

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

- Equity markets continued their rally over the second quarter of 2021, with the MSCI AC World adding 7.4% in performance to reach close to 12.5% since the beginning of the year. This rally was supported by the accelerated global roll-out of Covid-19 vaccines and central banks maintaining their accommodative stance. Swiss equities led in performance over Q2 with 9.5% for the SPI and 8.4% for the SPI Extra. US equities gained 8.2% over the period while European equities were up close to 6.5% and emerging market equities 5%.
- With positive earnings revisions over the first half of the year, global equities valuation stood at 18.7x at the end of June with earnings growth expectations of 39.3% for 2021. All sectors are showing strong earnings growth rate expectations, notably Energy and Industrials. Renewed demand for oil following the re-opening of economies drove oil prices higher, leading the Energy sector to be a top performer over the quarter. Some Tech names also recovered over the second quarter after a volatile Q1.
- The US PMI came in at 60.6 at the end of June, slightly below expectations and lower than the previous print, showing signs of peaking momentum from historically high levels. Alongside strong labor and housing data, US GDP growth for Q1 accelerated and came in at 6.4% qoq, with expectations peaking however for the second half of the year. The global economic recovery could be entering the maturing stage with strong GDP growth, but decreasing momentum expected towards the end of the year along with transitory inflation.
- Concerns over the Delta variant weighed on sentiment and still represent a tail risk for the global recovery, especially in emerging markets, which is clearly reflected in the pronounced underperformance of emerging markets since early March.
- At the end of Q2 2021, all sectors of the MSCI AC World were in positive territory except for the Utilities sector which lost -0.8%. The IT and Healthcare sectors were the top contributors over the period. In terms of individual names, Microsoft, Apple and Nvidia were among the best performance contributors while Intel, Alibaba and Softbank were among the worst.
- After a weak Q1, the Fintech theme has strongly recovered since mid-May and ended Q2 ahead of global equity markets. This rally was led by re-opening optimism for payment names that saw a volatile first quarter, such as Nexi and Paypal.

Performance Review

- UBAM – Global Fintech Equity delivered 10.1% versus 7.4% for the MSCI AC World over Q2 with close to 2.8% gross excess return. The fund also outperformed the broader Fintech theme over the period given its exposure to financial exchange and data provider businesses like MSCI, Nasdaq and S&P Global.
- The main contributors to relative performance versus the benchmark over the period were the overweights in MSCI, Nexi and Intuit (+87bps, +84bps and +74bps respectively). MSCI was up more than 27% as the company reported EPS and revenues for Q1 that came in above expectations. Nexi rose 25.5% after reporting solid Q1 results with an increase in revenues and an upward revision of 2021 guidance. Intuit's share price appreciated by 28% also on the back of good reported earnings and a positive growth outlook into 2022.
- The main performance detractors over the quarter were the overweights in Fiserv and Global Payments as well as the exposure to Rocket Cos (-66bps, -43bps and -64bps respectively). Fiserv lost 10.2% despite beating on Q1 EPS and raising the lower end of its 2021 guidance on better recovery prospects. Global Payments lost close to 7% over the period despite a good set of Q1 results and a guidance raise, which probably came in slightly below what investors were expecting though. Rocket Cos was down 16% after reporting Q1 results that came in below expectations.

Portfolio Activity and ESG

- Over the second quarter of the year, the team participated in the IPO of Allfunds Group. Allfunds Group has built a fund selection platform with dominant positions in some European markets and sees substantial growth opportunities from building out the ecosystem around the platform. On the other hand, the positions in Guidewire, SS&C, Intuit and Jack Henry were reduced on continued muted spending trends at their financial services clients.
- 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 June 2021, the portfolio had a lower carbon footprint than the wider global equities universe with 6.1 T CO2/\$m sales vs 150.8 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.

Outlook

- As fears of structurally higher inflation fade away and Treasury yields stop rising, equity markets are expected to again favor longer-term quality growth investments versus more value oriented and shorter duration ones. As we move past the peaks in inflation, GDP and EPS growth, sector rotation will probably continue to reverse. This, along with economies gradually lifting further restrictions as vaccination rates rise, should be supportive for the Fintech universe.
- UBAM – Global Fintech Equity continues to offer diversified exposure to the Fintech 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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