

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 or in the latest prospectus.

Market Comment

- Volatility returned over the third quarter of the year with mixed results for equity markets. The MSCI AC World ended Q3 down -1%, while US equities were up +0.6%, European equities +0.7% and Japanese equities +5.2%. Emerging markets on the other hand lost more than -8% over the period and Swiss equities dropped close to -2%.
- With increased worries coming from the Chinese real estate sector, rising commodity prices and supply disruptions, equity markets came under pressure over the third quarter. The last days of September saw bouts of a sector rotation back into value names with investors moving to end the quarter by booking profits on performing names. While the pace of positive revisions on global equities earnings growth moderated somewhat, it stood at an impressive 49% at the end of the quarter, and at 8% for 2022. In terms of valuation, the MSCI AC World traded around 17.5x 12m fwd PE ratio at the end of September, representing a -12% correction in multiples since the beginning of the year.
- US PMI unexpectedly came in higher at 61.1 for September vs 59.9 for the previous print, supported by solid consumer demand and business investment. Pressure however was recorded in the other segments with the shortage of materials, rising commodity prices and goods transportation difficulties. The manufacturing PMI for Europe came in lower for September at 58.6 as supply chain issues continued to weigh on sentiment. Following the Fed's meeting in September announcing that tapering should start before the end of the year, inflation forecasts were raised for 2021 and 2022 and the Fed dots were revised up for 2022. The Fed confirmed its expectation for a transitory inflation driven by bottlenecks, that should slow down to 2% over next year.
- At the end of the third quarter of the year, a sector rotation back into Energy, Financials, and IT drove global equity markets with these three sectors finishing Q3 as the largest contributing sectors to the MSCI AC World's performance; while Materials, Consumer Discretionary and Communication Services were the largest detractors. In terms of individual names, Microsoft, Apple and Tesla were the main performance drivers while Alibaba, Tencent and Amazon were the main drags to the MSCI AC World.
- After a volatile first half of the year, the Fintech theme delivered resilient results versus global equities in Q3 with +0.9% in performance versus -1.1% respectively. YTD, the theme underperformed MSCI AC World by more than 7%, with names like Visa and Fiserv also lagging the broader market, providing however good buying opportunities.

Performance Review

- UBAM – Global Fintech Equity delivered -0.7% versus -1.1% for the MSCI AC World over Q3 with close to +0.4% gross excess return. The fund lagged the overall theme, mainly driven by the absence of exposure to more cyclical names like Affirm Holdings and Bill.com Holdings.
- The main contributors to relative performance versus the benchmark over the period were the position in Swissquote and the overweights in MSCI and Adyen (+89bps, +76bps and +58bps respectively). Swissquote was up +23% over the period after reporting solid first half results and expecting pre-tax profit to double in 2021. MSCI's share price appreciated +14% on a solid set of reported Q2 results with an increase in announced quarterly dividend. Adyen ended the quarter up close to 15%, as the company confirmed that the accelerated digitalisation of shopping due to the pandemic has helped H1 reported profits to double, beating consensus estimate and upgrading its guidance for the full year.
- The main performance detractors over the quarter were the position in Stoneco and the overweight in Nexi and Paypal (-91bps, -68bps and -59bps). Stoneco lost -29% as the company reported a net loss for Q2 with a drop in total revenue and withheld its FY21 forecasts due to short term headwinds for its credit business and technical challenges with its new registry system. The position was sold on these execution issues over the quarter. Nexi lost more than -15% over the period despite posting a strong set of results which were in line with consensus. The name came under pressure however after Italy's watchdog opened a probe into the Nexi-SIA merger. Paypal dropped -11% despite meeting earnings expectations. The company delivered however a more conservative guidance for the full year as its main payment partner, eBay, is transitioning to its own payments experience quicker than planned. The case remains solid nevertheless for the core business of the company.

Portfolio Activity and ESG

- Over the third quarter of the year, the team exited the position in Stoneco after it faced underwriting and execution missteps in lending that wiped out more than a quarter's worth of earnings. Moreover, while the growth in transactions remains on track, Stoneco's lending business appears less promising than previously assumed.
- 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 September 2021, the portfolio had a lower carbon footprint than the wider global equities universe with 5.9 T CO2/\$m sales vs 154.6 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.

Outlook

- The Global Fintech Equity strategy remains well positioned focusing on companies with solid and visible earnings growth over the medium term, which should start building positive relative momentum in a more volatile and desynchronised growth environment following the strong recovery seen over 2021. The Fintech theme stands to benefit in the medium to long term from multiple trends including the shift to digital payment, the surge in e-commerce and the improving financial inclusion in the US and overseas.

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