

UBAM - GLOBAL FINTECH EQUITY

Quarterly Comment

Marketing Communication

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

- Over Q3 2023, most global equity markets ended in the red with the MSCI AC World down -3.4%. Swiss equities lost -3.3%, US equities -3.3%, Emerging Market equities -2.9% and European Equities -2.1% while Japanese equities gained +2.4% (performance in local currencies). This brought the MSCI AC World performance to +10.1% year to date at the end of September.
- In the US, inflation came in as expected in August with the yearly CPI trend rising to +3.6% y/y due to volatile energy prices and resilience in core inflation. The Fed did not change its key rates, although they suggested that a further increase may happen before year end. In the Eurozone, CPI and core CPI yearly trends slowed to +5.2% y/y and +5.3% y/y respectively. The ECB raised interest rates by +25bps and indicated that while a peak might have been reached, interest rates would probably stay elevated. As for business confidence, the US manufacturing PMI increased from 47.6 to 48.9 in September. In Europe, the manufacturing PMI remained stable at 43.4 compared to 43.5 in August but is still well below the 50 mark.
- The September earnings revision ratios remained in positive territory for developed markets, just above zero in Europe, but higher for Japan and US equities. 2023 EPS growth projections for global equities have remained very close to 0% since February, with current bottom-up forecasts at -2% for Europe (but +3% ex-energy) and at +1% for the US. Over the last month, the global equities' 12m forward PE continued to edge lower to 15.6x, just below its long-term average, still with large differences between regions. For instance, Europe and EM are trading at around 12x, while the US stand at nearly 18x.
- Over Q3, Energy and Communication Services were the major contributors to the MSCI AC World's performance, whereas IT, Consumer Discretionary and Industrials detracted the most. Top contributing names over the period were again Google, Novo Nordisk and Eli Lilly, while Apple, Microsoft and Taiwan Semiconductors were the largest detractors. Within the Fintech space, Intuit, Global Payments and Guidewire Software were among the best contributors to the Global Fintech ETF's performance over Q3 2023, while Adyen, Block and Nexi were the worst detractors.

Performance Review

- In Q3 2023, UBAM - Global Fintech Equity delivered -3.9% in gross performance versus -3.4% for the MSCI AC World and -8.7% for the Fintech thematic (Global Fintech ETF). YTD, the fund is up +10.8% compared to +10.1% for global equities and +4.9% for the Global Fintech ETF.
- The main contributors to relative performance versus the benchmark over the period were the overweight in Intuit, the position in Guidewire Software and the overweight in MSCI Inc (+87bps, +68bps and +68bps respectively). Intuit gained +11.7% over the quarter. The company reported earnings and revenues that came in ahead of expectations but kept a conservative guidance for the full year. Guidewire Software was up +18% over the period after reporting EPS and sales results above expectations. MSCI Inc rose 9.5% on the back of solid results for Q2 driven by strong demand, the company also reiterated its guidance for the full year.
- The main performance detractors over the quarter were the overweight in Adyen, the position in Swissquote and the overweight in S&P Global (-241ps, -44bps and -43bps respectively). Adyen dropped -56% after the company's results disappointed due to lower volume growth in North America and rising staff costs leading to margin contraction. Swissquote lost -11% over the quarter despite a guidance increase for the full year with Q2 results, as the company posted lower trading profits amid lower client trading activity for Q2. S&P Global was down -8% as the company's reported Q2 earnings missed expectations.

Portfolio Activity and ESG

- Over Q3, the position in FIS was sold, benefiting of a jump in the share price on rumors that Worldpay could be sold to private equity, as its CFROI® (Cash Flow Return on Investment, Source: Credit Suisse HOLT) is expected to continue to deteriorate.
- ESG considerations are fully integrated in each step of the fundamental investment process with a focus on a lower carbon risk objective. At the end of September 2023, the portfolio had an A ESG rating with an ESG quality score of 6.8, versus a A rating and 6.8 score for the MSCI AC World (ratings based on MSCI ESG Research). The portfolio's weighted average carbon intensity is much lower than the wider global equities universe with 5.3 tons CO₂e/\$m sales vs 135.1 tons for the MSCI AC World index.

Outlook

- GDP forecasts point to a recovery in growth later in 2023 and for 2024, but this would require an upward movement in corporate sentiment, which is slow to materialize. Despite overall downward earnings revisions in global markets this year, the Global Fintech Equity strategy's exposure to quality companies benefiting from structural growth trends such as AI, along with strong fundamentals, should offer more visible earnings and better operational resilience than the more cyclical, unprofitable parts of the markets. The team expects that the continued innovation in the payments space – particularly in cross-border payments infrastructure – combined with the increasing focus on fully digitised solutions in banking and insurance, as well as the rapidly growing interest in potential use cases for generative AI, particularly in cybersecurity, insurtech, and wealthtech, provide attractive opportunities for active stock selection.

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