



UBAM - 30 GLOBAL LEADERS EQUITY

Quarterly Comment | Q2 2019

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

Market Comment

- ◆ After a strong start of the second quarter, equity markets faltered over the month of May before rallying again over the month of June. Over the second quarter of the year, Swiss equities were leading major equity markets in terms of performance, gaining more than 6.5% over the quarter. US equities followed after gaining +4.3%, European equities were also up 3% while Emerging Markets lagged with +0.6% in performance. Year-to-date, Swiss Equities also led the performance pack with a performance of 21.8% performance versus +17.0% for the MSCI AC World.
- ◆ Earnings growth expectation for global equities continued to be revised slightly down to around 4%, while growth expectations for Swiss equities remain close to 8% for 2019. US equities mainly maintained positive earnings momentum except for cyclical sectors. Earnings revisions for Europe however were negative as well as for Japan and Emerging Markets. Global equities valuation stood at 15.1x at the end of June, still below the long term average of 15.7x. Swiss equities traded around their long term average, at 17.3x forward PE ratio at the end of June.
- ◆ Volatility returned to the market in May with the VIX index spiking above 20 over the month as trade war fears reignited. Manufacturing PMI signals weakened globally in tandem with moderate inflation, leading to accommodative stances from the ECB and the Fed. The World Bank reduced its global growth forecast from 2.9% for 2019 to 2.6%. Growth remains positive however globally, driven by consumers and the service sector. A trade war escalation or its prolongation could present a tail risk to the global growth momentum which could require more stimulus from Central Banks to protect domestic demand and employment dynamics.
- ◆ All sectors of the MSCI AC World ended Q2 2019 in positive territory except for the Energy sector; with Financials and Information Technology as the biggest contributors to performance. The picture was mixed over the month of May however, with all sectors in red namely cyclical sectors such as Information Technology, Financials and Consumer Discretionary. The second half of 2019 could witness a return of such rotations towards more defensive and quality sectors in times of increased uncertainty.

Performance Review

- ◆ UBAM - 30 Global Leaders Equity returned 6.7% in gross return over second quarter of 2019, outperforming the MSCI AC World NR index by 3.1%. Since the beginning of the year, the fund has gained 23.8% and cumulated 7.6% of excess return versus its benchmark.
- ◆ The relative outperformance over the quarter was mainly linked to stock selection with 299bps contribution against 8bps contribution for sector allocation. Stock selection in the Materials sector was the biggest contributor to excess return with 115bps, while the biggest detractor was the selection effect in Industrials with -45bps.
- ◆ In terms of individual stocks, the overweights in Sika, LVMH and Aon were the top contributors to relative performance over Q2 2019 (61bps, 47bps and 34bps respectively). Sika's share price rose more than 22% over Q2 as the Parex deal was completed earlier than expected, in May. LVMH proved once again over the quarter the resilience of its business model against political and trade tensions while maintaining a high level of investment in its different brands and announcing new acquisitions such as a new French wine producer. The stock price was up close to 17% over Q2. Aon's share price rose around 13% over Q2 after announcing solid first quarter results with stronger organic revenue growth and on-going margin expansion.
- ◆ The main detractor of performance over Q2 2019 was the overweight in Cognizant, Alphabet and Rockwell Automation (-46bps, -32bps and -28bps respectively). Cognizant was down 12% over the quarter after weak results with reduced growth and weaker outlook. Google faced a difficult second quarter, dropping -7.8% as it faced higher political and regulatory scrutiny after being accused of skewing search results. Rockwell finished the quarter down 6% in light of an increasingly challenging short term backdrop with the trade war delaying companies Capex decisions and the slowdown in the automotive sector.

Portfolio Activity

- ◆ At the end of May, the team decided to switch its position in Air Liquide into a new position in Linde, both being industrial gas producers. The team saw better opportunities for higher CFROI and growth in Linde along with a better management in place, especially following its merger with Praxair in March 2019.

Outlook

- ◆ The second half of the year will test the recovery scenario with FX headwinds and slowing growth signals. Considering China's slowdown along with the faltering PMI momentum in the US, both leading economies are expected to take steps to avoid new tariff headwinds. Global markets seem to have priced in the growth slowdown and a return of accommodative monetary policies while valuations are in line to slightly below their long-time averages.
- ◆ This increased downside risk environment requires a cautious positioning for equity investors facing foggy financial markets. Despite the short set back in May, equity markets have rallied close to 16.2% since the beginning of the year. In the late stages of the cycle, quality names offer downside protection as they can maintain high and stable CFROI with low leverage. These "beating the fade" names are the core of UBAM-30 Global Leaders Equity and are expected to continue delivering defensive relative performance if volatility returns to the levels experienced in May, over the second half of the year.

Disclaimer

This is a marketing document and is intended for informational and/or marketing purposes only. This document is confidential and is intended only for the use of the person(s) to whom it was delivered. This document 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 Qualified Investors in Switzerland or Professional Clients, Eligible Counterparties or equivalent category of investors 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 to any person or entity to 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 as 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 accepts no liability whatsoever and makes no representation, warranty or undertaking, express or implied, for any information, projections or any of the opinions contained herein or 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 you may not get back some or all of your original capital. In addition, any performance data included in this document does not take into account fees 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 your return.

All statements other than statements of historical fact in this document are "forward-looking statements". Forward-looking statements are not guarantees of future performance. The financial projections included in this document do not represent forecasts or budgets, but 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 disclaims any obligation to update any forward-looking statement, as a result of new information, future events or otherwise.

It should not be construed as advice or any form of recommendation to purchase or sell any security or funds. It does not replace a prospectus or any other legal documents that 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 his/her 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 read carefully the risk warnings and the regulations set out in the prospectus or other legal documents and are advised to seek professional advice from their financial, legal and tax advisors. The tax treatment of any investment in the Fund depends on your individual circumstances and may be subject to change in the future.

The document neither constitutes an offer nor a solicitation to buy, subscribe for or sell any currency, funds, product or financial instrument, make any investment, or 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 invitation.

Telephone calls to the telephone number stated in this presentation may be recorded. When calling this number, UBP will assume that you consent to this recording.

UBP is authorised and regulated in Switzerland by the Swiss Financial Market Supervisory Authority and is authorised in the United Kingdom by the Prudential Regulation Authority. UBP is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority.

Any subscriptions not based on the funds' latest prospectuses, KIID, annual or semi-annual reports or other relevant legal document shall not be acceptable. The latest prospectus, articles of association, KIID and annual and semi-annual reports of the funds presented herein (the "Funds' Legal Documents") may be obtained free of charge from Union Bancaire Privée, UBP SA, 96-98, rue du Rhône, P.O. Box 1320, 1211 Geneva 1 ("UBP"). The Funds' Legal Documents may also be obtained free of charge from UBP Asset Management (Europe) S.A., 287-289 route d'Arion, 1150 Luxembourg, Grand Duchy of Luxembourg. The Funds' Legal Documents may also be obtained free of charge from Union Bancaire Gestion Institutionnelle (France) SAS, 127, avenue des Champs-Élysées, 75008 Paris, France.