UBAM – US EQUITY GROWTH

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.

As of April1, 2021, B. Riley Wealth Management, a SEC registered Investment Adviser, serves as the Investment Manager to UBAM – US Equity Growth.

Market Comment

- The second half of 2021 saw the world’s largest regions complete their economic recoveries from the pandemic-induced lockdowns of 2020 and move into the next stage of the cycle. Inflation has been coming into focus across regions, not only highlighting the maturing of the global economic cycle, but also signalling a structural shift in the growth–inflation balance of the last decade.

- Global equities ended the quarter up with +6.68% (MSCI ACWI*). In the US specifically, the S&P 500* index progressed by 10.91% during the fourth quarter with a noticeable outperformance of the Growth segment over the Value (11.58% q/q for the Russell 1000 Growth* and +7.61% q/q for the Russell 1000 Value*). In this context the MSCI Europe* delivered +7.68%, outperforming the MSCI Europe Small Cap* +4.61%. Finally, the Emerging markets delivered -1.31%, again with a high dispersion. Taiwan was up +8.43% and on the other side, Chile was down – 10.50%.

- In the United States, sentiment in manufacturing remained high in spite of the supply chain disruptions that were still weighing on many sectors, and the ISM services index rose to a record. Meanwhile consumer confidence picked up as unemployment receded, although the number of job creations in November had been disappointing. Retail sales were not as strong as expected because of price rises, but also because of constrained supply, especially in the auto sector. Inflation reached its highest point in nearly 40 years (6.8%) with energy prices shooting up and supply being delayed. As a result, the Fed, invoking the fight against inflation, announced its intention to unwind its bond-buying faster in the first quarter, with the majority of its governors anticipating three rate hikes in 2022. On the fiscal front, while the debt ceiling was finally raised, President Joe Biden was unable to push through his “Build Back Better” bill.

Sources: UBP, Bloomberg Finance LP.

** net total return index*

Performance Review

- In the fourth quarter 2021, the fund* returned net +9.95% versus +9.99% for the MSCI USA Growth Net Total Return Index, corresponding to a difference of -0.05%. This slight underperformance in the quarter was due to stock selection.
- The largest detractors in the quarter were our underweighting in information technology (-5.3%) and stock selection within information technology and consumer discretionary resulting in 27bps, 52bps and 52bps of negative contribution, respectively. Not owning Tesla hurt the fund by 81bps while and our underweight position in Apple negatively impacted the fund by 44bps. Additionally, our overweight position in Honeywell International, JP Morgan Chase and ServiceNow, hurt the fund by 20bps, 21bps and 10bps at the portfolio level during the quarter.
- On the positive side, stock selection in Communication Services, Healthcare and Consumer Staples delivered 54, 57 and 13bps of positive performance in the quarter, respectively. Not owning Moderna and significant overweights in Nvidia Costco and Zoetis delivered 29bps, 28bps, 27bps and 21bps, respectively at the portfolio level.

Portfolio Activity

- The fund made few changes in the fourth quarter. The fund sold out of Johnson & Johnson to raise cash. In addition to underperforming the benchmark over the year, the portfolio managers were concerned over J&J's relatively weak late-stage drug pipeline on the back of increasing competition on it's important drugs and continued ligation risks in the U.S. including lawsuits over the opioid-abuse crisis and injury claims tied to talcum powder.
- During the fourth quarter, portfolio positions sizes increased in Apple, Nvidia, Microsoft and Costco. Apple's stock was up 25.7% in the quarter while the fund's benchmark was up 10.0%. While the managers trimmed the stock in the quarter, it's weighting still rose. Investor excitement rose regarding the record number of new product launches in 2022. Nvidia's stock rose 42% in the quarter as investors became optimistic about Nvidia's metaverse opportunity and its favorable outlook going forward. Microsoft and Costco were up 19.5% and 26.5%, respectively, outperforming the benchmark. This outperformance was driven by continued quarterly results outperformance both on a top and bottom line basis.
- Similarly, the relative decrease in portfolio positions in Facebook -0.8%, Visa -0.5% Salesforce.com and Paypal -0.4% were due to the stock underperformance relative to the benchmark. Facebook gave a downbeat outlook for Q4, in light of continued headwinds from Apple's IOS14 changes, Congressional scruitiny, macroeconomic and Covid19 related factors and slower than expected non-ads revenue in the fourth quarter. Salesforce.com sold off on the back of its announced acquisition of Slack (a secure, messaging app for business). Similarly, PayPay sold off sharply as it floated the potential of acquiring Pintrest but backed off due to poor market reaction. Meanwhile Visa's stock underperformed as its outlook for Q1 was under market expectations. The payment's sector, in general, has had a tough time with lower travel and cross border revenues due to Covid and the recent Omicron surge.

Sources: UBP, Bloomberg Finance LP.

** Class IC, USD net of fees*

Outlook

- In 2022, the global economy is likely to grow by around 4% after a sharp upturn taking growth close to 6% in 2021.
- Consumption should continue to lead the growth trend next year. Healthy labour markets and decline in saving should balance the erosion of the purchasing power.
- Investment should prolong the cycle thanks to public investment in climate change and new technologies. High profit and search for productivity should lead corporates to invest more.
- Bottlenecks in industry should progressively reduce in 2022, but at different pace according to sectors. Emerging countries should reinforce vaccination and may benefit from a complete recovery closing the gap with 2019.
- New variants of the virus are tail risks which could impact activity via a worrisome pandemic or could turn into a more benign endemic virus, leading to a “stop and go” on activity. In past lockdowns, capital was not destroyed, and demand was just delayed; activity has recovered rapidly in the reopening phase.
- Inflation should remain high in H1-22 and is expected to decline progressively during the year.
- The economic policy should remain a support to growth: the budgetary policy should help labour and targeted sectors, while monetary policy adopts a risk management approach with a limited tightening in rates to preserve growth.
- In the equity space, although the outlook remains positive for 2022, the return should be more moderate with higher volatility going forward. Earnings growth should continue to support the asset class, while valuations will moderate.

Sources: UBP.

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