



UBAM – EUROPE SMALL CAP EQUITY

Quarterly Comment

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

Market Comment

- Despite starting the new decade on the front foot, the change in momentum of risk markets as 2020 progressed was noticeable. Investors were already on the lookout for an economic slowdown, but the cycle was interrupted more abruptly than anyone anticipated as the Covid-19 virus spread across regions. As of today, the disease has been declared a pandemic, causing large parts of the global economy to idle and making a global recession a tangible reality.
- Following mixed performance in January where the initial virus impact was offset by the start of the year optimism, the quarter revealed itself to be very volatile, displaying negative returns across the board. The S&P500 index was down -19.6% for the quarter and set a number of records on its way down – fastest -30% decline, most violent peak to trough move and volatility comparable to 2008 despite markets only moving half as much. The MSCI Europe ex-UK returned similar double-digit returns of -20.9%, followed by the MSCI EM at -23.6%. The UK FTSE All-shares was further behind with -25.1% during Q1. Smaller companies suffered disproportionately during the first quarter with the MSCI Europe Small Cap index falling by 28.9%.
- A mixed picture on the credit side – higher prices for government bonds due to the announcements of lowered interest rates and the restart of quantitative easing programs but negative returns from the corporate bonds due to the threat of profits being under pressure as industries shutdown. The resulting performance was +8.2% for US Treasuries, +6.9% for UK Gilts and +0.3% for Euro Government bonds ranging from -1.5% for Spain to +1.6% for Germany. This contrasts sharply with corporate bonds which display -5.4% for Global Investment Grade and -14% for High Yield for both the Euro and US regions.
- Representative of the economic disruption, commodity prices were also hit as demand for most of them declined. Oil prices fell more than most, -60%, due to a combination of lower demand and interruption of the supply constraints between Russia and OPEC. The one exception is gold which is up +5% this quarter as it tends to be an asset of preference in times of market panic.
- The extent of the hit to the economy is still unknown but a selection of indicators highlights the disruption: Chinese car sales fell by -80% in February, restaurant bookings are down -100% on some mobile apps and US unemployment claims doubled and were nearly 7 million. Most governments and central banks have taken supportive action by issuing government-backed loans or other fiscal stimulus, cutting rates and restarting asset purchase programs in an attempt to mitigate the economic consequences of the virus.



Performance Review

- During a challenging quarter, the UBAM Europe Small Cap Equity Fund fell by -28.6%, outperforming the MSCI Europe Small Cap index return of -28.9%.
- Positive stock selection provided a slight benefit to relative returns in the first quarter, with our holdings in healthcare, food production and video gaming in particular proving relatively defensive in the sell off. Amongst the top performers were our holding of diagnostic equipment company Diasorin Spa, video gaming company Stillfront Group AB, health food company Raisio Oyj, insurance company Sabre Insurance Group Plc, business services company Teleperformance SE, and education and media company Sanoma Oyj.
- In terms of our best performing names, Diasorin was a standout holding, benefiting as investors sought less risky assets in defensive sectors and after the company announced that it was accelerating the development of a Covid 19 test. Diasorin is a very well managed company with net cash on the balance sheet that we have owned since the fund launched in December 2016. Elsewhere, our holdings of video gaming companies such as Stillfront and Codemasters Group Holdings Limited outperformed the broader market, benefiting from significantly higher levels of player engagement and an improved mix towards digital downloads during the lockdowns. Finnish healthy food company Raisio reported a spike in demand for its oats and benecol based products and continues to benefit from a very strong balance sheet following a period of restructuring in 2018. Sabre, a specialist insurance underwriter, benefited from a hardening of insurance premiums and hopes of an improved claims experience in the market. Teleperformance, a leading call centre and digital business process outsourcing company, outperformed as investors appreciated that consumers would continue to require its services while on lockdown and the company successfully moved a large proportion of its staff to home working. Finally, our holding of education and media company Sanoma outperformed given the stability of its educational content and platform business, as well as strong ongoing demand for its newspaper subscriptions into the lockdown.
- By contrast, some our holdings in consumer related sectors, travel & leisure, oil & gas, and industrials underperformed as the impact of the coronavirus related lockdowns took hold. Notable detractors from relative returns included travel retailer WH Smith Plc, hotel operator Dalata Hotel Group Plc, leisure equipment manufacturer Dometic Group AB, oil company Cairn Energy Plc, brick company Ibstock Plc, and multi technical services company SPIE SA.

Portfolio Activity

- During the quarter we added a number of new holdings to the fund, including ventilation systems company Volution Group, holding company D'leteren NV, cork products company Corticeira Amorim SA, and fuel cell designer Ceres Power Holdings Group.
- Volution Group is a leading international manufacturer of ventilation and heat recovery systems for the construction industry. Following an upgrade of its manufacturing base in the UK it is well positioned to improve its margins and stands to benefit from increasingly stringent regulations related to ventilation which should drive strong growth in this segment. The valuation looks attractive as investors are yet to fully factor in the benefits discussed above.



- D'leteren is a well managed holding company with its key asset being a leading car glass replacement business called Belron, as well as a large cash pile on its balance sheet. Belron stands to benefit from management actions taken during the course of 2019, as well as growth from increasing recalibration services required for modern windshield replacement due to advanced driver assistance systems (ADAS).
- Corticeira Amorim is the world's leading manufacturer of natural cork stoppers, benefiting from strong market positions especially in the premium segment. Stable demand for its end products, a strong balance sheet with a net cash position, falling raw material prices and a greater emphasis on the sustainability of cork products should continue to drive investor interest in the company.
- Finally, we purchased a position in Ceres Power, one of the key players in the rapidly developing market for fuel cells, taking advantage of a strong fall in the share price in March.
- Elsewhere, we decided to exit positions in oil equipment company Schoeller Bleckmann Oilfield Equipment AG, aerospace components company Lisi SA, oil exploration company Hurricane Energy Plc, and telecoms operator NOS SA. We sold Schoeller Bleckmann on concerns about the continuing deterioration in demand for its products given the fall in the rig count in Q4 last year. Hurricane Energy came up against a number of operational difficulties in its drilling programme in Q1 2020 and we preferred to invest capital with higher conviction elsewhere in the portfolio. We exited our holding of Lisi opportunistically following a short-term improvement in the share price, against a backdrop of continued operational challenges in some of its aerospace programmes. Finally, we sold our holding of NOS on concerns about increased competition in the Portuguese market.
- During the quarter as a whole, we selectively increased our holdings in a number of companies where we felt share prices had been disproportionately hit by the market, such as Arcadis NV, Huhtamaki Oyj, WH Smith Plc, and UDG Healthcare Plc. We funded these purchases by slightly reducing our holdings in some of our more defensive holdings which had benefited strongly during the most intense phase of the market sell off in March.

Outlook

- European smaller companies suffered heavy losses during the course of the first quarter 2020 on the back of heightened investor risk aversion and uncertainty around the implications of the coronavirus outbreak on corporate earnings and the broader macroeconomic picture in 2020 and beyond. Despite some signs of stabilization of the virus in Asia and an end to the lockdowns in China, in the Western world the lockdowns look set to continue well into the month of May and there is still a large degree of degree of uncertainty about how long it will take before we reach some form of normalization.



- As a result of this continuing uncertainty and heightened volatility in the market, we believe that a degree of caution is merited, and we maintain a well-balanced portfolio from a sector, country and market capitalization perspective.
- Whilst there has been a clear polarization in returns between companies from heavily impacted sectors such as travel & leisure, oil & gas, consumer discretionary, and more defensively oriented sectors such as food producer, healthcare and utilities, there are many well managed companies with leading market positions, strong balance sheets and solid longer-term growth prospects which have fallen in line with or by more than the market. Against this backdrop we will continue to monitor opportunities to add to holdings of competitively advantaged businesses with high returns that we believe can become future bigger companies.

Disclaimer

This is a marketing document and is intended for informational and/or marketing purposes only. This document is confidential and intended only for the use of 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 Qualified Investors in Switzerland, or Professional Clients, Eligible Counterparties or an equivalent category of investors 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 at whom 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 represent forecasts or budgets but 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. None of the contents of this document should be construed as advice or any form of recommendation to purchase or sell any securities or funds. This document does not replace a prospectus or any other legal documents, which can be obtained free of charge from the registered office of the fund they relate to, or from UBP. The opinions herein do not take into account individual investors' circumstances, objectives, or needs. Each investor must make his/her 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 and may be subject to change in the future. Investors are invited to carefully read the risk warnings and the regulations set out in the prospectus or other legal documents and to seek professional financial, legal and tax advice. 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 document may be recorded. UBP will assume that by calling this number you consent to such recording. UBP is authorised and regulated in Switzerland by the Swiss Financial Market Supervisory Authority and is authorised in the United Kingdom by the Prudential Regulation Authority. UBP is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Any subscriptions not based on the funds' latest prospectuses, KIIDs, annual or semi-annual reports or other relevant legal document shall not be acceptable. The latest prospectus, articles of association, KIID and annual and semi-annual reports of the funds presented herein (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 ("UBP"). The Funds' Legal Documents may also be obtained free of charge 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-Élysées, 75008 Paris, France. 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.