

UBAM - SMART DATA US EQUITY

Quarterly Comment

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

Market Comment

- Following the regional disparities observed in Q3, the fourth and final quarter of 2020 displays more homogenous developments, in terms of both performance and Covid-19 evolution. Combined with a busy political agenda made up of unfolding US elections, the finalisation of Brexit negotiations, and widespread continuation of monetary and recovery stimulus, this was an eventful ending to the year.
- On one hand, the pandemic took a turn for the worse as autumn materialised and winter approached, with rapidly rising infection rates in Europe and the US surpassing the previous highs. As the capacity of intensive care units filled up, governments were forced to implement new lockdowns with the hope of slowing down the spread of the virus. This temporarily supported continued outperformance of pandemic winners such as online retail and healthcare.
- Nonetheless, pharmaceutical companies announced early November that they had been successful at developing vaccines which effectively reduce Covid19 symptoms by helping individuals build antibodies prior to getting infected. This caused a sharp change of momentum on the equity markets in favour of value sectors such as hotels, airlines, energy and traditional retail which had their best quarter since 2009, rising nearly 16%. Although underperforming for the quarter, their growth counterparts still rose by 13%, allowing them to maintain a significant lead for the year overall (34.2% versus -0.4%).
- Overall, equities were up in all regions during the quarter. The US S&P500 returned 12.2%. This is not representative of the full year numbers which reflect the regional disparities a lot more: +18.4% for the US S&P500, +2.1% for the MSCI Europe ex-UK and -9.8% for the UK FTSE All-Share.
- The US growth stocks which had been important contributors to the country's performance throughout the year were affected by the vaccine news but following a peak of uncertainty the market found comfort in the election results and the prospect of a less confrontational president allowed a strong Q4.
- Overall, the positive performance across the board makes Q4 feels like a better quarter than would have been anticipated 3 months ago. The vaccine news is undoubtedly positive and gives a sense of light at the end of the tunnel, but it must not be ignored that it will take time for countries to roll it out and that the current restrictions will have an economic impact for the first couple quarters of 2021.
- All indices are total return in local currency, except global ones in US Dollars.

Performance Review

- Since its February 19th 2020 inception, the Fund has posted a net performance of +17.3% vs 13.2% for the S&P 500 TR index, delivering +4.13% of net excess return since launch.
- In the fourth quarter, UBAM - Smart Data US Equity was up +13.9% net to investors (I USD class), outperforming by +1.71% the S&P 500 Total Return reference that was up +12.1% over the same period. The fund investment process demonstrated ability to navigate the sentiment reversal and thematic rotation that followed the US election and Covid vaccine trial outcomes.
- On a monthly basis the fund outperformed mostly in November (net excess returns of +0.12% in October; +1.39% in November and +0.15% in December respectively), trading very actively and therefore turning over the book near 4x over the quarter.
- Over Q4, the average beta to the index was 0.97, reducing progressively from 1.01 to 0.93 as the market bull run extended over the quarter.
- In Q4 2020, Smart Data US Equity investment sub-strategies - Social Media, Blogs and Job Openings - delivered respectively an approximate gross contribution of +5.0%, +3.3% and +5.4%. During the quarter, the Social Media and Job Openings stock picking sub-strategies outperformed the index on a normalised basis; on the other hand the Blogs sub-strategy underperformed the same reference.
- The Job Opening sub-strategy significantly outperformed in October and November benefited from its allocation to resilient and mature industries starting to recruit significantly again.
- The Social Media sub-strategy outperformed S&P 500 every month in Q4 trading very active across sectors and names in a news-driven market, ultimately capturing the market rotation towards the reopening themes.
- The Blogs sub-strategy, more fundamental in nature, was initially caught out by the rotation and the speculation but then adapted to the newer regime.

Portfolio Activity

- The Fund performance has anticipated very well the recent rotation from growth to value due to positive news flow about Covid-19 vaccines.
- During the quarter, each investment strategy – Social Media, Blogs and Job Openings – increased its allocation to economic growth dependent stocks, showing the adaptability of the strategies to change of market conditions. Conversely, it has underweighted the average exposure in “GAFAM” stocks (Microsoft and Google for example) vis-à-vis the respective S&P 500 constituent.
- In terms of relative contribution, winning trades were JPM, GE, Exxon, Paypal, Disney, Ford, Twitter, Davita Health, Apple and Hasbro, which represents a very diversified basket in terms of sector and style.
- Sector-wise, stock picking in Industrials, Communications and Consumer Discretionary contributed positively towards the excess returns. Conversely, Healthcare and IT stock picks detracted on a relative basis.
- Over the quarter, the top 5 overweights were Walmart, Eversource, Intel, JPM and AMD; the top 5 underweights were Microsoft, Apple, google, Berkshire Hathaway, Home Depot and Mastercard.
- UBAM - Smart Data US Equity Fund investment process is very proactive, turning over the portfolio nearly 1.4x per month

Outlook

- 2020 highlights how the fund investment process driven by alternative data investment style is agnostic of any traditional investment style, dynamically switching from growth to value biases and rotating ahead of market thematic gyrations, based on short-term nowcasting of underlying stock fundamentals
- This agility can be gauged by the top YTD (from 18/2/20 to 31/12/20) positively contributing stock picks on a relative basis, with several names belonging to ‘unloved’ sectors such as Airlines (DAL, AAL), Energy (OYX, XOM), Materials (FCX), and Financials (WFC) as well as ‘popular’ names belonging to IT (NVDA, AMD, TWTR) and Communications (NFLZ, TWTR, FB). Many of these names are negative YTD performers and negative contributor to the index whilst being positive contributors to the fund thanks to good timing and active trading in 2020.
- For example, if we take a look at Occidental Petroleum, the Energy stock 2020 return was -56%, by opposite the portfolio turned out to a positive return of +30% due to the high volume of trades activity (50+ trades) during the year. As a result, the stock contributed nearly +2% towards the fund gross excess return in 2020.
- The fund trading-oriented stock-picking style powered by Quantcube Technology seems perfectly adaptable to the current markets, which remains volatile due to the overhang of pandemic and the consequent monetary and fiscal interventions to offset it. Furthermore, it reads well stocks driven by intangible fundamentals such as brand or driven by retail sentiment, which are currently dominating US equity market flows.

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