
# UBAM – TECH GLOBAL LEADERS EQUITY

Quarterly Comment

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

*Market Comment*

- In Q3, all major equity markets posted positive returns, though with a downturn in September for most of them. The MSCI AC World finished up +8.1%. At regional level, Emerging equities were up +9.6%, US equities +8.9%, Japanese equities +5.2%, and European Equities +0.1%. As for Swiss equities, the SPI was up +2.3% and the SPI Extra ended Q3 2020 at +6.4%. YTD, the SPI and the SPI Extra have returned -0.9% and -0.7% respectively, whereas the MSCI AC World was up +1.4%.
- Economic activity continued its post Covid-19 recovery, but with a fading momentum at the end of the quarter, pointing towards still positive but slower growth pace in Q4. As per estimates, US Q3 GDP should rebound strongly thanks to consumption and a first upturn in equipment spending. Regarding business sentiment, the US manufacturing sector is in good shape with the PMI at 53.5. However, in September the services sector activity declined for the first time since April from 55 to 54.6. The same happened in Europe with an increased divergence between a good momentum in the manufacturing sector and a negative sentiment in the services sector, impacted by renewed social distancing measures and constraints on hospitality. Over the quarter, unemployment continued decreasing in the US while increasing in Europe. Though employment is at risk in both regions, especially in services, and supportive measures have been extended further.
- At the end of the quarter, the US continued to show positive earnings momentum across all sectors, whereas the picture was more mixed elsewhere. Furthermore, except for Materials, regional disparities across sectors were significant. Among the major markets, expected earnings growth rates for 2020 range from +0% for China to -39% for both the UK and eurozone, with the US roughly in the middle of the range (-16%). A sharp earnings rebound is anticipated in all major regions next year, notably for the eurozone (+55%). Regarding the major valuation metrics for global equities, the 12m forward PE fell to 19x after having exceeded 20x during the summer, the price-to-book ratio remained at 113% of its 5-year average while the 12m fwd ROE increased slightly to 90% of its longer term average.
- Despite Energy, all sectors of the MSCI AC World finished the quarter in the green. The biggest contributors over Q3 were IT, Consumer Discretionary and Industrials.

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 +13.2% in gross performance with +0.5% excess return over the MSCI AC World IT which was up +12.7%, compared to +8.1% for the MSCI AC World at the end of Q3 2020. YTD, the fund returned +34%, or +7.6% in excess return over its benchmark which was up +26.5%. Over the quarter, stock selection contributed positively to the fund's relative performance, with +1.4%. Stock selection in the Semiconductors & Equipment and the Software & Services subsectors made the biggest contribution to relative performance over the period. On the negative side, the big underweight, as well as the stock selection in the Technology Hardware & Equipment subsector detracted -1.6% from relative performance.
- In terms of individual names, the fund's overweight in Nvidia, the absence of exposure to Intel and the underweight in Microsoft were among the top contributors to performance (+0.8%, +0.6% and +0.6% respectively). Nvidia made new all-time highs in early September after having launched its new generation of gaming GPUs (graphics processing units), cementing its market leadership in the industry. Right after the stock tumbled -20% in the general tech sell off but subsequently recovered with the announcement of the ARM takeover mid-September. Intel's stock plunged -16% at the end of July when the company had to announce a significant delay with its 7-nanometer processing technology, putting the company at risk of losing further ground to other chip makers. The stock did not recover much over August and September and ended the quarter down -13%. Despite Microsoft also making fresh all-time highs during the quarter it was the laggard among the mega-caps being up only +3.4% over Q3. It traded down on mixed Q4 2020 results at the end of July to then jump back up in early August on the announcement of a potential deal to buy TikTok. The stock then lost over -13% in the tech sell-off in early September and did not recover from there.
- The biggest detractors over the period were the underweight in Apple and the overweights in Cisco and ASML (-1.1%, -0.4% and -0.3% respectively). Apple's momentum went unabated thanks to another set of strong quarterly results at the end of July which led the stock up to new all-time highs before the sell-off in early September. It still gained +27% over the period. Cisco lost -10% mid-August when the company lowered its guidance on continued weakness in Commercial and Enterprise orders and had to announce the departure of its long-standing CFO. September did not bring much relief with the tech sell-off and the news of a potential lawsuit over lack of diversity leading the stock further down to finish the quarter at -15%. ASML came under pressure as it missed Q2 sales and earnings targets and Intel's product roadmap delay led to concerns about lower capex spending for ASML's EUV technology. The stock ended the quarter up +0.5%

## *Portfolio Activity*

- Towards the end of July, the position in ServiceNow was reduced by 1% to increase the exposure to Texas Instruments by the same amountn. While ServiceNow posted solid results, billings guidance was on the weaker side. Texas Instruments on the other hand beat and raised its guidance due to work from home trends.

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- In August, the position in Netflix was increased by 50bps as the stock's subdued performance since its Q2 2020 results in July offered a rare buying opportunity. This was financed by selling some Apple.
- At the beginning of September, the position in Adobe was reduced on all-time high valuations of over 40x2021 EPS. In a move to increase the relative weight of the Technology Hardware and Equipment subsector ServiceNow and Salesforce.com have also been downsized.

*Outlook*

- As we head into the last quarter of the year, equity investors continue to face uncertainties around the Covid-19 pandemic and the outcome of the US elections. A re-election of Mr. Trump could increase pressure on global trade and the economy in a post-Covid recovery while deregulation and tax reductions could be a tailwind for equity markets. With a Biden win, the Trump corporate tax cut of 2017 could be at risk to be partially reversed, while we could see increased stimulus and spending on climate change mitigation as well as increased access to federally funded healthcare. Consequently, while we expect some volatility around the elections, we would see it as short-lived. Equity markets will quickly turn the focus on the 2021 recovery, with high hopes for a vaccine in the first half of the year or a normalization of peoples' and governments' behaviour, as we learn to live with the virus.
- 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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