Q4 2020

UBAM – TECH GLOBAL LEADERS 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%. The MSCI AC World Information Technology index continued outperforming the MSCI AC World with +15.2% in return over Q4. Over the year, the MSCI AC World IT posted a positive performance of +45.6%, while the MSCI AC World was up +16.3%.
- 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.

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

- UBAM - Tech Global Leaders Equity returned +11.0% in gross performance versus +15.2% for its benchmark, the MSCI AC World IT in Q4. This compares to +14.7% for the MSCI AC World. In 2020, the fund returned +48.8%, or +3.2% in excess return over its benchmark which was up +45.6%. Over the quarter, most of the underperformance came from sector allocation (-3.3%), particularly from the exposure to the Retailing and the big underweight in the Technology Hardware & Equipment subsectors. The currency effect, namely the underweight in Emerging Markets, and stock selection, mostly in the Software & Services subsector, also detracted to the fund’s relative performance (-69bps and -24bps respectively).
- In terms of individual names, the fund’s overweights in Paycom Software and ASML, as well as the underweight in Microsoft were among the top contributors to performance (+54bps, +46bps and +47bps respectively). Paycom Software was up +45.3% over the quarter as the leading provider of comprehensive, cloud-based capital management software reported better than expected Q3 results and provided solid financial guidance. After a weak Q3, the share price of ASML appreciated more than +28% in Q4 as the company demonstrated strong quarterly results and reassured on its 2021 outlook despite some concerns regarding a key customer (Intel). Microsoft remains amongst the top contributors in Q4 as the name was up only +5.8%. The technology stock suffered from the rotation into cyclical and value stocks – particularly hit by the pandemic – that followed the announcements of successful Covid-19 vaccines’ trials.
- The biggest detractors over the period were the overweight in Alibaba and Nvidia as well as the absence from Samsung (-102bps, -61bps and -90bps respectively). In Q4, Alibaba share price depreciated -20.8% after the suspension of Ant IPO and after China launched a monopoly probe into the company. While Nvidia showed strong positive performance and remains amongst the top contributors to relative performance over the year, the stock price was impacted by the sector rotation in Q4 2020 and was down -3.5%. Samsung was up +51.3% over the quarter on the back of a positive outlook for memory prices (DRAM and NAND) driven by tight supply and improving demand for mobile and datacenter applications.

Portfolio Activity

- In October, the large overweight in Amazon was slightly reduced to finance the move towards more hardware exposure. Texas Instrument was hence increased on signs of sales growth acceleration.
- In November, no major change was made in the portfolio.
- In December, a position was initiated in Infineon, chip maker with strong 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 improve its CFROI from 5% historically to 10% level in the next years. On the other hand, the position in Alibaba was exited as the major margin and profit drivers at Ant Group are at risk from regulation, pushing the group to refocus on lower margin payments business only.
- Over the quarter, the position in Adobe and Salesforce were further reduced.

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.
- The strategy remains well positioned to benefit from structural drivers, as companies from all sectors continue to invest in technology and the trend towards digitalization has been further accelerated by the pandemic. The portfolio gives the investor access to all the major trends in the industry via its investments into globally leading technology companies with superior value creation.

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