Q4 2023

UBAM - GLOBAL FINTECH EQUITY

Quarterly Comment

Marketing Communication
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

- The last quarter of the year pushed global equity markets higher with another rally and +11% gains for the MSCI AC World. US equities rose +11.2% in Q4, Emerging Market equities +7.9%, European equities +6.4%, Japanese equities +2.9% and Swiss equities +1.4% (performances in local currencies). Over the full year 2023, the MSCI AC World delivered +22.2%, with most regional markets finishing the year in the green despite limited market breadth and elevated bond yields.
- As expected by the market, the Fed announced no change in its key rate policy in December, mentioning the pressure of financial conditions on global activity and alluding to potential interest rate cuts in 2024. The US GDP growth projection for 2024 was revised slightly down from 1.5% to 1.4%, whereas Q3 2023 growth came in strong at 4.9%, lower than the 5.2% expected, but higher than the 2.1% for the prior print, reducing hard-landing fears. The yearly trend in US headline inflation marginally declined from 3.2% to 3.1% as core inflation remained stable at 4.0% yoy. The ECB also held its key rates unchanged as Eurozone inflation gradually eased to 2.4% yoy, slightly above the 2% target. 2024 earnings growth expectations for global equities remained stable at 10%, coupled with 16.6x forward PE ratio. This growth expectation reflects a broad recovery in corporate earnings in all major markets, which will probably, at least partly, depend on inflation and interest rate trajectories.
- The stock market has surprised investors over 2023, which had started with recessionary fears projecting more muted performances. The year also saw a large divergence in results between US IT mega cap names and the rest of the market, drawing a challenging environment for active fund managers. However, Q4 revealed mixed performances for the “Magnificent 7”, with Tesla largely lagging the remaining 6 names and the rest of the market. This has again shown the importance of a medium to long term view and the benefits of staying invested in the market based on a solid fundamental stock selection process rather than trying to time sector or thematic rotations.
- The Fintech thematic had an extremely strong Q4 with the Global X Fintech ETF delivering a return of 27.0% vs. 11% for the MSCI AC World. Coinbase, Block and Affirm were the biggest contributors to relative performance vs. the MSCI AC World, whereas Bill.com, Flywire and Healthequity were the biggest detractors.

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

Performance Review

- In Q4 2023, UBAM-Global Fintech Equity delivered +17.1% in gross performance versus +11.0% for the MSCI AC World and +27.0% for the Fintech thematic (Global X Fintech ETF). Over the full year, the fund is up +29.8% compared to +22.2% for global equities and +33.2% for the Global X Fintech ETF.
- The main contributors to relative performance versus the benchmark over the period were the overweights in Adyen and Fair Isaac as well as the position in Swissquote (+127bps, +117bps and +103bps respectively). Adyen rose more than +72% over the quarter after reporting solid results for Q3 with revenues up +22% year-on-year and processed volumes up +21%. The company also announced an ambitious strategy to improve EBITDA margins to above 50% towards 2026. Fair Isaac's share price gained +34% after reporting better than expected results. Swissquote was up more than +32% benefiting from sell-side broker comments on the profitability and growth opportunities offered by the name.
- The main performance detractors over the quarter were the overweights in Transunion and Verisk Analytics as well as the absence of exposure to Microsoft (-67ps, -39bps and -36bps respectively). Transunion lost -4% as the market reacted negatively to slowed lending in the economy. In addition, the company reported disappointing Q3 results and announced negative guidance revisions. Verisk Analytics was up only +1%, underperforming the Industrials sector, but after solid performance earlier in the year. Microsoft rose +19% after reporting once again strong results across business segments for Q3 and providing a positive outlook boosted by AI. The company also benefited from the general year-end market rally.

Portfolio Activity and ESG

- Over Q4, the team initiated a position in Shift4 Payments, a point-of-sale (POS) system provider to the restaurants and hospitality industry with a sizeable opportunity in sports and entertainment with tailormade POS solutions for sports stadiums. A position in the leading Brazilian neobank Nu Holdings was also introduced. Nu has grown into the world's largest digital banking platform with now around 90mn customers and a penetration of over 50% of the adult population in its home market. Unlike other neobanks, it managed to bring down its deposit costs to levels of Brazil's legacy banks thanks to a better service quality, and is therefore able to attract high-quality deposit customers. In addition to the continued growth opportunity in Brazil, especially in payroll lending, Nu's expansion into Mexico and Colombia has so far been very successful, both markets delivering higher growth rates compared to its home market at the same stage of expansion.
- ESG considerations are fully integrated in each step of the fundamental investment process with a focus on a lower carbon risk objective. At the end of September 2023, the portfolio had an A ESG rating with an ESG quality score of 6.7, versus a A rating and 6.8 score for the MSCI AC World (ratings based on MSCI ESG Research). The portfolio's weighted average carbon intensity is much lower than the wider global equities universe with 5.8 tons CO_2e/$m sales vs 128.8 tons for the MSCI AC World index.

Outlook

- Global equity markets finished 2023 on a strongly positive note, despite some signs of growth slowing, the banking sector fallouts, wars in the Middle East and Ukraine, and still elevated bond yields. US and European equities have regained all of their 2022 drawdown and are trading close to their respective end-2021 market highs. Investors have factored in a soft-landing scenario for the US with possible interest rate cuts going into 2024.
- Interest rates and inflation are expected to normalize, providing a supportive environment for equities in 2024 and more specifically for longer duration assets: quality companies with strong future cash flow streams. Both are set to stay at more elevated levels than during the past decade, which should favour the more profitable part of the Fintech segment.
- In this context, the Global Fintech Equity strategy should be well positioned to weather 2024 market conditions as it continues to focus on sustainable value creation and visible earnings growth within its bottom-up selection of companies with strong fundamentals and secular growth opportunities in the Fintech segment. The team notably expects that the continued innovation in the payments space – particularly in cross-border payments infrastructure – combined with the increasing focus on fully digitised solutions in banking and insurance, as well as the rapidly growing interest in potential use cases for generative AI, particularly in cybersecurity, insurtech, and wealthtech, provide attractive opportunities for active stock selection. A revival of the recently lackluster IPO market could add to investor interest in the thematic.

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