Q2 2021

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

- 2021 has seen an uneven recovery in the world's economy, with variations driven to a large extent by the success of measures to stop the spread of Covid-19 and, particularly in the West, the speed of vaccine roll-outs.
- However, the world's central banks, and increasingly fiscal policymakers as well, have stepped in to fill any gaps with stimulus measures of a kind not seen since the Second World War. This has driven a broad-based rally in risk assets around the world, while bond yields have risen and the US dollar has weakened as a result.
- Global equities ended the quarter up 7.39% (MSCI ACWI*). In the US specifically, the S&P 500* index progressed by 8.44% during the second quarter with a noticeable outperformance of the Growth segment over the Value (11.9% q/q for the Russell 1000 Growth* and +5.06% q/q for the Russell 1000 Value*). Likewise, the MSCI North America Information Technology Index progressed by 11.82% q/q, +3% above the broad S&P 500 index.
- In April, investors were reassured by strong economic figures and the message sent by the Fed, which clearly stated its intention to continue supporting the US economy. The US economy grew at an annualised rate of 6.4% in the first quarter due to firm consumer spending, which was boosted by direct transfers to households as part of the stimulus plan adopted by the new Biden administration, along with an upturn in public-sector consumption and investment.
- Despite increasing inflation concerns, most financial assets posted positive returns in May. In the US, economic indicators were very volatile and fell short of expectations overall. The main disappointment was the small number of jobs created (266,000 versus 1 million expected and 770,000 the previous month): this may have been caused by aid for the unemployed, which could be putting off many Americans from looking for work.
- Despite the Fed's slightly less accommodative message and the spread of the Delta variant, bonds and equities both posted positive returns in June. In the US, the ongoing economic recovery did not prevent some indicators falling short of expectations. While confidence in the manufacturing sector hit an all-time high, retail sales fell as direct support payments to households came to an end. Inflation continued to rise, with the annual figure reaching 5%. The FOMC surprised many observers in June, since most of its members are now expecting two rate hikes by the end of 2023. The Fed also increased its growth and inflation forecasts for 2021 fairly substantially.

Sources: UBP, Bloomberg Finance LP.

** net total return index*

Performance Review

- In the second quarter 2021, the fund* returned net +11.88% versus +12.50% for the MSCI USA Growth Net Total Return Index, corresponding to a difference of -0.62%. This slight underperformance in the quarter was mainly due to stock selection.
- The largest detractor in the quarter was the stock selection within Health Care (-0.44%). Not owning Moderna and Eli Lilly caused 21bps of underperformance. The rest can be explained by the performance of Johnson & Johnson (-15 bps at the portfolio level) and Cooper Companies (-11bps at the portfolio level) that achieved the quarter with a performance of respectively +0.86% and +3.17% and lagged their sector
- Stock selection within industrials (-0.27%) negatively affected the fund in the quarter. This underperformance can be explained mainly by the fund investment in Canadian National Railway Company's (-36bps at the portfolio level) as the company and Kansas City Southern have entered into a merger agreement.
- On the positive side, the selection in Consumer Discretionary delivered +0.45%. Not owning Tesla and Booking delivered 42pbs at the portfolio level.
- Sector allocation did not really impact the fund with a performance of -0.03% during the quarter.

Portfolio Activity

- The fund made several position changes in the second quarter. The fund added a new portfolio position in Walt Disney and sold out of Kerry Group. Walt Disney is a global media company with an impressive array of non-replicable assets from Disney theme parks to its evergreen content, creative IP, ESPN and its studio entertainment group including Lucasfilms, Pixar, Marvel, Walt Disney Pictures and 20th Century Studios. The company is benefiting from the rapid consumer adoption of its streaming services, Disney+ and Hulu, the post-pandemic ramp-up of its theme park and vacation business as well as its delayed movie slate. Kerry Group, a major international food and ingredients company, underwent a corporate restructuring over the last few years and lost a large M&A opportunity to competitor and portfolio holding's company, International Flavors & Fragrance (IFF). Kerry has confronted tough internal disputes including a challenging strategic review with its Dairy coop shareholders, a damaging short-seller's report and changing industry dynamics. The fund increased its weighting in IFF using part of the proceeds from the Kerry share sale
- During the second quarter, portfolio positions sizes increased in Nvidia, Linde, IFF and Visa. Nvidia's stock rose over 50% for the quarter while the fund's benchmark was up 12.5%. Nvidia reported extremely strong quarterly earnings and a very favorable outlook going forward. Demand trends for its datacenter and gaming products continue to be strong. The fund managers increased weightings in some of its industrial and materials holdings by adding to Linde and IFF while trimming Canadian National Rail, which entered into a bidding war for Kansas City Southern. Linde, up only 3.6% in the quarter, is benefiting from rising industrial capex and its foray into hydrogen production which could help clean up hard to de-carbonize industries. The fund managers added to IFF during the quarter, per above, as it exited Kerry Group. IFF had previously been underperforming the market and had just completed a transformational acquisition of Dupont's Nutrition & Bioscience division, more than doubling its revenues. The fund increased its weighting in Visa during the quarter as the stock is poised to benefit from a pandemic reopening and more cross-border travel and expenditure which previously weighed on the shares.

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.

- During the second quarter, the fund's weightings declined in Canadian National Rail, JP Morgan and Amazon. In addition to underperforming the benchmark, the portfolio managers trimmed CNR due to its bidding war with a rival for Kansas City Southern and utilized JP Morgan and Amazon as a source of funds due to strong prior stock outperformance. CNR was down 8.7%, JP Morgan up 2.8% and Amazon 11.2% vs the benchmark which rose 12.5%.

Sources: UBP, Bloomberg Finance LP.

** Class IC, USD net of fees*

Outlook

- A strong recovery is expected in Q3, but mainly driven by the rebound in domestic demand in developed countries.
  - With the reopening of the economy, demand surged for goods and services after a long lockdown. US consumers spent the direct support delivered by the US Administration in Q1, but they still have large excess savings.
  - In Europe, a similar rebound is underway from Q2 onwards, as governments prevented a large rise in unemployment and protected household incomes. Confidence is increasing further.
  - GDP is expected to accelerate from the reopening phase thanks to a surge in domestic demand. US, UK and European growth should be close to double-digits in H2-21.
  - Consumption and investment should benefit from deployment of the recovery plans adopted in the EU and discussed in the US, but emergency help to sectors and labour will end with reopening economies.
- Central banks will show more divergent strategies; some will shift their communication in favor of a more neutral stance, preparing markets to a tapering next year.
  - Some central banks have mentioned their willingness to taper or adjust rates in the future: Canada, New-Zealand, Korea, Sweden and the UK's BoE have moderated their bond purchases.
  - The Fed should explicitly talk about tapering in Q3 and prepare markets to reduce its purchases in 2022. To the contrary, the ECB should continue to purchase bonds in 2022 as inflation should be back below 2%.

Sources: UBP.

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