Q4 2020

UBAM - GLOBAL EQUITY

Quarterly Comment

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

Market Comment

- In Q4, all major equity markets posted strong positive returns. The MSCI AC World finished up +14.7%. At regional level, emerging equities were up +19.7%, US equities +12.1%, Japanese equities +11.2%, and European equities +10.8%. In 2020, the MSCI AC World returned +16.3%, US equities +18.4%, Emerging equities +18.3% and Japanese equities +7.4%, while European equities were down -3.3%.
- In anticipation of an economic recovery in 2021, global equities achieved positive returns despite the second wave of the pandemic and the successive announcements of renewed restrictions across Europe and the United States. The positive news flow around successful Covid-19 vaccine trials led to a cyclical recovery benefiting sectors that had been severely hit by the pandemic. The results of the US election as well as the announced extensions of supporting policy measures in the US and in Europe further fuelled market performance.
- Globally, macro data continue to reflect the ambivalence between the continuous increase in the number of COVID-19 cases and the medium-term optimism due to the vaccine. In all main global regions, the manufacturing sector has mitigated the slowdown seen in the service sector and this should lead to limited downturn of global activity in Q4 and probably in Q1. On the COVID front, Europe and Japan are taking renewed restrictions to economic activities.
- 12-month forward earnings estimates were upgraded in all major regions over the last month of the year, with the earnings revision ratio turning slightly positive everywhere. At the global level, earnings momentum remained the strongest for the cyclical sectors, in particular materials, consumer discretionary and financials. Among the major markets, 2021 EPS growth rate estimates range from +16% for Switzerland to +48% for the eurozone, with the US towards the low-end of the range (+20%) and emerging markets in the middle (+34%), though with sharp disparities between countries. The major valuation metrics for global equities moved up over the quarter. Global equities' 12m forward PE edged up to 19.9x, only marginally lower than back in August, the price-to-book ratio rose to 2.4x – its highest level since 2007 – and the 12m fwd ROE continued to move higher, too.
- In Q4, all sectors of the MSCI AC World finished the quarter in the green, with Financials, Energy and Materials being the best performers.

Performance Review

- UBAM - Global Equity returned +14.1% versus +14.7% for the MSCI AC World over Q4. In 2020, the fund accumulated +17.1% in excess return (+33.4% vs +16.3% for the index). The currency effect detracted the most (-26bps), mainly due to our underweight in Emerging Markets and our absence of exposure to Japan. Sector allocation and stock selection also detracted to relative performance, -19bps and -12bps respectively.
- In terms of individual names, the exposure to Ceres Power and StoneCo along with the overweight in Aroundtown were the major contributors over the quarter (+2.0%, +63bps and +66bps respectively). Ceres Power share price appreciated +137% in local currency in Q4. The group signed strategic manufacturing partnerships and reached technological milestones during the quarter. The Fintech company StoneCo was up +59%. The share price surged after the company published better than expected Q3 2020 results and indicated accelerating total payment volume trends (excluding the “coronavoucher” subsidies boost). Finally, Aroundtown was up +43% over the quarter, recovering part of its underperformance year-to-date as the German real estate group released solid results and gave encouraging prospects for the hotel and office industry.
- The biggest detractors over the period were the overweights in Sunrun, S&P Global and Veeva Systems (-104bps, -43bps and -40bps respectively). Sunrun was up +402% in 2020, but its share price depreciated -13% in Q4 from an all-time-high level. The residential solar company fell after President Donald Trump moved to eliminate a loophole his administration granted in 2019 that helped companies avoid tariffs on double-sided panels, but the stock recovered towards the end of the year given the supportive 2021 outlook for alternative energy. S&P Global was down -15% over the quarter despite solid results leading to small but still positive earnings revisions. The stock suffered from the sector rotation out of quality companies (“compounders”) and also some concerns about the acquisition of IHS Markit announced on November 30. Veeva Systems was down -2% in Q4. A slight backdrop given the company was up +94% over the year. The cloud services company fell after it reported third-quarter results that beat expectations but gave an outlook for subscription revenue growth slightly below analysts’ bullish estimates.

Portfolio Activity

- No major change was made in the portfolio in October.
- In November, the position in Allianz was sold to reduce the exposure to the insurance sectors, which keeps struggling with low interest rates, Covid-19 related costs and revenue headwinds. Another position in Wizz Air was exited as the stock reached his pre-Covid-19 highs on vaccine news while continuing facing headwinds given the border closures and the block of the EU’s recovery package by Hungary and Poland. While the estimates for long term relative growth remain strong, near term revenues are likely to be reduced.
- In December, the positions in Novo Nordics and Waste Management were exited in order to fund new positions in more innovation driven companies. As such, a position was initiated in Infineon, chip maker with string automotive exposure and more than 9% revenue growth expectation. The company is set to benefit from the demand for Battery and/or Fuel Cells Electric Vehicles as well as the inverterisation of electrical motors. The team sees an opportunity for Infineon to

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improve its CFROI from 5% historically to 10% level in the next years. Over the month several hydrogen companies were bought, namely Bloom Energy, Plug Power and ITM Power, given the theme is high growth but decoupled from IT. Bloom energy is exposed to electrolysis and stationary applications. Its onsite generators use natural gas or biofuel for electricity generation. Plug Power is exposed to electrolysis and Proton Exchange Membrane (PEM) stationary to make chemicals and mobile applications. ITM Power is also exposed to electrolysis and PEM electrolyser technology can store excess renewable energy such as "green hydrogen". These companies offer strong sales growth potential. Finally, the position in Alibaba was exited as the major margin and profit drivers at Ant Group are at risk from regulatory driven refocusing on lower margin payments business only.

Outlook

- Our base case for global equities remains an expected market return of around 10% in 2021, driven by substantial EPS growth from 2020's depressed levels but some multiple reversion towards longer-term averages from currently rather elevated levels. We are looking for a slow return to normal life, but the path back to growth could be quite diverse regionally, depending on the persistence of the second wave of Covid-19 infections and concurrent confinement measures by governments.
- We tend to focus on the value creation potential of different industries and individual companies rather than sector allocation, as value creation is a primary driver of long-term equity performance. In the current environment we favor stocks that continue to be supported by long-term structural trends while they should also benefit from the global growth recovery expected next year.
- UBAM - Global Equity remains well positioned for short-term momentum and exposed to long-term structural drivers. The portfolio offers a dynamic exposure to companies – including small caps – with rapidly growing cash flows and increasing value creation, early in their lifecycle. It also gives some exposure to turnaround stories driven by new management teams with a strong track record. These company profiles provide access to attractive sources of returns during economic and business recovery cycles, specifically in a post Covid-19 world.

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