

UBAM – ANGEL JAPAN SMALL CAP EQUITY

Quarterly Comment | Q1 2023

For Qualified Investors in Switzerland or Professional Investors or Eligible Counterparties as defined by the relevant laws.

Market Comment

- TOPIX (TR) rose 7.2% in January–March period. In the first half of the quarter, the Japanese equity market went up. This is because concern over excessive monetary tightening by central banks abated as inflation rates had peaked, and expectation of an economic boost rose given the lifting of China’s zero-covid policy. In the middle of March, the equity market and interest rates plummeted as the BoJ left its monetary policy unchanged and risk-off sentiment, driven by bankruptcies of US banks, worsened. However, the market then rebounded as fears over a financial crisis faded due to swift actions by the Fed and central banks in Europe. These same central banks continued to hike rates despite financial system turmoil.
- Outperforming sectors were Iron & Steel and Wholesale, benefiting from expectations of favorable earnings, and the cyclical sectors of Electric Appliances and Machinery. Underperforming sectors were Banks and Insurance, suffering because of concern over financial system turmoil and the sharp drop in interest rates following the collapse of some US banks. Value names underperformed against growth names given the fall in financials. However, small-cap value names outperformed as those with low PBRs attracted investor attention after an announcement that TSE will request sub-1x PBR companies to disclose their improvement measures.
- The Japanese market was strong at the beginning of March, benefiting from Chinese PMI overshooting expectations and yen depreciating. However, share prices, especially for financials, then fell in the middle of the month because of bankruptcies at Silicon Valley Bank and Signature Bank and heightened concerns over the financial system in Europe and the US after Credit Suisse acknowledged “material weakness” in its internal controls over financial reporting. Stocks then rebounded because excessive fears over the financial system were alleviated as the US Treasury announced protections for deposits at smaller banks, the FRB demonstrated support for the banking system by making available additional funding through a new Bank Term Funding Program, and UBS announced an acquisition bid for Credit Suisse.
- Despite the volatility brought by the banking sector fallouts over the month of March, major equity markets still delivered positive performances over the first quarter of 2023. Driven by a strong start of the year with receding recession fears and overall easing inflation prints, the MSCI AC World ended Q1 up +7.3%, with European equities gaining +8.6%, US equities +7.5% and Emerging Market equities +3.9%.

Sources: UBP, Bloomberg Finance L.P.

Past performance is not indicative of future performance

Performance Review

- The portfolio slightly underperformed the MSCI Japan Small Cap index by -0.17% net of fees (Institutional share class in JPY, LU0306285197). Stock selection was the main driver of underperformance while sector allocation was slightly positive. Stock picking was very challenging in Communication Services and Consumer Discretionary. Stock selection was strong in Consumer Staples.
- Portfolio characteristic haven't change during the first quarter, average EPS growth is higher than benchmark. As most of the companies are now entering in the new fiscal year, we will revise earning forecast accordingly.
- One of the best performing stock during Q1 was **Transaction**, a Consumer Staples name. The firm provides comprehensive sales and promotion materials for third party companies. Its strengths include flexibility and responsiveness from planning to manufacturing. Transaction was also successful in actively working on Digitalisation, such as developing a sales network that utilizes E-Commerce during Covid-19. Current growth is supported by eco-bags and hygiene products including high-performance masks, contributing to a lower environmental impact.
- Another good performing stock is **Rorze**. The company is a global provider of highly reliable clean conveyor systems. It is indispensable for semiconductor and FPD manufacturing processes. Orders for semiconductor-related equipment are expected to bottom out. The company announced the acquisition of a semiconductor inspection equipment company. The acquisition is small, but its customers include TSMC and other majors. It does also bring a promising product lineup. We already increased our exposure in January.

Portfolio Activity

- During 1Q, we had 260 research meeting, added 5 companies and sold out 6 companies to maintain the portfolio at optimal level.
- We added **Japan Elevator Service HD**. Japan's Leading Independent Elevator Maintenance Company which provides maintenance, preservation, and renewal construction services. Compared to its manufacturer-affiliated peers it is expanding its market share, by building a business model providing a full range of services at low prices. In addition to expanding its geographic coverage, the company is receiving a large number of inquiries from customers who are considering renewal work due to aging deterioration. This trend contributes to its accelerating growth.
- We sold out one of our key contributing stock **TKP**. The firm has two main businesses: rental meeting rooms and rental offices. The company was affected by Covid-19 but recovered since by cutting loss-making businesses, returning high-rent properties, reducing costs, among other restructuring methods. We sold out as the current share price is already reflecting firm's growth potential.



Outlook

- Equity markets will be quite turbulent for the course of 2023, as the side effects of low interest rates continue to come to the surface. As far as earnings estimates are concerned – notwithstanding downgrades in recent months, the team still feels like there is no downside to earnings estimates in 2023. Investors shall arguably be attracted to companies with innovative profiles, strong balance sheets and pricing power, while shunning those with vulnerable balance sheets and no growth. The team suspects 2023 will see ‘Growth’ mean revert and quite possibly outperform for a prolonged period.
- We believe the market will benefit from an increase in the number of companies working to improve capital efficiency on the back of the TSE urging those with sub-1x PBRs to disclose how they intend to improve. However, we also believe that weak corporate earnings will drag on share performance and create momentum for fast growing companies. While the recovery in automobile production and Chinese economic recovery will no doubt act as a positive, we do expect to see growth in innovative market participants’ earnings expectations given strong worries over how continued monetary tightening at central banks around the world will impact the economy.
- It is difficult to envision a large correction to the Japanese market given valuations are not at expensive levels and record levels of share buybacks are creating a lot of demand for stocks. However, we see serious growth driven by earnings improvements.
- As active managers, such an environment should very much play to the team’s strengths, as innovative fast-growing companies are increasingly sought after, and the valuation sensitivity is less rewarded by way of outperformance. The investment team remains very optimistic that their investment approach will be rewarded in the current environment.

Disclaimer

This is a marketing document and is intended for informational and/or marketing purposes only. It is intended to be used only by the person(s) to whom it was delivered. It may not be reproduced (in whole or in part) or delivered, given, sent or in any other way made accessible, to any other person without the prior written approval of Union Bancaire Privée, UBP SA or any entity of the UBP Group (UBP). This document reflects the opinion of UBP as of the date of issue. This document is for distribution only to persons who are Professional clients in Switzerland or Professional clients or an equivalent category of investor as defined by the relevant laws (all such persons together being referred to as "Relevant Persons").

This document is directed only at Relevant Persons and must not be acted on or relied on by persons who are not Relevant Persons. It is not intended for distribution, publication, or use, in whole or in part, in any jurisdiction where such distribution, publication, or use would be unlawful, nor is it directed at any person or entity at which it would be unlawful to direct such a document. In particular, this document may not be distributed in the United States of America and/or to US persons (including US citizens residing outside the United States of America). This document has not been produced by UBP's financial analysts and is not to be considered financial research. It is not subject to any guidelines on financial research and independence of financial analysis. Reasonable efforts have been made to ensure that the content of this document is based on information and data obtained from reliable sources. However, UBP has not verified the information from third sources in this document and does not guarantee its accuracy or completeness. UBP makes no representations, provides no warranty and gives no undertaking, express or implied, regarding any of the information, projections or opinions contained herein, nor does it accept any liability whatsoever for any errors, omissions or misstatements. The information contained herein is subject to change without prior notice. UBP gives no undertaking to update this document or to correct any inaccuracies in it which may become apparent. This document may refer to the past performance of investment interests. Past performance is not a guide to current or future results. The value of investment interests can fall as well as rise. Any capital invested may be at risk and investors may not get back some or all of their original capital. Any performance data included in this document does not take into account fees, commissions, and expenses charged on issuance and redemption of securities, nor any taxes that may be levied. Changes in exchange rates may cause increases or decreases in investors' returns. All statements other than statements of historical fact in this document are "forward-looking statements". Forward-looking statements do not guarantee future performances. The financial projections included in this document do not constitute forecasts or budgets; they are purely illustrative examples based on a series of current expectations and assumptions which may not eventuate. The actual performance, results, financial condition and prospects of an investment interest may differ materially from those expressed or implied by the forward-looking statements in this document as the projected or targeted returns are inherently subject to significant economic, market and other uncertainties that may adversely affect performance. UBP also disclaims any obligation to update forward-looking statements, as a result of new information, future events or otherwise. The contents of this document should not be construed as any form of advice or recommendation to purchase or sell any security or funds. It does not replace a prospectus or any other legal documents, which can be obtained free of charge from the registered office of a fund or from UBP. The opinions herein do not take into account individual investors' circumstances, objectives, or needs. Each investor must make their own independent decision regarding any securities or financial instruments mentioned herein and should independently determine the merits or suitability of any investment. In addition, the tax treatment of any investment in the fund(s) mentioned herein depends on each individual investor's circumstances. Investors are invited to carefully read the risk warnings and the regulations set out in the prospectus or other legal documents and are advised to seek professional counsel from their financial, legal and tax advisors. The tax treatment of any investment in a Fund depends on the investor's individual circumstances and may be subject to change in the future. This document should not be deemed an offer nor a solicitation to buy, subscribe to, or sell any currency, funds, products, or financial instruments, to make any investment, or to participate in any particular trading strategy in any jurisdiction where such an offer or solicitation would not be authorised, or to any person to whom it would be unlawful to make such an offer or solicitation. Telephone calls to the telephone number stated in this presentation may be recorded. UBP will assume that, by calling this number, you consent to this recording.

Pursuant to Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability - related disclosures in the financial services sector (the "Disclosures Regulation" or "SFDR"), funds are required to make certain disclosures. Funds falling under the scope of Article 6 of the SFDR are those which have been deemed not to pursue an investment approach that explicitly promotes environmental or social characteristics or has sustainable investment as their objective. The investments underlying this financial product do not take into account the EU criteria for environmentally sustainable economic activities. Notwithstanding this classification, the Investment Managers may take account of certain sustainability risks as further described in the fund's prospectus. Funds falling under the scope of Articles 8 or 9 of the SFDR are those subject to sustainability risks within the meaning of the SFDR. The sustainability risks and principal adverse impacts as stipulated in the SFDR are described in the prospectus. In addition, unless otherwise specified, all funds apply the UBP Responsible Investment policy, which is available on <https://www.ubp.com/en/investment-expertise/responsible-investment>

UBP relies on information and data collected from ESG third party data providers which may prove to be incorrect or incomplete. Although UBP applies a proven selection process of such third-party providers, its processes and proprietary ESG methodology may not necessarily capture appropriately the ESG risks. Indeed, data related to sustainability risks or PAI are today either not available or not yet systematically and fully disclosed by issuers, may be incomplete and may follow various methodologies. Most of the ESG factors information is based on historical data that they may not reflect the future ESG performance or risks of the investments.

ESG information providers: Although Union Bancaire Privée, UBP SA, ESG information providers (the "ESG Parties") obtain information from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness of any data herein. None of the ESG Parties makes any express or implied warranties of any kind, and the ESG Parties hereby expressly disclaim all warranties of merchantability and fitness for a particular purpose, with respect to any data herein. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein. Further, without limiting any of the foregoing, in no event shall any of the ESG Parties have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

This content is being made available in the following countries:

Switzerland: UBP is authorised and regulated in Switzerland by the Swiss Financial Market Supervisory Authority (FINMA). The head office is Union Bancaire Privée, UBP SA, 96-98 rue du Rhône, P.O. Box 1320, 1211 Geneva 1, Switzerland.
ubp@ubp.com | www.ubp.com

United Kingdom: UBP is authorised in the United Kingdom by the Prudential Regulation Authority (PRA) and is subject to regulation by the Financial Conduct Authority (FCA) and limited regulation by the PRA.

France: Sales and distribution are carried out by Union Bancaire Gestion Institutionnelle (France) SAS, a management company licensed by the French Autorité des Marchés Financiers, - licence n° AMF GP98041; 116, av. des Champs Elysées | 75008 Paris, France T +33 1 75 77 80 80 Fax +33 1 44 50 16 19 www.ubpamfrance.com

Luxembourg: through UBP Asset Management (Europe) S.A., a Management Company authorised under Chapter 15 of the Law of 17 December 2010 relating to undertakings for collective investment (the "2010 Law") and an Alternative Investment Fund Manager authorised under the Law of 12 July 2013 (the "AIFM Law"), which manages undertakings for collective investment subject to Part I of the 2010 law and other types of funds which qualify as alternative investment funds. 287-289, route d'Arion P.O. Box 79 1150 Luxembourg T +352 228 007-1 F +352 228 007 221.

Hong Kong: UBP Asset Management Asia Limited (CE No.: AOB278) is licensed with the Securities and Futures Commission to carry on Type 1 – Dealing in Securities, Type 4 – Advising on Securities and Type 9 – Asset Management regulated activities. The document is intended only for Institutional or Corporate Professional Investor and not for public distribution. The contents of this document have not been reviewed by the Securities and Futures Commission in Hong Kong. Investment involves risks. Past performance is not indicative of future performance. Investors should refer to the fund prospectus for further details, including the product features and risk factors. The document is intended only for Institutional Professional Investor and not for public distribution. The contents of this document and any attachments/links contained in this document are for general information only and are not advice. The information does not take into account your specific investment objectives, financial situation and investment needs and is not designed as a substitute for professional advice. You should seek independent professional advice regarding the suitability of an investment product, taking into account your specific investment objectives, financial situation and investment needs before making an investment.

The contents of this document and any attachments/links contained in this document have been prepared in good faith. UBP Asset Management Asia Limited (UBP AM Asia) and all of its affiliates accept no liability for any errors or omissions. Please note that the information may also have become outdated since its publication. UBP AM Asia makes no representation that such information is accurate, reliable or complete. In particular, any information sourced from third parties is not necessarily endorsed by UBP AM Asia, and UBP AM Asia has not checked the accuracy or completeness of such third-party information.

Singapore: This document is intended only for accredited investors and institutional investors as defined under the Securities and Futures Act (Cap. 289 of Singapore) ("SFA"). Persons other than accredited investors or institutional investors (as defined in the SFA) are not the intended recipients of this document and must not act upon or rely upon any of the information in this document. The financial products or services to which this material relates will only be made available to clients who are accredited investors or institutional investors under the SFA. This document has not been registered as a prospectus with the MAS. Accordingly, this document and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of this product may not be circulated or distributed, nor may the product be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to institutional investors under Section 274 or 304 of the Securities and Futures Act (Cap. 289) of Singapore ("SFA"), (ii) to relevant persons pursuant to Section 275(1) or 305(1), or any person pursuant to Section 275(1A) or 305(2) of the SFA, and in accordance with the conditions specified in Section 275 or 305 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. This advertisement has not been reviewed by the Monetary Authority of Singapore.