Q3 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

- Late summer brought with it renewed volatility in the markets and a decline for most assets. Investors have become increasingly concerned about global growth amid inflationary pressures, supply chain bottlenecks and a looming energy crisis.
- Earnings revision ratios again moderated ahead of the coming reporting season, but the number of upgrades continue to outweigh the number of downgrades in all regions except emerging markets.
- Global equities ended the quarter down with -1.05% (MSCI ACWI*). In the US specifically, the S&P 500* index progressed by 0.48% during the second quarter with a noticeable outperformance of the Growth segment over the Value (1.10% q/q for the Russell 1000 Growth* and -0.93% q/q for the Russell 1000 Value*). In this context the MSCI Europe* delivered +0.73%, behind the MSCI Europe Small Cap* with + 2.52%. Finally, the Emerging markets delivered -8.09%, again with a high dispersion. India was up +12.57% and on the other side, Brazil was down – 20.19%.
- In the US, indicators were mixed in September. Sentiment improved very slightly in the manufacturing sector but worsened in services. Consumer spending rebounded in August, while the number of jobs created fell well short of expectations because of a sharp slowdown in the service sector. However, this did not prevent a further fall in the unemployment rate (5.2%) or strong wage growth (4.3% year-on-year). US inflation stabilized at 5.3% year-on-year in August as opposed to 5.4% in July. The Fed said that it was prepared to reduce asset purchases if trends in the economy and the jobs market remained positive, and the Fed's governors moved more towards an initial rate hike in late 2022. Budget discussions dragged on without any agreement being reached, and the debt ceiling was not raised.

Sources: UBP, Bloomberg Finance LP.

** net total return index*

Performance Review

- In the third quarter 2021, the fund returned net +2.36% versus +1.33% for the MSCI USA Growth Net Total Return Index, corresponding to a difference of +1.03%. This outperformance in the quarter was due to good stock selection.
- The largest contributors to performance in the quarter included health care companies Icon (up 26.5%), West Pharma (up 18.2%) and Danaher (up 13.5%). Costco also benefited the fund in the quarter, up 13.7%. All three health care companies posted better than expected earnings in the quarter and also raised their year-end guidance. Costco's positive stock performance reflected strong earnings growth driven by accelerating membership growth.
- The main detractors in the portfolio in quarter were Tesla and Moderna, both of which were not held in the portfolio but significantly outperformed the benchmark, up over 14% and 64% respectively. The next two distractors included IFF and Fidelity National which were down 10% and 13.9%, respectively. IFF's decline was driven by concern over instability in the management team including a CFO transition and resignation of the President of the Nourish division which called into question a smooth merger of the DuPont's N&B business. Investors also became cautious on margins given raw material inflation and subsequent pricing actions, particularly in the Nourish division where soy and locust bean prices remain elevated. Fidelity National declined due to concerns about competition and pricing pressure as bank contracts come up for renewal, acquisition integration risk, banking industry consolidation and macro weakness due to increase in the Delta virus which could holdback technology spending by the banking industry.
- Stock selection in Communication Services and Information Technology added to performance by +0.68% and +0.57%, respectively. Alphabet +9.5%, Service Now +13% and Salesforce.com +11% all contributed positively.
- Stock selection within Consumer Discretionary (-0.57%) negatively affected the fund in the quarter. This underperformance can be explained by the fund not owning Tesla which was up 14% in the quarter.

Portfolio Activity

- The fund did not make material changes to holding levels during the third quarter. Portfolio positions sizes increased in Icon Plc, Nvidia and S&P Global. While the Fund added to Icon, the stock also rose over 26.5% for the quarter while the fund's benchmark and healthcare were up 1.33% and 18.6% respectively. Nvidia continued to report extremely strong quarterly earnings driven by a new CPU chip, artificial intelligence (AI) tools and gaming products, optimism on Arm acquisition and maintaining a very favorable fundamental outlook. The fund managers increased weightings in financials, adding to S&P Global which posted strong second quarter results, driven by higher expectations in its ratings, indexes and Platts business, along with the acquisition of IHS Markit and likely accelerate share repurchases after the merger. S&P has demonstrated strong margin expansion, strong pricing power and its index business should continue to benefit greatly from the shift to passive investing. An increase in weighting from Costco, ServiceNow, West Pharmaceutical, Danaher and Alphabet were purely driven by those stocks outperforming strongly in the quarter.
- During the third quarter, the fund's weightings declined in Microsoft, PayPal, Amazon, Facebook and International Flavours & Fragrance (IFF), which was primarily as a result of drawdown in the fund prompting some profit taking. In addition to trimming IFF, the stock underperformed the benchmark, as mentioned above, down over 10% vs the benchmark which rose 1.33%.

Sources: UBP, Bloomberg Finance LP.

** Class IC, USD net of fees*

Outlook

- Despite peaking growth and rising inflationary pressures, the outlook for equities remains positive thanks to still sustained earnings growth.
    - The economic cycle is expected to normalise in the next quarters, leading to better sequential Q4 growth after weak Q3 but a moderating trend in 2022.
    - Shortages in industry should progressively fade and inventories will be rebuilt. Deteriorating purchasing power hit consumers in Q3 but an improving labour market should refuel trend on consumption.
    - Fiscal policy will remain a support in developed countries, while monetary policy is removing measures launched during the pandemic as central banks look to normalise key rates.
- In the US:
    - The pace of consumption has disappointed in Q3 due to remaining virus concerns and declining purchasing power in the absence of renewed public support. As the labour situation should improve further, a Q4 rebound is expected.
    - The housing sector peaked and momentum in investment should rotate in favour of infrastructure next year. The 2021 growth outlook has been revised from 6.3% to 5.9% and the 2022 scenario from 4.3% to 3.7%.
- In Europe:
    - Activity has benefited from reopening of services in Q3, after strong recovery in Q2. As consumers focus more on purchasing power and employment, consumption should moderate over the next quarters while industry still suffers from bottlenecks.
    - Q2 GDP growth was revised up, from 4.7% to 5.2% but unchanged in 2022; growth is expected to normalise in the next quarters but should benefit from the effective support of the European recovery fund.

Sources: UBP.

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