

UBAM – GLOBAL RESPONSIBLE 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 year 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%. In the meantime, the European Central Bank and the Bank of England rose their rates by 125bps and 100bps to 2.50% and 3.50% respectively. Central banks' focus is currently on the labour market that remains too tight. In this context, risky asset strongly rallied in October and November before going through a tumultuous December. 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; cross-Atlantic, the Stoxx Europe 600 index was up 10% q/q and the Nikkei 225 index also ended the quarter in positive territory, up 0.8% q/q (all performance expressed in local currencies). 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). US Quality small cap was in between with the Russell 2000 Quality moving 9.3% higher.
- In this context our asset class exhibited an encouraging behavior showing its capacity to both rally when market environment improves and to mitigate downside risk.
- 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, Europe \$3.0bn and Asia \$0.9bn and Japan \$0.3bn. 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, \$6.2bn in Europe, \$4.2bn in Asia and \$0.4bn in Japan.
- Global convertible bonds (represented by the Refinitiv Global Convertible Bond index hedged in Euro, "the index") returned 2.1% q/q. The UBAM – Global Responsible Convertible Bond (IC EUR share class) was ahead with performance of 4% in Q4. Region-wise, all regions contributed positively, but most of the performance has been driven by our investment in the US. In terms of sectors, all sectors ended the quarter with a positive performance, with the exception of Utilities. Healthcare, Consumer Discretionary and Technology were the main contributors to the strategy's performance. At issuer level, top absolute contributors in Q4 include Dexcom (US Healthcare), Halozyme (US Healthcare) and Insulet (US Healthcare). Main detractors were Cyber Ark (US Technology), Lumentum (US Technology) and Zscaler (US Technology).
- Over 2022, UBAM – Global Responsible Convertible Bond shows a net performance of -19.5%.

Performance Review

Portfolio Activity

- At the end of December, the average equity sensitivity of UBAM – Global Responsible Convertible Bond stands at 34.5% (+1.7pts q/q), +0.7pts above its index. The strategy's interest rate sensitivity remains low, at 1.7 for a 3.1-year duration. The average credit spread of the portfolio tightened over the quarter, closing at 207bps (from 242bps) versus 397bps for the index, reflecting the quality bias inherent to our philosophy.
- From a geographical standpoint, the fund is primarily exposed to equity markets through investments in the US (23.1%). Investments in Europe account for 10.1% and Asia and Japan for 1.2%. Relative to the index, the portfolio exhibits an overweight stance to Europe (+5.3pts equity sensitivity) while it is slightly less exposed to the US (-0.8pts) and Asian (-3.2pt) markets.
- During the quarter we have continued to consolidate the positions that we consider to be the most qualitative in the healthcare and industrial sectors. This came with the reduction of our exposures to Information Technology and Consumer discretionary names. We increased our positions in Qiagen, Halozyme, Illumina, Jazz Pharmaceuticals and we took advantage of the primary market to switch part of our positions on NextEra Energy Partner into the new, more defensive 2026 2.5% coupon notes NextEra Energy Partner is a wholly owned subsidiary of NextEra Energy that acquires and mainly operates renewable of projects developed by the mother company. We initiated a position in Bentley Systems, a market-leading infrastructure software vendor with technological edge, and recurring revenue model that addresses ESG risks and opportunities within its business model. In December was announced the early repayment by Engie of its GTT exchangeable bond. We therefore sold our entire position in this name, one of the best contributors to the performance of 2022. Over the last quarter of the year, we also took profits on names that rebounded sharply after posting strong set of results such as Booking, LVMH and Sika. We closed our position in Voltalia, Enphase and Be Semi 2027. We also switched from Etsy 2026 into Etsy 2027 that now offers a more balanced profile.

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. Overall, we do not anticipate a collapse in global growth, whilst Asian countries should provide support to the growth backdrop amid Chinese reopening. 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 and 2023's expectations are starting to reflect downward earnings revisions that could lead to an extended period of volatility.
- In this context, convertibles are clearly in better shape, and we focus on quality companies from both credit and fundamentals standpoints. The secular growth bias of our market should be supportive, thanks to reduced upside pressure on interest rates in 2023 and attractive valuations at current level. In the wake of the market correction, companies issuing convertible bonds suffered a massive de-rating since their valuation peak in 2021. They now appear more attractive given still strong fundamentals and growth prospects. At this level, it is an opportunity for investors to rebuild exposure on equities through convertible bonds considering the potential offered by the embedded option trading significantly out of the money.
- After being negative for a while, yield in the convertible universe has now moved into positive territory. Close to 50% of the convertible bond universe offers a yield >5%. This constitutes a return driver that has been missing for a several years.
- Convertible bonds underlying equities are not expensive anymore and yield is back in the convertible bond universe. As a result, the outlook for convertible bonds is positive thanks to restored multiple performance drivers: underlying equity upside potential, yields and credit

**SRI Comment &
Indicators**
Holding comment: Focus on Akamai Technologies, Infrastructure Software

- Akamai is the industry leader in content delivery networks, which entails locating servers at the edges of networks so its customers, which store content on Akamai servers, can reach their own customers faster, more securely, and with better quality. Akamai has over 325,000 servers distributed over 4,000 points of presence in more than 1,000 cities worldwide. Its customers generally include media companies, which stream video content or make video games available for download, and other enterprises that run interactive or high-traffic websites, such as e-commerce firms and financial institutions. Akamai plays into many secular trends that drive internet proliferation, including video on the internet, e-commerce, SaaS, and mobile. The group is also strengthening its position in cloud security, especially in the Distributed Denial of Service and Web Applicable Firewall spaces.
- In 2021 Akamai announced new goals for its global sustainability program that are expected to be reached by 2030: (1) 100% renewably sourced energy. This includes data centers (mainly outsourced apart from Akamai owned data centers), offices, and any sources of electricity that falls under scope 1 and 2 emissions. (2) 50% more energy-efficient platform. (3) 100% platform emissions mitigation through greenhouse gas offsets or capture technologies when not possible to get access to attestable sources of renewable power. (4) Responsible supply chain. Akamai expects its top suppliers to have environmental and social goals consistent with its own corporate goals. (5) Global expansion of 100% electronic waste recycling program. Akamai plans to continue its goal to recycle 100% of electronic waste at the end of hardware useful life. The group committed to the Business Ambition 1.5°C initiative.
- Looking at climate footprint, the internet is responsible for about 2% of global emissions. It is estimated that by 2025, up to one-fifth of the world's electricity could be needed to power information communications technology, emitting up to 5.5% of the world's carbon emissions. Akamai is conducting robust efforts to mitigate its direct and indirect environmental impact. Carbon intensity appears much lower than the one of the industry in average. Since 2018, despite capacity increases of over 400%, Akamai reduced emissions output by more than 30%. More broadly the company's mid-term target for reducing Scope 1+2 contributes to a 0.78°C temperature increase. Akamai is committed to voluntary annual disclosure of its goals and strategies to encourage accountability in its practices and progress. Since 2009, it reports to CDP on its plan to reduce the impact of its operations.
- As a cloud services provider, Akamai has access to a substantial quantity of personal data through its enterprise clients. It operates the world's largest web content distribution network delivering up to 30% of global internet traffic. Practices in place incorporate data protection programs (external data security certifications and data breach measures). However, Akamai provide its business customers with insights into their end-users' audience analytics which have become controversial in the eyes of governments and privacy advocates.
- Looking at governance, Akamai board's structure is balanced with an independent majority, directors with industry expertise, an independent lead director, and audit & pay committees. Women account for 36% of the board. The CEO is the founder director however he doesn't have a controlling stake. But there are some control mechanisms for director appointments which limit shareholder representation on board. The company also displays robust accounting and financial reporting practices. While the group provides incentives for the successful management of ESG related issue it doesn't disclose practices.

Sources: *UBP, MSCI ESG Research.*

Extra-financial performance indicators (December 30, 2022)¹

	Fund	Index²
Weighted average Carbon Intensity (tons CO2e / \$M Sales)	50	250
Exposure to fossil fuel reserves (%)	0.0	3.8
Diversity program (%)	63.4	49.3
Female directors (%)	34.8	28.6
Board independency (%)	80.6	73.3
Global Compact norm violation exposure (%)	0.0	2.8
Labor norm violation exposure (%)	0.0	3.5

¹Source: @ 2022 MSCI ESG Research LLC (see important disclaimer on page 4). ²Refinitiv Global Hedged Convertible Bond Index (EUR).

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