

UBAM – TECH GLOBAL LEADERS 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 sector has been in fact the top contributor for the MSCI AC World's performance over the period with more than 10% absolute performance. In terms of individual names, Microsoft, Apple and Nvidia were among the best performance contributors to the benchmark while Intel, Alibaba and Softbank were among the worst.

Performance Review

- UBAM - Tech Global Leaders Equity delivered 12.0% in gross performance in the second quarter of 2021 versus +7.4% for the MSCI AC World, with 4.6% in gross excess return. Both stock selection and sector allocation had positive contributions over the period (+2.3% and +2.5% respectively). The currency effect (-17bps) was slightly offsetting due to the underweight of EM currencies, which appreciated over the period.
- Over Q2, the biggest contributors to performance were the overweights in Nvidia, Intuit and Paypal (+169bps, +62bps and +56bps, respectively). Nvidia was up close to 50% over the quarter after the company reported impressive Q1 profits increasing 103%, with revenues ahead of management's guidance. The surge came from gaming and data centre segments as well as demand for GPUs used in cryptocurrency mining. Intuit's share price appreciated 28% also on the back of good reported earnings and the positive guidance of the full year outlook. Paypal also appreciated 20% over the quarter after reporting a strong increase in profits driven by the boom of digital payments and e-commerce with the pandemic driven shift to online shopping.
- The main performance detractors over the quarter were the overweights in Fiserv, Infineon and Taiwan Semiconductor (-49bps, -42bps and -30bps respectively). Fiserv lost -10.2% despite beating on Q1 EPS and raising the lower end of its 2021 guidance on better recovery prospects. Infineon was down more than 5% over the quarter despite lifting its full year guidance on the surge in the semiconductor demand. The company however issued prudent guidance for Q3 revenue growth which is expected to potentially be held down by supply constraints. Taiwan Semiconductor was up only up 4% over Q2, underperforming its sector. The stock was under pressure after a power plant outage briefly affected its facilities and operations. The name was also pulled down by the selloff in the Taiwan's semi-conductors space, due to fears of rising inflation and a new virus outbreak locally.

Portfolio Activity and ESG

- Over the second quarter of the year, the team bought Nasdaq, which enjoys CFROI levels above 50% and a wide range of global growth opportunities on trading, clearing and listing. It also initiated new exposure to Sunny Optical, a leading provider of optical products for mobile phones, microscopes and other instruments. As Sunny's product penetration rise and new customers are onboarded, the company can sustainably grow top line at a double digit rate and maintain CFROI above 20%. The positions in Microsoft, Apple and Nvidia were reduced on the other hand on the back of strong recent price performance.
- 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 benchmark with 31.7 tons of CO2/\$m sales vs 150.8 for the MSCI AC World index. The portfolio continues to be 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. The Tech Global Leaders Equity strategy is well positioned to participate in the expected upside on quality growth especially in the fast-growing Tech segment, staying focusing on high and sustainable value creation profiles.

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