Q1 2022

UBAM – GLOBAL SUSTAINABLE 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

- After an exceptional year in 2021 in terms of equity performance, the first quarter of 2022 was characterized by equally exceptional volatility. The sharp rise in inflation and in energy prices, the beginning of the Fed's rate hike cycle, as well as the invasion of Ukraine are all elements that have weighed on investor sentiment and the performance of stocks and bonds.
- In the US, consumer sentiment was dragged down by economic concerns but above all rapidly rising prices, despite a very solid labour market. Annual inflation rose to 7.9% in February. As expected, the Fed raised its key interest rates by 25bp for the first time since 2018 and announced plans to start reducing the amount of assets on its balance sheet in the near future. In the eurozone, hostilities in Ukraine caused a sharp drop in consumer sentiment, which had an impact on consumer spending. The ECB adopted a tougher tone than expected, saying it was prepared to end asset purchases at the start of the third quarter. In China, tighter restrictions to combat rising Covid-19 case numbers affected PMI indices, which fell back below 50.
- Global equity markets ended the first quarter of the year in the red with -5.36% (MSCI ACWI). In the US specifically, the S&P 500 index was down by -4.70% during the first quarter with a noticeable outperformance of the Value segment over the Growth one (-9.09% q/q for the Russell 1000 Growth and -0.89% q/q for the Russell 1000 Value). In Europe, the MSCI Europe delivered -5.32%. In this context, the convertible bond universe suffered. The Refinitiv Global Convertible Bond Index EUR Hedged (the "index") declined by 6.7%. The negative impact from the fixed income component of the asset explains less than one quarter of the total performance, the main driver being the underlying stocks.
- In the first quarter. Global markets introduced only $7.9 billion of convertible bonds, experiencing a meaningful drop as a result of the rise in equity volatility, rising financing cost, waning demand, and declining share prices. Repeat issuers were the main source of supply with US companies Snap, Lumentum and Wolfspeed being the sole 3 new bonds, whose issue amount is above $750 million. Europe and Asia both issued about $1.2 billion out of the $7.9 billion.

Performance Review

- With a net return of -8.16% in Q1, our global sustainable strategy underperformed by 1.48% the index. Region-wise, all regions had a negative impact. Europe underperformed the other regions and was also the largest detractor of performance. In terms of sectors, Utilities were the sole contributor to the strategy's performance. Conversely, Technology, Consumer Discretionary, and Health Care concentrated the losses. At issuer level, top absolute contributors in Q1 include Zynga, (US Communication), Wolfspeed (US Technology), Engie/GTT (Europe Energy) and SolarEdge (US Technology). Main detractors were Etsy (US Consumer Discretionary), Sika (Europe Materials), Shopify (US Technology), and HelloFresh (Europe Consumer Discretionary).
- The "Growth" segment continued to suffer with a correction in valuation multiples for mid-sized high growth names along with the rise in interest rates. Despite the defensiveness of the convertible product, the underperformance of our underlying

stock universe weighted on the relative performance versus equities. Despite the ongoing war in Ukraine, our market recovered from the middle of March. The slowdown in the de-rating of Technology stocks as well as renewed M&A activity from Corporates as well as Private Equity funds supported the recent convertible performance. M&A targets mainly involved SaaS (Software as a Service) companies, that constitute a large share of the US technology convertible market.

Portfolio Activity

- At March-end, the average equity sensitivity of UBAM – Global Sustainable Convertible Bond stands at 46.9% (-3.0pts q/q), 1.2pts above its index. The strategy's interest rate sensitivity remains low, at 1.6 for a 3.5-year duration. The average credit spread of the portfolio increased over the quarter but our credit profile remains very solid. Particularly, we were not exposed to any of the 3 Russian names that collapsed during the quarter.
- From a geographical standpoint, the fund is primarily exposed to equity markets through investments in the US (29.5%). Investments in Europe account for 14.3% and Asia and Japan for 3.1%. Relative to the index, the portfolio exhibits an overweight stance to Europe (+8.8pts equity sensitivity) while it is less exposed to the US (-5.4pts) and Asian (-1.2pts) markets. In comparison to the US, the European market offers overall better credit profile and higher sustainability standards, on top of a differientating opportunity set, including in the higher growth segment. Where the US is dominated by software company, Europe offers more diversification notably in consumer discretionary businesses.

  During the quarter, we maintained a disciplined, convexity-driven approach with a strengthened focus on "quality-growth" companies. We benefited from market weaknesses to switch and add more equity-sensible balanced profiles. Despite the quiet primary market, we participated actively in Snap, Wolfspeed and BE Semiconductor launches. Main buys in Q1 also include the investment in CIMC Enric 2026, a leading manufacturer of gas equipment and liquid tank that develops Climate solutions supporting the development of low carbon economy related businesses. Main sales include the Orpea 2027 after severe mistreatment allegations. The convertible bond successfully mitigated the movement declining by -16% versus -54% for the stock during the last week of January. We took immediate actions to fully sold the position given the severity of the allegations, the ongoing probes, the potential class actions and new regulatory framework. It costed 5bps in relative terms and 7bps in absolute;

Outlook

- The world economy is now expected to grow by 3.3% in 2022, as opposed to 4% expected at the end of last year. Output was resilient at the start of the year but is likely to grow at below its potential rate in developed countries and China in the first half of the year. Geopolitical concerns, rising inflation and its impact on real incomes, worsening supply-chain problems caused by the war in Ukraine, and the closure of production centres in China represent significant headwinds.
- We think that the case of investing in Convertible Bonds is reinforced by this lack of visibility in a world of rising interest rates. Although the recent behaviour hasn't provided what one could expect, we think that this represents an opportunity rather than putting into question the long-term benefit of the asset class.
- Entering into 2022, we have been communicating on the opportunity offered by the underperformance of the underlying stocks of the asset class compared to equity markets. The first quarter of the year has reinforced this pattern and creates even more opportunities from our point of view. We think that in a world of decelerating economic growth (consequent to the fight against inflation, the war in Ukraine & the reopening tailwind fading), the Growth thematic will at some point be chased by investors. The asset class, being tilted towards this thematic, should benefit from this trend once it materializes.

All performance figures are given net of fees. Past performance is not a guide to current or future returns. See full disclaimer at the end of the document.

SRI Comment & Indicators

Holding comment: Focus on Sika, Specialty Materials

- Sika is a specialty chemicals company that manufactures a range of additives, adhesives, sealants, and other bespoke products for the construction and automotive sectors. The group also boasts a diversified exposure, with EMEA representing 40% of profits, Americas 29%, Asia 22% and Global Products 10%.
- It operates in an industry that has above-average environmental exposure resulting from a global trend toward more stringent regulation. Opportunities may stem from products enabling lightweight applications, water treatment and resource efficiency. Social risks also pose above-average risk, notably those related to safety management and the growing influence of consumer behavior (use of chemicals, plastics, etc). We believe that well prepared, innovative companies are seizing growth opportunities.
- The group is positioned on the transition to a lower-carbon economy. It offers solutions that deliver environmental benefits to customers by facilitating low-emission and resource-saving construction (facade systems for energy-efficient buildings) and climate-friendly vehicles (adhesives). Sika's revenue generating activities align to Goal 9B "Industry, Innovation and Infrastructure", Goal 11 "Sustainable Cities and Communities" and Goal 3 "Good Health and Well-Being". Through its operations and community engagement, Sika targets five other goals including Goal 6 "Clean Water and Sanitation" and Goal 12 "Responsible Consumption and Production". The group committed for 100% of new product developments to come from sustainable solutions Sika's revenue generating activities align to Goal 9B "Industry, Innovation and Infrastructure", Goal 11 "Sustainable Cities and Communities" and Goal 3 "Good Health and Well-Being". Through its operations and community engagement, Sika targets five other goals including Goal 6 "Clean Water and Sanitation" and Goal 12 "Responsible Consumption and Production".
- The group committed for 100% of new product developments to come from sustainable solutions.
- Sika follows the CDP disclosure since 2007 and the recommendation of the TCFD. Production of construction materials generates significant carbon emissions from on-site fuel combustion and chemicals processes. Sika implemented ambitious 2023 targets to mitigate its activities' environmental footprint (baseline 2019) that cover energy management, carbon emissions (one of the lowest carbon intensity within the chemical industry), waste management, and water savings. It recently committed to implement air emissions monitoring and to work further on sciences-based targets.
- In terms of social issues Sika is exposed ignificant health and safety risks. The group is making efforts to improve its H&S culture. It set 2023 targets to reduce the rate of lost time accidents by at least 50% (baseline 2019) and to have no fatalities. The group has a day lost injury-frequency rate of 4.9 in 2021, compared to an upper quartile of 1.8 for the sector. In response, the group developped a group-level safety strategy with the nomination of regional EHS Managers and a newly safety program (set of 12 specific operational requirements which have been implemented between 2020 and 2021 on workplace safety). The Vision Zero program is now in place and seeks to harmonize safety standards across all subsidiaries with early results indicating an improvement in metrics.
- Looking at governance, Sika's practices are in line with global peers with an independent board majority composed of 8 members but gender diversity remains weak (1 female). In 2018, the share structure of the group was simplified to a new unitary share structure of one share one vote. Looking at pay practices, performance bonus now includes between 10% and 20% of ESG objectives.

Sources: UBP, MSCI ESG Research.

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Extra-financial performance indicators (March 31, 2022)[1]

	Fund	Index[2]
Weighted average Carbon Intensity (tons CO2e / $M Sales)	181	260
Exposure to fossil fuel reserves (%)	1.6	5.0
Diversity program (%)	58.3	41.5
Female directors (%)	32.8	25.1
Board independency (%)	81.4	66.3
Global Compact norm violation exposure (%)	0.0	2.1
Labor norm violation exposure (%)	0.0	2.4

[1]Source: @ 2021 MSCI ESG Research LLC (see important disclaimer on page 4). [2]Refinitiv Global Hedged Convertible Bond Index (EUR).

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