

UBAM – TECH GLOBAL LEADERS EQUITY

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

- Despite the relief recorded over the month of March, global equity markets ended the first quarter of the year in the red with the MSCI AC World down -5.4%. US equities lost -4.9% over the quarter, followed by European and Swiss equities with -5.5%, and Emerging Markets equities with -6.3%. The beginning of the year was marked by sharp profit taking action on good performing names over 2021 with a rotation into value names and market segments. The Russia / Ukraine war added another layer of volatility in February, building up concerns over global food and energy prices and therefore persistently higher levels of inflation.
- At the end of the quarter, the global earnings revision ratio fell into negative territory for the first time since June 2020. 2022 earnings growth expectation stood at about 9% across regions. The 12m forward PE ratio for global equities fell to 16.5x at the end of Q2, slightly above its long-term average. While the US labor market data could be seen as an overheating signal coupled with CPI inflation at 7.5%, US real GDP is expected to grow a solid 3% for 2022, and ISM is still printing at high levels, 57 for end of March. The Eurozone manufacturing PMI has also declined, but is still at high levels at 56.5, reflecting worries about demand and trade disruption due to the geopolitical situation.
- In line with expectations, the Fed raised key interest rates by 25bps, for the first time since 2018, with 6 remaining hikes projected for the year. The ECB has revised down its growth outlook for 2022 from 4.2% to 3.7% and revised up its inflation expectations from 3.2% to 5.1% in 2022. Interest rates were kept unchanged whereas a more hawkish tone was adopted on asset purchases. The higher inflationary environment remains nevertheless coupled with sustained demand levels. This continues to provide a constructive environment for companies which can pass on higher commodity prices and labor costs to customers.
- Relative to other investment styles, Value was the best performing style YTD, however, saw a reversal of trend and underperformed the market since the start of the Russia / Ukraine war as investors sought more defensive positioning. Momentum and Quality were leading styles since Feb 24th. Over the first quarter, Energy and Materials were the best contributing sectors to the MSCI AC World's performance; on the other hand, IT and Consumer Discretionary were the worst detractors. Names like Exxon and Chevron were among the best individual contributors, whereas Meta Platforms and Microsoft were the largest detractors.

Performance Review

- UBAM - Tech Global Leaders Equity delivered -14.5% in gross performance in the first quarter of 2021 versus -5.4% for the MSCI AC World. The MSCI AC World Information Technology index lost -10.3%, also underperforming the larger global equities universe over Q1.
- Over the first quarter of the year, the biggest contributors to performance were the overweight in Visa, the absence of exposure to Home Depot, as well as the overweight in Apple (+17bps, +13bps, +12bps respectively). Visa gained +2.5% over the period after news that Visa and Mastercard were planning to increase fees paid by merchants, a move that has been delayed by the pandemic. Home Depot dropped more than -27% over Q1 despite reporting results that beat consensus on the top line, however Q4 gross margin missed estimates and the company delivered a cautious outlook on ongoing inflation and supply chain disruption. Apple lost -1.6% over the quarter, despite steadily recovering over the month of March, and reporting very solid figures defying the shortage in chips. The company came however under profit taking pressure after being a strong performer in 2021, it also announced in January a delay in the launch of the AR/VR headset until 2023.
- The main performance detractors in Q1 were the overweights in Paypal, Intuit and Sunny Optical (-88bps, -78bps and -71bps respectively). PayPal lost more than -38% over the period as Q4 total processed volumes disappointed and the company abandoned its 750m user target by 2025 to focus on revenue per user growth instead. Intuit lost -25% after reporting quarterly earnings that were in line with estimates however guided for a weaker Q1 citing a slow tax season. The company reiterated however its full FY2022 revenue guidance based on strong momentum. Sunny Optical lost -49% as the company reported a net income that missed estimates on the back of a prolonged chip shortage. Despite facing some of the margin pressure, the company is expected nevertheless to benefit from a strong order book and demand levels

Portfolio Activity

- No major changes have been done on the portfolio end over the quarter. Some positioned have been reduced like TSMC with increased geopolitical risk for Taiwan, and other reinforced like Advanced Micro Devices and Salesforce. Apple and Cisco have also been slightly increased on their defensive characteristics within the sector.
- ESG considerations are fully integrated in each step of the fundamental investment process with a focus on a lower carbon footprint objective. At the end of March 2021, the portfolio had a AAA rating with 9.4 quality score versus AA and 7.9 respectively for the MSCI AC World, as well as a lower carbon footprint than the benchmark with 23.1 tons of CO2/\$m sales vs 162.7 for the MSCI AC World index.

Outlook

- As the global economy braces for accelerated monetary tightening on the back of a higher for longer inflation scenario, the prospects of a growth slowdown, notably in Europe, combined with the Russia/Ukraine conflict weighed on investor confidence at the end of the first quarter of 2022. Multiple compression in Europe and the US has sent equity markets back to pre-pandemic valuation levels. While corporates on average are still boasting solid balance sheets, the recent strong



order intake will be scrutinized for potential demand destruction from high commodity prices and deteriorating confidence.

- The Tech Global Leaders equity strategy has been positioned accordingly, by diversifying to short term defensive trades, and remains focused on value creative companies, with visible earnings trajectory, as well as high pricing power. Such companies are expected to weather better the potential volatility linked to the changing economic backdrop.

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