THE DRIVE YOU DEMAND

UBAM – US EQUITY GROWTH

Quarterly Comment | Q1 2020

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Market Comment

- The S&P 500 N.R. finished the quarter in negative territories with -19.72% performance at the end of March. Growth has been outperforming blend stocks this quarter with a performance of -14.18%. Value delivered a negative performance as well over the same period with -26.88%. Sector wise, Information Technology with -12.62%, Health Care with -12.92% and Consumer Staples with -13.62% have been outstanding. Energy delivered the worst sector performance with -49.44%, followed by Financials with -32.32% and Materials with -26.14%.

- January set the tone for the rest of the quarter: the fast spread of coronavirus infections quickly dampened the initial optimism among investors. Improving sentiment in services and firm consumer spending across almost all regions, as well as unexpectedly strong data in China, continued to support the scenario of gradual global recovery for 2020 – at least it did until the fears of a pandemic emerged.

- In February, the increase in the number of coronavirus cases outside China triggered massive sell-offs on equity markets at the end of the month. While the spread of the virus in China did not stop equity markets from hitting new highs up to mid-February, the highly rapid expansion of the number of cases on other continents caused a fall of around 10% in the last week of the month. Developed markets – with relatively little difference between regions – fell by around 8% over the month.

- In March, the headlines have been almost entirely dominated by the spread of the coronavirus around the world and governments' and central banks' responses to it. Equities suffered spectacular falls, with the US market shedding 20% in just sixteen trading days, compared with the previous record of forty-four days in 1929. The announcements of massive support programmes by governments and central banks then sparked a rally of some 18%, the biggest rise in three days since 1933. In the US, weekly jobless claims rocketed to 3.3 million. The Fed announced new currency swap agreements with other central banks. Budgetary responses have been rolled out more gradually and the sums involved increased during the month, with the United States and China leading the field, with their aid packages set to total more than 10% of GDP, making the amounts involved greater than those spent in 2008.

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.

Performance Review

- In the first quarter 2020, the fund returned net -14.03% versus -14.18% for the Russell 1000 Growth Index, corresponding to a difference of +0.15%. The outperformance in the quarter was due to stock selection.

- The largest contributor in the quarter was the stock selection within Real Estate which brought 0.55% of outperformance. This is the result of strong convictions in selected growth stocks like AMT and Equinix, which are characterized as REITS and operate in conjunction with the telecom and cloud computing technology sector. Equinix, a data center company, is benefiting from increased demand within and cloud infrastructure. American Tower's performance has benefited from its resiliency (recurring revenues) and growth (carriers moving from 4G to 5G plus expansion into new geographies).

- Stocks such as Nvidia, Microsoft, Costco, Netflix and Amazon benefited from remote work, social distancing and leisure activities.

- On the other side, Hexcel was the biggest stock detractor during the quarter. Hexcel suffered heavily due to its exposure to wide-body aerospace production cuts and to delays across its Boeing and Airbus programmes. Meanwhile, Hexcel agreed to merge with Woodward in a transformational step, offering a significant boost in scale with strong free cash flow, while melding Hexcel's leading role in composites with Woodward's engine components, motion-control products brings significant aftermarket business. The merger has since been cancelled so that both companies can focus on its own business during this pandemic. The aviation sector's recovery from the pandemic will come, though it is unclear when, as evidenced by the government's cash injection into the sector (and directly into Boeing) to ease financial risks to a fragile supply chain. Importantly, the fund benefited from not holding Boeing in the portfolio.

- Sector allocation had a slightly positive effect during the quarter (+0.06%).

Portfolio Activity

- The managers initiated two new positions in the quarter, CSL and ServiceNow.

- CSL is the global leading plasma company, a market that is only 20% penetrated, leaving a long runway of growth. The company also provides influenza vaccines and is part of the industry consortium seeking a cure for COVID-19.

- ServiceNow is an enterprise cloud-based software company that helps corporations automate their IT departments. Customers use NOW's platforms to facilitate workflow automation, data consolidations and business processes to help them become more efficient and effective, saving money and time.

- The fund sold out of Schlumberger, Allergan and Workday during the first quarter. Schlumberger was significantly affected by the dramatic decline in oil prices and the managers expect business prospects to be below their initial expectations for a long period of time while Allergan was sold due to its pending merger with AbbVie. Workday was sold to buy ServiceNow. Workday and ServiceNow are both cloud-based software companies but the managers see additional long-term upside in ServiceNow instead of Workday.

Outlook

- A recession is expected in the US in Q2 due to quarantine and major disruptions to the supply chain and energy sectors. This recession is expected to be followed by a relative sustained recovery, thanks to the strong measures adopted by the Fed and the Congress.

- In the US, the downturn in activity should propel unemployment to above 10%, but measures adopted should prevent a sharp loss in income, support small and medium firms, and avoid a structural rise in unemployment and a depression.

- Bottom-up consensus earnings estimates have been significantly revised down already but many more adjustments will be needed over the coming weeks. Arguably, the visibility on earnings will remain extremely low for a long period of time. Many companies have already withdrawn previously issued guidance. They will probably abstain from providing an outlook when they start reporting Q1 results in the middle of April but may just shed some light on the economic damage.

- Given the nature of this shock and the fact that there is no historical precedent, predicting the impact of the coronavirus on earnings is somewhat hazardous. This will depend on the actual depth and duration of the economic downturn; there is no doubt that the containment and social distancing measures implemented will have a huge impact on earnings. Declines in the magnitude of those seen during the Global Financial Crisis (GFC) cannot be ruled out, but the most affected industries (financials at that time) will not be the same.

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