UBAM – Multifunds Secular trends

Quarterly Comment | Q4 2020

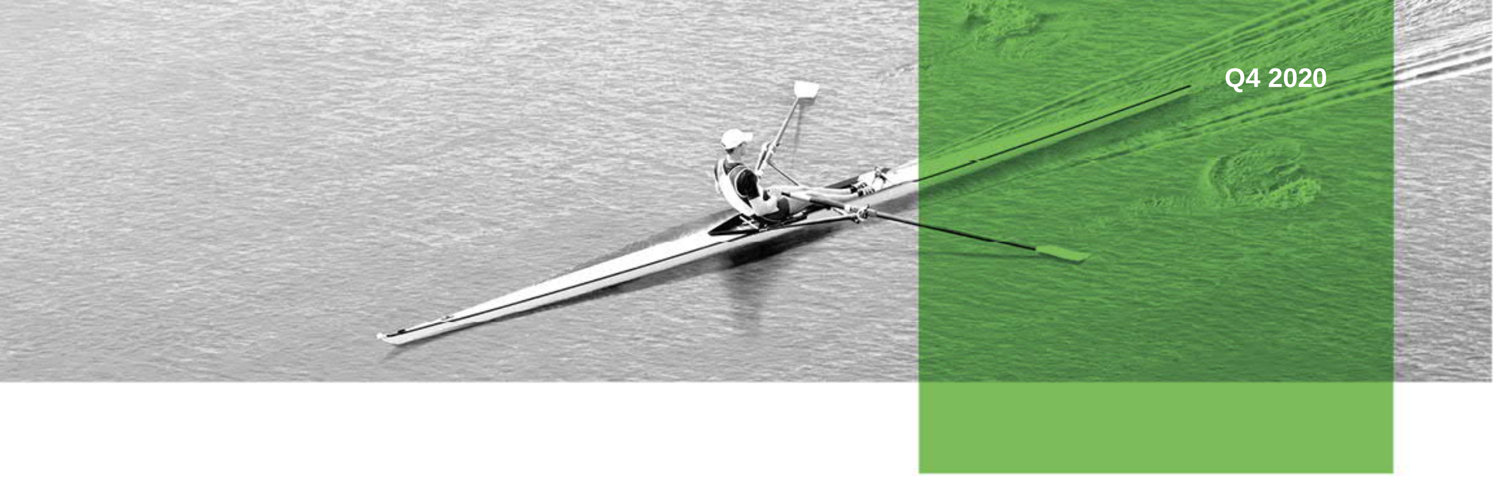
For Professional Investors in Switzerland or Professional Investors as defined by the relevant laws.

Market Comment

- Markets were exhibiting similar recent trends up until the middle of the fourth quarter, when on the 9th of November encouraging phase III trial data from Pfizer Inc' s COVID-19 vaccine prompted a dramatic rotation. The rotation was pronounced globally and had significant ramifications across the risk spectrum. Moderna Inc. then followed up with their phase III trial results which illustrated a 90% efficacy rate for its vaccine. This was then followed by AstraZeneca Plc in partnership with Oxford University and the results of their phase III trial results, illustrating a 60% efficacy going up to 90% after alterations in dosage, however some irregularities prompted the company to conduct a new trial phase. Overall, the fact that three separate vaccines each with an efficacy rate above 50%, which is the minimum level required for regulatory approval, have been successful in phase III trials means the market and economies can start to look beyond the pandemic. Adding further impetus to the bullish narrative driving markets, the US Dollar remained weak throughout the quarter which was particularly supportive for EM-related assets.
- Overall within developed markets there was a cyclical impulse behind price action with small cap equities outperforming their large cap peers in most regions, whilst cyclical sectors also broadly led their defensive counterparts.
- This culminated in a very strong fourth quarter overall for the higher beta ends of the market relative to lower beta disciplines. At the world level, the MSCI World Value Index finished the fourth quarter +15.9% vs. +12.6% for the MSCI World Growth Index. The dispersion remained vast however on a full year basis with Value -0.3% vs. +34.2% for the Growth Index. Energy (+26.9%), Financials (+23.7%) and Industrials (+15.5%) led the way during the fourth quarter relative to the traditional defensive sectors; Utilities (+9.6%), Health Care (+7.0%) and Consumer Staples (+6.4%). Financials were buoyed by a steeper US yield curve with the spread between the US 10 Yr Treasury and the 2yr finishing at 0.8%, the steepest since late 2017.

Sources: UBP, Bloomberg Finance LP.

All performance figures are given net of fees. Past performance is not a guide to current or future returns. See full disclaimer at the end of the document.



Performance Review

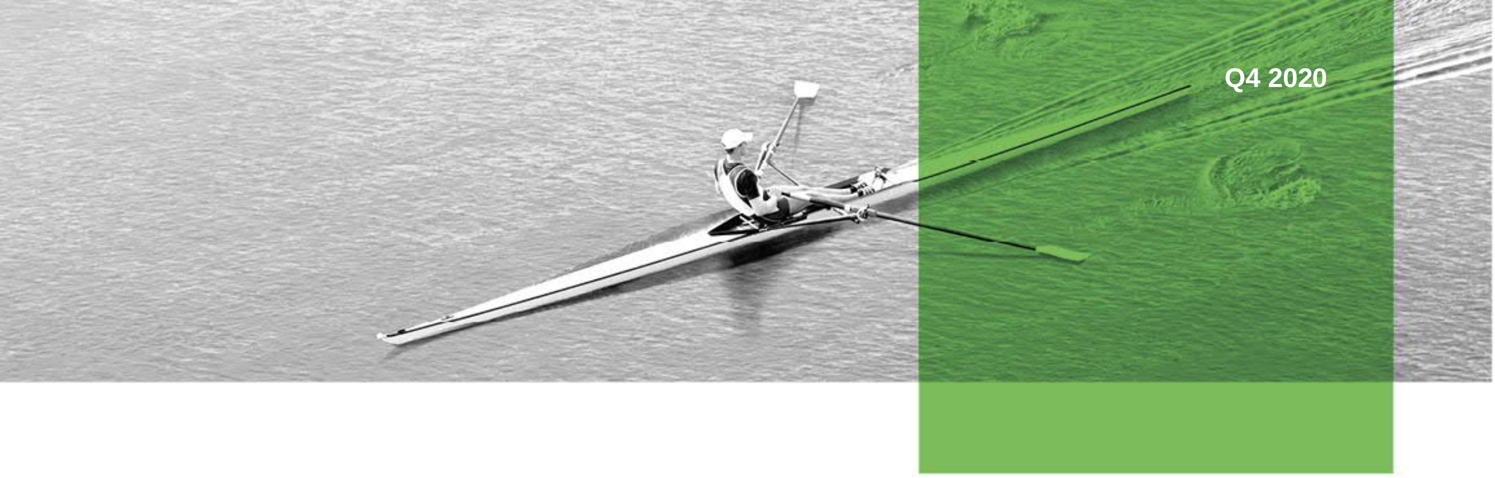
- During Q4, the fund returned 15.24% versus 14.68% for the MSCI AC World Index, with an excess net return of +0.56% net of fees (Institutional share class).
- While theme selection was the largest contributor to excess return, the effect of manager selection was roughly neutral. The top performers included our managers focusing on financials and fintech and environmental solutions (Asia & Global).
- Our manager focusing on financials and fintech was the best performer over the quarter. The bucket posted particularly strong performance in November following the positive news on Covid vaccines which triggered a sharp rebound in cyclical names such as EM banks, and financials more broadly. Software & services' as well as marketplaces' performance was in line with the broader market.
- Our environmental bucket continued to perform well in Q4. Regional allocation was good within the theme, with Asia outperforming the broader equity market. The bucket was also helped by positive developments on vaccines and the prospect of a more favourable political backdrop in the US.
- As expected, managers focusing on more defensive themes, such as infrastructure, oncology, nutrition, and water lagged the broader equity market over the quarter.

Sources: UBP, Bloomberg Finance LP.

Portfolio Activity

- We replaced our listed infrastructure fund with the responsible version of the strategy which offers a very similar profile but greatly improves our ESG metrics.
- We rotated part our consumer exposure towards Asia as the region offers quality companies at a more reasonable price than developed markets.
- We initiated a position in Smart Materials which provide exposure to our secular trends, should clearly benefit from the recovery, and are attractively valued vs the broader market.
- Overall, we have been trimming further strategies in the technology, consumer, and healthcare space that have performed very well since launch and added to those that are either more cyclical or likely to benefit from fiscal stimulus.

Sources: UBP, Bloomberg Finance LP.



Outlook

- The global pandemic is substantially reshaping our world and accelerating the development and adoption of themes that have always been part of our strategy.
- While the positive impact on our Consumption Patterns and Disruptive Innovation trends may seem obvious as the current pandemic has accelerated the move towards automation, online trade, remote working and mobile payments, some core themes in the Demographics and Climate will almost certainly be able to take advantage of the recovery.
- The aim is to maintain a balance, providing some degree of insulation from the macroeconomic environment whilst offering a decent upside potential in a normalization scenario.

- The vaccination rollout is for now giving markets a glimmer of hope that economies may return to some degree of normality during the second half of 2021. Although these programmes are dispersed by country, some have made good ground already on the rollout front. In the UK for instance, 5 million people have now received their first vaccination, more than the number of people who have actually had the virus. The over 80 year old cohort of people has almost been fully vaccinated with their first dosage and this age group has been the most vulnerable to the virus by far. According to research, 74% of COVID-19 fatalities in the UK have been in the over 75 year old age group, whilst this cohort only represents 9% of the entire UK population. It may not be long therefore until the effects of vaccinations become visible in the daily cases and fatality data.

- For their part, markets continue to look broadly beyond the immediate term challenges of combating COVID-19, whilst additionally remaining buoyed by unprecedented liquidity from the world's central banks and governments. The much talked about degree of pent-up demand also remains a key support to economies once reopening ensues. In the US for instance, it is estimated that the consumer has an additional $1.4tr in excess savings since the crisis began. The key question to perhaps answer is by how much has this already been priced into markets?

- The added benefit for equities today is the advantage of lower fixed cost bases which has certainly supported margins. Through furlough and other government support schemes, companies have been able to swiftly and aggressively cut fixed headline costs, far quicker than they have been able to during past recessions. The operating leverage that now resides in companies leaves them well positioned for an economic recovery which often correlates with increasing corporate revenue. The convexity to a normalising growth backdrop is perhaps the greatest in cyclical equities today.

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