

# UBAM - 30 GLOBAL LEADERS EQUITY



## Quarterly Comment

For Professional Investors in Switzerland or Professional Investors as defined by the relevant laws

### Market Comment

- After a volatile first quarter, equity markets have rebounded strongly since March 2020, but most have not yet fully recovered from the recorded drawdown. Over the second quarter of 2020, markets rallied as economies started to reopen and central banks as well as governments mounted massive support programs. In addition, some promising early stage studies led to – potentially premature – enthusiasm about the development of a Covid-19 vaccine earlier than initially thought. This led to global equities gaining +19.2% over the quarter, with most regional markets also recovering: US equities were up close to 20%, followed by Emerging Markets equities with +18.1%, European equities with +12.6% and Japanese equities with +11.3%. As for Swiss equities, the SPI Index was up +9.9% while the SPI Extra ended Q2 2020 at +14.5%. Looking at the YTD performance, Swiss equities continue to show strong relative performance versus other global markets and this despite a strong Swiss franc. The SPI and the SPI Extra ended the first half of the year down -3.1% and -6.7% respectively, versus -6.1% for the MSCI AC World.
- Equity markets remained resilient despite an acceleration of the virus spread in the Americas towards the end of the quarter, which forced some US states to reverse re-opening measures. US and China tensions were also back to the headlines on the political and trade fronts. Short rotations into de-rated cyclical sectors and value names were recorded over the end of Q2 namely for industrials, airlines and retailers, as the US showed early signs of a consumer spending rebound. These rotations are expected to remain short lived as several headwinds persist including weak PMIs and labor markets along with negative EPS growth trends.
- At end of the quarter, global earnings growth rates were revised down to -19% and are expected to rebound sharply to 29% in 2021. Across major markets, the 2020 expected growth rates range from +2% for China to -36% for the UK, with eurozone at -31%, while Switzerland continues showing resilience with only -8% currently expected. The MSCI AC World 12-month forward P/E multiple rebounded on much lower 12month forward EPS figures to close to 19.7x, the highest level since 2002.
- All sectors of the MSCI AC World finished the quarter in the green. The biggest contributors over Q2 were the IT sector, followed by Consumer Discretionary and Health Care. In terms of individual names, top contributing names were Apple, Amazon and Microsoft with more than 30% performance over the quarter each. The worst detractors were HSBC, Wirecard and General Electric. Wirecard's share price dropped 94% over the quarter as the company faced increased concerns after announcing missing 1.9bn Euro from its accounts. The name is not held in the 30 Global Leaders Equity portfolio.

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## Performance Review

- UBAM - 30 Global Leaders Equity returned 21.1% in gross return in the second quarter of 2020 vs 19.2% for the MSCI AC World, with more than 1.8% in gross excess return. Stock selection remains the main source of outperformance contributing with +1.3% to excess return, with the top contributor being the Financials sector. Sector allocation was also positive with 0.77% contribution, namely from the absence of exposure to the Utilities sector. The underweight in Emerging Market currencies has led to -0.21% currency effect over the quarter.
- Over Q2, the biggest contributors to performance were the overweight in ASML, Amazon and Partners Group (+62bps, +56bps and +44bps respectively). ASML's share price appreciated more than 38% over the quarter after reporting positive Q1 figures with 45% gross margin in Q1 2020, along with the maintenance of dividend payment for the year. Despite refraining from guidance, the CEO confirmed the company maintains a strong order intake for the year. Amazon continued benefiting from the solid e-commerce trends and upheld its upward momentum, gaining 41% over Q2. Partners Group was up more than 34% over Q2 after an interim update on investment activities and portfolio performances. The company highlighted a 2.6bn USD negative impact on investment performance but announced raising 7bn USD of new AuM over the first four months of the year.
- The main performance detractors over Q2 were the absence of exposure to Apple, as well as the overweight in Fiserv and Roche (-72bps, -50bps and -38bps respectively). Apple was up 43% over the period as its supply chain appeared to normalise ahead of expectation with China's business recovery. Fiserv was up close to 3% over the quarter, underperforming the IT sector. The company reported Q1 results with EPS in line with expectations, but with a slight miss in revenues, guidance for the full year was withdrawn. Roche's share price appreciated 6% over the quarter but still underperformed the global Health Care sector. The company faced some pressure in its US Pharma business from biosimilars as well as from Covid-19 implications. The company was also challenged by reports of limited improvement of Covid-19 symptoms in Italian clients from its Actemra drug.

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## Portfolio Activity and ESG

- Over the second quarter, the team completed one name switch. The position in Estée Lauder was exited given the company large portion of sales via its Travel Retail channel and the collapse of worldwide travel; its high exposure to the US and the department stores channel, which was already suffering long before the Covid outbreak. Based on this, the team projected a fall in the company's CFROI down to 15% in 2020. On the other hand, the team initiated a position in American Tower Corporation, a leading telecom tower real estate company, given its defensive business model and growth opportunities from 5G installations as well as capacity increases by telecom for crisis related traffic.
- At the end of Q2, UBAM- 30 Global Leaders Equity had a AA ESG rating with an ESG quality score of 8.3, versus an A rating and 6.4 score of the MSCI AC World. The fund's ESG quality score was also higher than the average of 5.7 for the top 80% ESG quality score rated positions in the benchmark. The fund does



not hold any laggard stocks (rated CCC or B), versus 7% laggards for the MSCI AC World. The portfolio has a 66% lower weighted average carbon intensity than its benchmark with 55.1 tons of CO<sub>2</sub> emissions / USDm sales vs 163.2 for the MSCI AC World. Being underweight low CFROI sectors such as Utilities and Energy, the portfolio has historically exhibited a 90% lower carbon footprint than its benchmark (as measured in tons of CO<sub>2</sub> output per USDmn invested). In terms of Global Norms compliance, the 30 Global Leaders Equity portfolio does not hold any position with a “Fail” and “Non-Compliant” status on the UN Global Compact indicator by both data providers MSCI ESG Manager and Sustainalytics. In addition to the environmental and Global Norms criteria, the portfolio also exhibits better overall average social and governance indicators than its benchmark, especially on labor and diversity; demonstrating the portfolio’s overall positive impact positioning versus the MSCI AC World.

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## Outlook

- The post Covid-19 environment continues to offer limited visibility on economic recovery as well as earnings development leading numerous companies to withhold guidance for the medium term. After the sharp drop in March and the significant rebounds in April and May, global markets now trade close to fair value with some upside potential if economic activity re-accelerates more than expected. An active investment approach based on fundamental stock picking focusing on the medium to long term rather than short term movements, should provide equity investors with the needed stability and agility to navigate this volatile period.
- The strategy remains well positioned for short-term momentum as well as long term structural drivers, without the need to time markets or themes. The portfolio continues to invest into companies providing value creation under the changed circumstances and avoids exposure to riskier parts of the market such as Energy and Banks. Despite significant uncertainty about the market direction, the companies in the portfolio are well positioned to benefit from a re-opening of the economy, while providing protection during potential setbacks, given the focus on large companies in developed markets with low debt and high cash flow generation.

Main ESG and Carbon Metrics – UBAM 30 GLOBAL LEADERS EQUITY

UBAM - 30 Global Leaders Equity

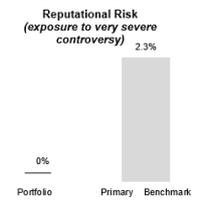
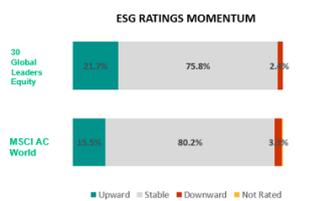
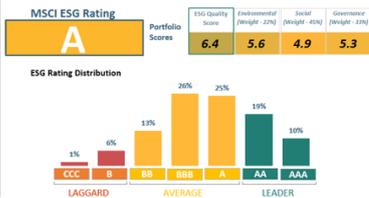
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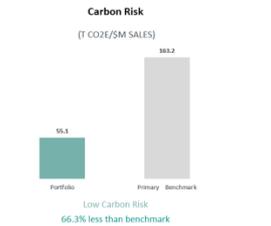
UBAM - 30 Global Leaders Equity



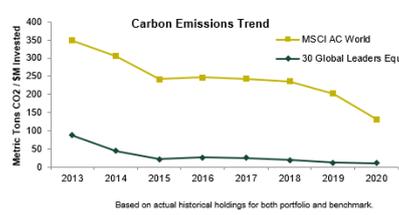
MSCI AC World



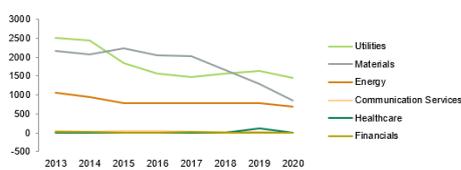
UBAM - 30 Global Leaders Equity has at least 60% less carbon intensity risk than its benchmark (Emissions/Sales)



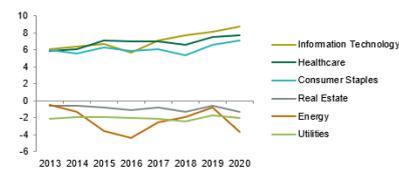
UBAM 30 Global Leaders Equity has historically had 90% lower carbon footprint than its benchmark (based on 1mn Investment)



Sectors with biggest and lowest Carbon Emissions historically (t CO2e / \$M Invested)



Sectors with biggest and lowest CFROI Spread historically (% CFROI level - Discount Rate)



Select Labor and Social KPIs – UBAM 30 GLOBAL LEADERS EQUITY

	5 Year Growth in Employees %	Percentage of Women Employees %	Companies having boards with at least 30% Female Directors*	Companies with Employee Protection in Whistle Blower Policy	Companies with CSR / Sustainability Committee	Training and Professional Development Score (0-10) *
<b>UBAM-30 Global Leaders Equity</b>	5.5	43.2	60%	93.3%	53.3%	5.14
<b>MSCI AC World</b>	6.3	36.5	28%	60%	25.8%	4.67

Source : Bloomberg - 30.06.2020

\* Source : MSCI ESG Manager – 30.06.2020 - Female Directors extends to board of directors, supervisory and management boards.

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