Q3 2023

UBAM - BELL US 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

- Global equity markets were weaker in Q3 after strong gains in the first half of the year. The MSCI ACWI contracted by 3.4% but was still up 10.1% for the year. US equities lost -3.3%, Emerging Market equities -2.9% and European Equities -2.1% while Japanese equities gained +2.4% (performance in local currencies).

- In September, US inflation figures picked-up, which threatens to complicate the Federal's reserve battle to keep prices under control. The consumer price index showed that prices in August were up, more than expected, +3.7% compared to a year ago. The increase is largely attributed to the rising energy costs. Aside from energy and foods costs, core inflation is still coming down (from +4.65% to +4.35%).

- As for business confidence, the US manufacturing PMI increased from 47.6 to 48.9 in September. Also, September marked the 20th consecutive month in which unemployment had remained below 4%. Considering this mixed bag of data, the FOMC voted in September to hold the federal funds rate steady at a target of 5.25% to 5.50% but comments from Fed policymakers suggested a further rate hike is on the table before year end.

- Looking at US Equities more specifically, the S&P 500 Net Total Return Index was down -3.65% over Q3, bringing its YTD return to 11.68%. Most sectors of the index were in negative territory at the end of the quarter, led by Utilities (-9.50%), Real Estate (-9.12%), Consumer staples (-6.11%) and Information Technology (-5.70%) and Industrials (-5.28%). Only Energy and Communication Services were positive contributors for the quarter.

- US Equity valuations remain fair with the S&P 500 Net Total Return Index trading at a P/E of 18.0x at the end of September (on a 12-month forward basis). This represents a 19% discount to the MSCI ACWI Growth Index P/E.

- 2023 EPS growth projections for global equities have remained very close to 0% since February, with current bottom-up forecasts at -2% for Europe (but +3% ex-energy) and at +1% for the US.

- Momentum and Value were the investment styles with the least negative performance, while Quality and Growth styles underperformed the broader MSCI AC World index over the quarter. Looking further into the 4Q23 and 2024, the investment team is confident about the potential of 'Quality' US cap companies at a reasonable Price".

Past performance is not a guide to current or future returns. See full disclaimer at the end of the document.

Performance Review

- UBAM - Bell US Equity returned -5.24% during Q3 (Class IC USD, net of fees); it underperformed the S&P 500 Net Total Return Index, which returned -3.39% over the period.
- Global equity markets had a more subdued Q3, as investors seemingly accepted the ‘higher for longer’ interest rate mantra that has been pushed by the US Federal Reserve. Stubbornly high inflation and a particularly resilient US economy saw US 10yr bond yields jump 0.73% over the quarter – putting a dampener on the ‘hope’ that the US Federal Reserve would start reducing rates any time soon. The net result being the MSCI World Index giving back 3.4% (USD terms) having peaked at the end of July – led by the three largest index constituents – Apple, Microsoft and Amazon – that all posted negative returns. This quarter was also interesting in that it was the first time the IT sector had lagged for quite some time.
- While markets have been relatively strong in 2023 one interesting anomaly relates to the performance of the ‘Quality’ factor and its related indices. At the time of writing, August data suggested that while the MSCI World Quality Index has outperformed so far in 2023, the Quality factor itself has actually lagged. The MSCI methodology doesn’t do much by way of distinguishing between Growth & Quality – 8 of the top 10 names in each index are the same. Another interpretation of the Quality factor (according to Citigroup) defines Quality by earnings certainty, profitability & balance sheet strength. This definition of the factor actually suggests that ‘Quality’ has lagged YTD by 3.2% and stocks considered as ‘Low Risk’ have lagged by 11%. Upon digging deeper into the MSCI World Quality index constituents, only 20% of the constituents have outperformed the MSCI World Quality Index, and 36% have outperformed the MSCI World Index. Probably the most interesting observation we would make is that ‘Quality’ has actually lagged this year after a difficult year in 2022 – making it one of the longest periods of underperformance in recent years. We believe that the narrow rally we have seen year to date should normalise and become more balanced as we head into 2024.
- The trends of broader underperformance of quality stocks and those with lower volatility was a contributing factor to the slightly weaker relative performance and lower than normal batting average outcomes in 3Q.
- There were some strong performing names during the period including biotechnology company Amgen which rallied around 22% from recent lows (+37bps contribution). Health management organisation UnitedHealth Group, the second largest position in the portfolio at 3.8%, contributed 16bps to portfolio returns. UnitedHealth continues to deliver very consistent operating results with FY23 set to be another solid year of earnings expected to grow +13%, within the company’s long term targeted range of 13-16% growth. The position has been added to a number of times during the year as the overall risk/reward continues to look very attractive.
- Other top performers during the quarter included membership based discount food retailer BJ’s Wholesale rallying 13% (+17bps contribution), cloud networking equipment maker Arista Networks gained 13% (+17bps contribution) and Broadridge Financial Solutions (+17bps contribution) which has benefitted from equity market activity through their provision of technology-based solutions that help clients serve their retail and institutional customers including pre-trade, trade and post-trade processing. They have a strong and dominant franchise with an estimated 90% market share of all proxy information distributed by custodians and trusts to shareholders. From a relative perspective, not holding Apple was the largest single positive since the company fell over 11% in the quarter.

Past performance is not a guide to current or future returns. See full disclaimer at the end of the document.

- The largest performance detractor from a stock perspective was health care company, Masimo, which dropped sharply (-65bps contribution) after issuing weak Q2 results and a material full year guidance reduction. Masimo is a med-tech company that produces non-invasive patient monitoring and sensor technologies and is also pursuing an expansion into consumer wearables following the acquisition of an audio equipment company in 2022. The weak outlook issued by management was disappointing, especially in the core healthcare business, which makes up the majority of profits and has typically been a consistent performer over time. One positive is that the company has continued to sign new health care contracts at a record pace, which potentially bodes well for future revenue. Additionally, with earnings expectations now materially re-based and the valuation trading at a significant discount to the long-term average, the set-up for the stock is arguably looking quite attractive at current levels.
- Other detractors included Estee Lauder which was down 26% (-56bps contribution). While the company's brands such as Clinique, MAC Cosmetics and La Mer, remain market leading, the near term headwinds have not abated. Weakness in the high margin Asian Travel Retail channel persists as retailers reduce inventory due to a slower than expected recovery of the Chinese international traveller. The investment team remains confident in the long-term investment case and expect that earnings shall rebound well over 30% once the current situation normalises. Cardiovascular device manufacturer Edwards Lifesciences also fell 26% (-47bps contribution) primarily due to valuation contraction. While some competitors have had softer results recently, Edwards Lifesciences' most recent results and outlook was in line with expectations and we expect the mid-teens EPS growth going into 2024 shall be a positive catalyst.
- Sector allocation was a modest drag to relative returns, mainly attributable to the underweight in the Energy sector (5% underweight) since the sector rallied strongly due to the recent rise in oil prices. The only other meaningful contributor was positive, coming from the underweight to Information Technology (6.5% underweight), since the sector lagged the market this quarter.
- In terms of ESG credentials, the UBAM - Bell US Equity portfolio was AA rated by MSCI ESG Research at the end of June. Its 7.38 ESG Quality Score represented a 11% excess to that of the S&P 500 Index at 6.59. Looking at environmental risk more specifically, our strategy was showing 82% less carbon risk than its benchmark at the end of the quarter (in tonnes CO_2e/USD million sales).

Portfolio Activity

- The cash level of the portfolio decreased over the period, beginning with 3.5% and ending the quarter at 1.06%.
- In terms of trading, in addition to adding to names that have been weaker, there were a few new additions during the quarter which contributed to the reduction of cash. These included Agilent, Booking Holdings, Factset Data Systems, Houlihan Lockey, Humana, Motorola Solutions and Toro.
- With the continued recovery in the travel sector, a new position was initiated in Booking Holdings, owner of travel booking websites such as priceline.com, kayak.com and booking.com as well as OpenTable. With a price/earnings ratio of around 20x the 12 month forward earnings expectations, there is strong upside potential as revenue should grow at around 10% p.a. generating high-teens earnings growth and strong cash generation for increased share buybacks.

- Market volatility and uncertainty has also allowed the investment team to be oportunistic with new additions. Agilent Technologies has fallen 25% this year, but its franchise remains strong as a leading global manufacturer of analytical instrumentation and related consumables and services. Its customers are diagnostic and pharmaceutical labs, academic and government institutions, as well as industrial, environmental, and food companies. While growth in some end markets has slowed down in the near term, we believe investors are overly discounting the strong industry tailwinds which drive Agilent's longer-term growth algorithm of high single-digit sales growth and low double-digit EPS growth. This has created a disconnect between the quality of the company and the current valuation providing an excellent entry point into the stock.
- These new positions were funded through redeploying capital from the sale of four names: pharmaceutical company Pfizer, health and personal care company Proctor and Gamble as well as home hardware supplier Fortune Brands Innovations. The other sale was pet diagnostics platform business IDEXX Labs which has rallied 60%+ in the past 14 months. While the fundamentals of the company generally remain positive, the valuation (>50x P/E) reached a level where it became a lot harder to justify long term upside.
- Sector allocation remains diversified, with the most preferred sectors being Health Care (23% allocation) followed by Information Technology (21% allocation) which was the sector with the largest change increasing by 3.8% during the quarter. Financials (16%) remains a significant allocation, as does Consumer Discretionary (14%) and Industrials (11%). The majority of exposure in these sectors is skewed to businesses with well established, stable franchises and less cyclical earnings with some growth exposure in parts of Health Care and Information Technology.
- The largest underweight from a sector standpoint is Information Technology (21% allocation, 6% underweight) and Communications Services (4% allocation, 5% underweight), which is the result of not holding some large index constituents as the team believes valuations are too expensive. The portfolio continues to have no exposure to the Energy sector (5% underweight), Utilities sector (2.5% underweight) or the Real Estate sector (2.4% underweight). These sectors are generally more leveraged, have more cyclical earnings and lower returns, therefore are not attractive given the team's 'Quality' investment style.
- At the end of September, the portfolio's largest positions were Microsoft (6.5%), UnitedHealth Group (3.8%), Alphabet (3.4%), Mettler-Toledo 2.2% and Keysight Technologies (2.1%). A relatively balanced approach to position sizing should help to generate diversified and more consistent overall portfolio returns.

Outlook

- Notwithstanding the recent negative turn in market sentiment – we remain very optimistic as we look into 2024. More generally, we regard the aforementioned market 'anomalies' as a precursor to a strong period of alpha generation. The reality is that we are finding numerous opportunities to improve the quality of the portfolio and buy names that are out of favour and mispriced. Moreso, when we look at the TER (total expected return) of our portfolios over the next 12-24 months, we currently see more upside than we have in the last 12 months.
- As far as our portfolio biases are concerned, as always we skew to where we see the best opportunities – whether that be at a size, sector, geographical or factor level. To that end – the key biases in the portfolio remain the large allocations to Health Care and Information Technology as well as an overweight to small and mid-cap stocks since the valuation is attractive and growth outlook is superior. Overall, the manager believes that 2024 could be a strong year for the portfolio overall as the strong fundamentals that underpin the portfolio biases play out.

Past performance is not a guide to current or future returns. See full disclaimer at the end of the document.

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.

Any subscriptions not based on the funds' latest prospectuses, KIDs or KIIDs (as appropriate), annual or semi-annual reports or other relevant legal documents (the "Funds' Legal Documents") shall not be acceptable. The KID is also available in the local language of each country where the share class is registered and available on UBP Website: **https://www.ubp.com/en/funds.html**. 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, Switzerland (UBP), from UBP Asset Management (Europe) S.A., 287–289 route d'Arlon, 1150 Luxembourg, Grand Duchy of Luxembourg, and from Union Bancaire Gestion Institutionnelle (France) SAS, 116 avenue des Champs-Elysées, 75008 Paris, France. The English version of the prospectus of the Fund as well as a summary of investor rights associated with an investment in the Fund are available on **www.ubp.com**. The fund's management company may decide to terminate or cause to terminate the arrangements made for the marketing of its collective investment undertakings in accordance with Article 93a of Directive 2009/65/EC. The Swiss representative and paying agent of the foreign funds mentioned herein is UBP.The Funds' Legal Documents may be obtained free of charge from UBP, as indicated above.

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 l 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'Arlon 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.