

UBAM – GLOBAL TECH CONVERTIBLE BOND

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

- Q4 2022 was characterized by a further slowdown in global growth and emerging signs of peaking inflation across developed economies. During the fourth quarter of the Federal Reserve had been sending signals to prepare the market for a slowdown in the pace of rate hikes and, after four consecutive 0.75% hikes, it rose its key rate by 0.50% in December. The Federal Reserve increased its policy rates totaling a 125bps hike from 3%-3.25% to 4.25%-4.50%. Over the quarter, the US 10-year rate rose by only 4bps to 3.87%. Despite the return of volatility during December, global equity markets ended Q4 in positive territory. Credit spreads tighten during Q4 for both IG and HY down by 29bps and 64bps respectively.
- Eventually, global equities ended the quarter up 9.8% (MSCI World TR), bringing their performance over 2022 to -18.1%. In the US, the S&P 500 index increased by 7.6% quarter-on-quarter. In terms of investment styles, there was an outperformance of the Value segment over the Growth (13.6% q/q for the S&P Growth index, 12.2% ahead of the S&P Value index). The US Technology Select Sector index rose by 5.1% over the quarter, 2.4% below the broad S&P 500 index.
- While being up over the quarter, the convertible bond universe has lagged global equities. The Refinitiv Global Hedged Convertible Bond Index (USD Hedged) returned 2.9% q/q but the US Tech convertible segment, measured by BofA US Tech Convertible Index, was down 1.6% over the period.
- Primary market confirmed the rebound seen in Q3 as global markets introduced \$13.2 billion of convertible bonds during the last quarter of the year. The US contributing \$8.9bn. After two record years, the decline in 2022 was sharp. Overall, in 2022, global convertible issuance is still relatively low and totalized \$39bn including \$28.5bn in the US. The Technology sector contribution reached \$6.9bn or 18% of the total amount issued in 2022.

Performance Review

- For the quarter ending 30 December 2022, the UBAM – Global Tech Convertible Bond Fund (IC USD) returned 1.25%, bringing its annual performance to -23.99% after fees. During the fourth quarter specifically:
 - The information technology theme, first, turned out to be negative, as revealed by the underperformance of the US tech equity index over the broad US equity market in Q4 (-2.4% - see above).
 - The choice of convertibles to get exposure to the IT equity market (“the structuration”), was negative, -5.8% underperf. q/q of the US tech equity index vs. our Tech Convertible Bond Universe. Both the BofA US Tech Convertible index and the Bloomberg US Convertible Technology Index also underperformed by 6.8% and 6.1% respectively.
 - This quarter, the positive performance of our strategy comes from our allocation while being partially offset by the transaction costs.
- At firm level, top contributors over the quarter were Coupa (software & services, closed over the quarter), Akamai (software & services) and Okta (software & services). On the opposite end, holdings in Palo Alto (software & services), Zscaler (software & services) and Wolfspeed (semiconductors & semiconductor equipment) detracted.

¹For indicative purpose only, the strategy has no official benchmark.

Portfolio Activity

- Within the UBAM – Global Tech Convertible Bond portfolio, the fourth quarter was marked by:
 - Liquidity-related adjustments (e.g. Bill 2027, Interdigital 2027, Tyler Technologies 2026)
 - Credit related trades (e.g. Liveperson 2026, Sabre 2025)
 - Accounting quality-related trades (e.g. Macom Technology 2026, Silicon Lab 2025)
 - Security financing-related trades (e.g Alarm 2026, Dropbox 2026, Block 2026)
 - Limited risk-taking on sector outliers (e.g. Everbridge 2026; Liveperson 2024)
 - Additions to the investment universe and portfolio (e.g. Semtech 2027, Investnet 2027, Impinj 2027).
 - M&A take profit (e.g. Coupa 2026)
- During the quarter, the portfolio reported a turnover of 179% with an average realized beta versus the Tech equity index of 0.3
- At December-end, UBAM – Global Tech Convertible Bond exhibits an expected beta of 0.4 versus Tech equity index with nearly 1/2 of the expected Tech equity index volatility.

Outlook

- The year 2022 will be remembered for the sharp rise in short and long rates that penalised all asset classes. Although several developed economies are on track to experience further economic weakness this year, recent evidence suggests that the overall impact could be smaller than previously anticipated. 2023 should see a lull in the rise in short rates, while maintaining strong tension on long rates. Markets are likely to be less directional and less adverse. Dispersion could be particularly high in the equity markets.
- We believe Technology sector should perform better thanks to reduced upside pressure on interest rates in 2023 and attractive valuations at current level. On average the Price-to-sales ratio has fallen by 57% since their 2021 highs for convertible issuer in the technology sector. **Given the high volatility within the tech sector, we believe tech convertible bonds offer a more attractive risk-return profile compared to equities.**

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