

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

- Major equity markets ended the first quarter of 2021 in the green with the MSCI AC World gaining 4.6%. European equities took the lead in Q1 with a return of 8%, followed by Japanese and US equities with 6.9%, Swiss equities with 5.2% and Emerging Markets with 2.5%.
- The year started with some volatility following concerns around the deployment of Covid-19 vaccines and the evolution of virus variants. The start of the earnings season however revealed positive earnings momentum for cyclical sectors, including financials and technology. This trend was met by investor optimism for a gradual lifting of confinement measures as vaccination rates progress and promises of continued stimulus and amplified by rising Treasury yields and commodity prices as well as falling credit spreads. The consequential expectations for significantly accelerating global GDP growth led to a significant rebound of “beaten down” sectors like energy and metals & mining.
- Global equity valuations declined slightly to 19.4x 12-month forward PE ratio at the end of March, but continued to stay well above the long-term average of 15.7x. Earnings growth expectations rose back to 30% for 2021 as a result of an improving revenue outlook and strong cost management. However, 2021 earnings growth expectations still show divergences between regions with +26% for the US, +33% for the Eurozone, +18% for China and +37% for Emerging Markets.
- The Fed announced no change to its strategy in March and attributed the accelerating trend to higher long-term yields to the improving economic outlook, bolstered by the passage of the American Rescue Plan and progress on vaccinations. Expectations for US GDP growth for 2021 stood at 6.5% while the unemployment rate came in at 4.5%. The US manufacturing PMI has also reflected an improvement in sentiment increasing to 64.7 at the end of March, getting closer to historic highs. The rebound was broad-based, with production and new orders seeing the biggest uplift. The Eurozone manufacturing PMI also saw a rebound to 62.5, the highest level since 2017 with new orders strongly improving with optimistic views on future production.
- While the Fintech theme has massively outperformed global equity markets over the past 5 years and in 2020, it had a volatile first quarter this year. It slightly underperformed during the value rotation in January, to then strongly recover until mid-February, mainly driven by the payment names. Those same names then started to underperform again and most ended the quarter on year-to-date lows.

Performance Review

- UBAM – Global Fintech Equity lost -2.3% versus a gain of +4.6% for the MSCI AC World over the first quarter of the year. The fund slightly outperformed the broader Fintech theme over the period and also exhibited less volatility, mainly owed to the higher exposure to data providers and platform businesses of the fund.
- The main contributors to relative performance versus the MSCI AC World over the period were the position in Swissquote, the absence of exposure to Apple and the position in Rocket Companies (+79bps, +51bps and +36bps respectively). Swissquote was up 33% over Q1 after it reported a doubling of its profits with strong organic growth and an increase in average client assets. This momentum is expected to continue for the next years thanks to the company's expansion strategy. Apple on the other hand lost 7.8% over the quarter in line with other mega cap Tech names less exposed to the "reopening" trade. After Rocket Companies' share price skyrocketed in early March on strong Q4 results with EPS beating consensus and a positive guidance for 2021, things calmed down considerably over the remainder of the month, but the stock still ended the quarter up close to 18%.
- The main performance detractors over the quarter were the position in StoneCo, and the overweights of Guidewire and Nexi (-129bps, -93bps and -91bps respectively). After making new all-time highs mid-February, StoneCo's share price dropped by close to 35% over the remainder of the quarter to end it down 27% as its Q4 results missed consensus estimates. The structural trends benefitting the company remain intact and management provided an upbeat message for 2021. Guidewire had a very volatile quarter and ended up losing 21% after the company's Q2 results provided mixed messages with regards to its cloud transition and annual recurring revenue (ARR) growth. Nexi was down 12.6% over the quarter. While the company's Q4 results came in ahead of expectations the conservative guidance for 2021 disappointed.

Portfolio Activity

- Over the first quarter of the year, the position in Temenos was sold and new positions in MercadoLibre and PagSeguro were added. Both companies benefit from the longer term structural trend of increasing penetration of digital payments and financial solutions in Brazil while they are also expected to profit from the recovery of economic activity in the short-term as the country emerges from lockdowns.
- 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 March 2021, the portfolio had a lower carbon footprint than the wider global equities universe with 6.8 T CO2/\$m sales vs 157.6 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.



Q1 2021

Outlook

- While the structural trends driving the Fintech thematic remain firmly in place and have overall probably been accelerated by the pandemic, we continue to expect periods of considerable volatility driven by the thematic's economic sensitivity due to its exposure to high-growth companies, where rising or falling uncertainty with regards to their future cash flow generation potential can lead to large swings in share prices.
- UBAM – Global Fintech Equity continues to offer diversified exposure to the thematic with a focus on sustainable value creation combined with attractive ESG profiles, thus avoiding companies with no cash generation or flawed business models. The resulting portfolio offers exposure to long term structural trends while it should also benefit from more short-term global growth recovery themes.

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