comes to Growth companies, Technology and Healthcare sectors, accounting for a large chunk of our universe, the end of the hiking cycle is a strong positive catalyst as it has been a significant headwind over the last 18 months. From a bottom-up perspective the combination of low valuations, stronger revenue growth expectations, and less interest rate pressure is a favourable backdrop for themes we particularly like such as Long Duration Tech, Innovative Healthcare and Energy Transition. Furthermore, the shift in yield environment should also help the pickup in M&A activity, which could be a supporting factor for convertible bonds as issuer are often M&A targets.
- This year the primary market activity has returned to its historic issuance level, and we expect this trend to accelerate in 2024. We do not expect the lower yield to be a challenge for the primary market. Significant amounts of debt refinancing are coming towards the end of 2024 & 2025. Cost of debt is still dramatically higher than over the last 10 years, even for Investment Grade issuers. As a result, compared to straight bonds or bank loans, the relative interest to issue convertible bonds has increased. This should bring new opportunities to our market in 2024, with a more diversified set of issuers than what we have seen in the last few years.
- From a macroeconomic viewpoint, uncertainties should not be underestimated, we see desynchronized economic cycles and a volatility regime navigating at a higher level. When combined, this has been refraining risk-on positioning among investors. This type of foggy market environment is precisely when convertibles should be considered to build or maintain an equity exposure. Convertibles can also provide compelling benefits when investors want to diversify and/or enhance their bond/credit allocation, and/or to optimise the risk-return of their equity investment.

This is a marketing document and is intended for informational and/or marketing purposes only. **It is intended to be used only by the person(s) to whom it was delivered.** It may not be reproduced (in whole or in part) or delivered, given, sent or in any other way made accessible, to any other person without the prior written approval of Union Bancaire Privée, UBP SA or any entity of the UBP Group (UBP). This document reflects the opinion of UBP as of the date of issue. This document is for distribution only to persons who are Professional clients in Switzerland or Professional clients or an equivalent category of investor as defined by the relevant laws (all such persons together being referred to as “Relevant Persons”).
This document is directed only at Relevant Persons and must not be acted on or relied on by persons who are not Relevant Persons. It is not intended for distribution, publication, or use, in whole or in part, in any jurisdiction where such distribution, publication, or use would be unlawful, nor is it directed at any person or entity at which it would be unlawful to direct such a document. In particular, this document may not be distributed in the United States of America and/or to US persons (including US citizens residing outside the United States of America). This document has not been produced by UBP’s financial analysts and is not to be considered financial research. It is not subject to any guidelines on financial research and independence of financial analysis. Reasonable efforts have been made to ensure that the content of this document is based on information and data obtained from reliable sources. However, UBP has not verified the information from third sources in this document and does not guarantee its accuracy or completeness. UBP makes no representations, provides no warranty and gives no undertaking, express or implied, regarding any of the information, projections or opinions contained herein, nor does it accept any liability whatsoever for any errors, omissions or misstatements. The information contained herein is subject to change without prior notice. UBP gives no undertaking to update this document or to correct any inaccuracies in it which may become apparent. This document may refer to the past performance of investment interests. **Past performance is not a guide to current or future results.** The value of investment interests can fall as well as rise. Any capital invested may be at risk and investors may not get back some or all of their original capital. Any performance data included in this document does not take into account fees, commissions, and expenses charged on issuance and redemption of securities, nor any taxes that may be levied. Changes in exchange rates may cause increases or decreases in investors’ returns. All statements other than statements of historical fact in this document are “forward-looking statements”. Forward-looking statements do not guarantee future performances. The financial projections included in this document do not constitute forecasts or budgets; they are purely illustrative examples based on a series of current expectations and assumptions which may not eventuate. The actual performance, results, financial condition and prospects of an investment interest may differ materially from those expressed or implied by the forward-looking statements in this document as the projected or targeted returns are inherently subject to significant economic, market and other uncertainties that may adversely affect performance. UBP also disclaims any obligation to update forward-looking statements, as a result of new information, future events or otherwise. The contents of this document should not be construed as any form of advice or recommendation to purchase or sell any security or funds. It does not replace a prospectus or any other legal documents, which can be obtained free of charge from the registered office of a fund or from UBP. The opinions herein do not take into account individual investors’ circumstances, objectives, or needs. Each investor must make their own independent decision regarding any securities or financial instruments mentioned herein and should independently determine the merits or suitability of any investment. In addition, the tax treatment of any investment in the fund(s) mentioned herein depends on each individual investor’s circumstances. Investors are invited to carefully read the risk warnings and the regulations set out in the prospectus or other legal documents and are advised to seek professional counsel from their financial, legal and tax advisors. The tax treatment of any investment in a Fund depends on the investor’s individual circumstances and may be subject to change in the future. This document should not be deemed an offer nor a solicitation to buy, subscribe to, or sell any currency, funds, products, or financial instruments, to make any investment, or to participate in any particular trading strategy in any jurisdiction where such an offer or solicitation would not be authorised, or to any person to whom it would be unlawful to make such an offer or solicitation. Telephone calls to the telephone number stated in this presentation may be recorded. UBP will assume that, by calling this number, you consent to this recording.
Pursuant to Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (the “Disclosures Regulation” or “SFDR”), funds are required to make certain disclosures. Funds falling under the scope of Article 6 of the SFDR are those which have been deemed not to pursue an investment approach that explicitly promotes environmental or social characteristics or has sustainable investment as their objective. The investments underlying this financial product do not take into account the EU criteria for environmentally sustainable economic activities. Notwithstanding this classification, the Investment Managers may take account of certain sustainability risks as further described in the fund’s prospectus. Funds falling under the scope of Articles 8 or 9 of the SFDR are those subject to sustainability risks within the meaning of the SFDR. The sustainability risks and principal adverse impacts as stipulated in the SFDR are described in the prospectus. In addition, unless otherwise specified, all funds apply the UBP Responsible Investment policy, which is available on **https://www.ubp.com/en/investment-expertise/responsible-investment**
UBP relies on information and data collected from ESG third party data providers which may prove to be incorrect or incomplete. Although UBP applies a proven selection process of such third-party providers, its processes and proprietary ESG methodology may not necessarily capture appropriately the ESG risks. Indeed, data related to sustainability risks or PAI are today either not available or not yet systematically and fully disclosed by issuers, may be incomplete and may follow various methodologies. Most of the ESG factors information is based on historical data that they may not reflect the future ESG performance or risks of the investments.
ESG information providers: Although Union Bancaire Privée, UBP SA, ESG information providers (the “ESG Parties”) obtain information from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness of any data herein. None of the ESG Parties makes any express or implied warranties of any kind, and the ESG Parties hereby expressly disclaim all warranties of merchantability and fitness for a particular purpose, with respect to any data herein. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein. Further, without limiting any of the foregoing, in no event shall any of the ESG Parties have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Any subscriptions not based on the funds’ latest prospectuses, KIDs or KIIDs (as appropriate), annual or semi-annual reports or other relevant legal documents (the “Funds’ Legal Documents”) shall not be acceptable. The KID is also available in the local language of each country where the share class is registered and available on UBP Website: **https://www.ubp.com/en/funds.html**. The Funds’ Legal Documents may be obtained free of charge from Union Bancaire Privée, UBP SA, 96-98 rue du Rhône, P.O. Box 1320, 1211 Geneva 1, Switzerland (UBP), from UBP Asset Management (Europe) S.A., 287–289 route d’Arlon, 1150 Luxembourg, Grand Duchy of Luxembourg, and from Union Bancaire Gestion Institutionnelle (France) SAS, 116 avenue des Champs-Elysées, 75008 Paris, France. The English version of the prospectus of the Fund as well as a summary of investor rights associated with an investment in the Fund are available on **www.ubp.com**. The fund’s management company may decide to terminate or cause to terminate the arrangements made for the marketing of its collective investment undertakings in accordance with Article 93a of Directive 2009/65/EC. The Swiss representative and paying agent of the foreign funds mentioned herein is UBP.The Funds’ Legal Documents may be obtained free of charge from UBP, as indicated above.

This content is being made available in the following countries:
Switzerland: UBP is authorised and regulated in Switzerland by the Swiss Financial Market Supervisory Authority (FINMA). The head office is Union Bancaire Privée, UBP SA, 96-98 rue du Rhône, P.O. Box 1320, 1211 Geneva 1, Switzerland.**ubp@ubp.com** | **www.ubp.com**

United Kingdom: UBP is authorised in the United Kingdom by the Prudential Regulation Authority (PRA) and is subject to regulation by the Financial Conduct Authority (FCA) and limited regulation by the PRA.

France: Sales and distribution are carried out by Union Bancaire Gestion Institutionnelle (France) SAS, a management company licensed by the French Autorité des Marchés Financiers, - licence n° AMF GP98041; 116, av. des Champs Elysées l 75008 Paris, France T +33 1 75 77 80 80 Fax +33 1 44 50 16 19 **www.ubpamfrance.com**

Luxembourg: through UBP Asset Management (Europe) S.A., a Management Company authorised under Chapter 15 of the Law of 17 December 2010 relating to undertakings for collective investment (the “2010 Law”) and an Alternative Investment Fund Manager authorised under the Law of 12 July 2013 (the “AIFM Law”), which manages undertakings for collective investment subject to Part I of the 2010 law and other types of funds which qualify as alternative investment funds. 287-289, route d’Arlon P.O. Box 79 1150 Luxembourg T +352 228 007-1 F +352 228 007 221.

Hong Kong: UBP Asset Management Asia Limited (CE No.: AOB278) is licensed with the Securities and Futures Commission to carry on Type 1 – Dealing in Securities, Type 4 – Advising on Securities and Type 9 – Asset Management regulated activities. The document is intended only for Institutional or Corporate Professional Investor and not for public distribution. The contents of this document have not been reviewed by the Securities and Futures Commission in Hong Kong. Investment involves risks. Past performance is not indicative of future performance. Investors should refer to the fund prospectus for further details, including the product features and risk factors. The document is intended only for **Institutional Professional Investor** and not for public distribution. The contents of this document and any attachments/links contained in this document are for general information only and are not advice. The information does not take into account your specific investment objectives, financial situation and investment needs and is not designed as a substitute for professional advice. You should seek independent professional advice regarding the suitability of an investment product, taking into account your specific investment objectives, financial situation and investment needs before making an investment.

The contents of this document and any attachments/links contained in this document have been prepared in good faith. UBP Asset Management Asia Limited (UBP AM Asia) and all of its affiliates accept no liability for any errors or omissions. Please note that the information may also have become outdated since its publication. UBP AM Asia makes no representation that such information is accurate, reliable or complete. In particular, any information sourced from third parties is not necessarily endorsed by **UBP AM Asia**, and **UBP AM Asia** has not checked the accuracy or completeness of such third-party information.

Singapore: This document is intended only for accredited investors and institutional investors as defined under the Securities and Futures Act (Cap. 289 of Singapore) ("SFA"). Persons other than accredited investors or institutional investors (as defined in the SFA) are not the intended recipients of this document and must not act upon or rely upon any of the information in this document. The financial products or services to which this material relates will only be made available to clients who are accredited investors or institutional investors under the SFA. This document has not been registered as a prospectus with the MAS. Accordingly, this document and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of this product may not be circulated or distributed, nor may the product be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to institutional investors under Section 274 or 304 of the Securities and Futures Act (Cap. 289) of Singapore ("SFA"), (ii) to relevant persons pursuant to Section 275(1) or 305(1), or any person pursuant to Section 275(1A) or 305(2) of the SFA, and in accordance with the conditions specified in Section 275 or 305 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. This advertisement has not been reviewed by the Monetary Authority of Singapore.