

UBP FLEX - BELL GLOBAL EX-ASIA SMID CAP EQUITY

Quarterly Comment

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

Market Comment

- In the 3rd quarter, all major equity markets posted positive returns, though with a downturn in September for most of them. The MSCI AC World Index 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%.
- Despite Energy, all sectors of the MSCI AC World Index finished the quarter in the green. The biggest contributors over Q3 were IT, Consumer Discretionary and Industrials. The gap between Growth and Value stocks also persisted as Growth companies are now up +19.2% year to date while Value is down -14.1%, all figures reported at the end of September.
- Economic activity continued its post COVID-19 recovery, but with a fading momentum at the end of Q3, 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. The same happened in Europe with an increased divergence between a good momentum in the manufacturing sector and a negative sentiment in services, impacted by renewed social distancing measures and constraints on hospitality. Employment remains at risk in both regions, especially in services, and supportive measures have been extended further.
- At the end of September, the US continued to show positive earnings momentum across all sectors, whereas the picture was more mixed elsewhere. 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 with -16%. A sharp earnings rebound is anticipated in all major regions next year, notably for the Eurozone.
- Looking at small & mid caps more specifically, the MSCI World SMID Cap Index was up +7.56% over Q3. Regarding the major valuation metrics for this segment, the 12m forward PE and the price-to-book ratio stood at 22x and 1.86 respectively at the end of September.
- Investors will now prepare for an eventful end to the year – the US elections, news on a potential vaccine, and a hopefully known Brexit scenario – which would be a game-changer for the market and help many stocks that have lagged throughout the year recover.
- In this uncertain context, we believe that slower and more volatile growth favours a focus on active, sub-sector and stock selection, which takes into account the transformative changes occurring across multiple axes, many of them having already been accelerating by the COVID-19 pandemic.
- UBP Flex - Bell Global ex-Asia SMID Cap Equity is definitely well placed to benefit through this period primarily due to having a focus on small and mid-cap companies which grow strongly through a cycle. Their often very strong market positions can help them outperform and grow ahead of peers by remaining much focused on their niche businesses that are often less susceptible to broader economic fluctuations. Additionally, the strategy has a good array of businesses with highly visible revenue streams and strong customer retention, which provides a good underpinning through bouts of market volatility.

Performance Review

- The performance of UBP Flex - Bell Global ex-Asia SMID Cap Equity was very strong over the 3rd quarter, returning +7.60% (Class IHDq USD, net of fees), and slightly outperforming the MSCI World SMID Cap Index USD.
- All sectors that the Fund had exposure to rose during the period. The key contributors to returns over the quarter were Health Care (20% allocation, 9% overweight) and Materials (10% allocation, 2% overweight) – both sectors benefited from strong stock selection. From a regional perspective, the strongest contribution came from the U.S. due to it being the largest allocation (54% allocation, 1% underweight). Europe contributed most of the remainder of returns, specifically the UK where stock selection was very strong (10% allocation, 4% overweight).
- Charles River Labs was the best performing stock over the quarter rallying 30% (a 61 bps contribution). The biotech funding environment that supports a large part of Charles River Labs business has remained very robust with FDA approvals remaining healthy and a high level of biotech IPO activity. Church & Dwight was also a strong performer up 21% (a 65 bps contribution) after reporting another excellent result. Its portfolio includes products in the home cleaning and detergent segments, which have benefited significantly in this environment, similarly to many other consumer names held with exposure across the home cleaning, food and grocery industries. Toro is a new company that was brought into the Fund in July and rallied 23% (a 61 bps contribution). The company primarily provides turf maintenance equipment for use on golf courses and parks. They also sell a range of snow clearing equipment. Recent uncertainty with respect to spending budgets of their professional customers provided an excellent opportunity to enter the name when it was out of favour. Since then, they have reported excellent results driven by strong growth in the residential segment up 24% and improved margins.
- The strong equity market during the quarter meant there were very few loss-making positions. The 3 biggest detractors during the period were Zebra Technologies (down 7%, a -24 bps contribution), AmerisourceBergen (down 3%, a -12 bps contribution) and Ambu which was a smaller position (down 10%, a -10 bps contribution). The investment team used the weakness to build the size of all three positions through August and September. AmerisourceBergen has very good valuation support, whereas both Zebra Technologies and Ambu are growing strongly. Both have benefited during the pandemic with increased customer demand. Zebra Technologies supplies scanner hardware technology is increasingly used in e-commerce and logistics, while Ambu has gained many new contracts supplying its medical devices that help reduce infection rates during diagnosis and treatment of patients.

Portfolio Activity

- The portfolio remains fully invested with around 3.6% cash. The team expects cash to remain around these levels and has been managing valuation risk by trimming many strongly performing names.
- From a trading perspective, cash from the positions that have been trimmed was reallocated to stocks with more attractive valuations, this should assist in protecting downside if volatility returns. In addition to various adds and trims, three new names were added during the quarter, Toro and Zebra Technologies both mentioned above, as well as FleetCor which came in at the end of September. FleetCor is a payment platform that helps its customers simplify, manage and control payments of their employees. Their proprietary cards manage fuel payments, tolls, lodging and other expenses. The investment team was presented a very good opportunity to buy FleetCor in September at a significant valuation discount. During the quarter, four positions were exited. Our expectations for a prolonged period of softness at dental distributor Henry Shein and cosmetic store operator Ulta Beauty led the team to selling those names. It also exited remaining small positions in defence contractors BAE



Systems in the U.K. and Thales in France. Even though both companies have dominant market positions and continue to invest heavily in innovation through R&D, the strain on government budgets around the world will put continued pressure on spending in the sector. In a world that is dominated by technology, the team sees more opportunity in cyber security and intelligence, evidenced through contract wins in portfolio companies such as Booz Allen Hamilton and Check Point Software.

- From a sector allocation perspective, the most preferred sectors remain Information Technology (26%, 10% overweight) and Health Care (21%, 10% overweight), where the investment team continues to find a combination of businesses with strong niche franchises that are highly profitable and have a good opportunity to grow.
- In terms of least preferred sectors, the portfolio has no exposure to Energy (2% underweight), where companies struggle to meet the investment team's 15% ROE hurdle, because companies are price takers and often very cyclical. There is also no exposure to Utilities (4% underweight) and only 2% in Real Estate (7% underweight), as the team generally finds these sectors have too much gearing and very little organic growth.
- From a country/regional perspective, the largest allocation remains to North America with the US at 54% and Canada at 8%. Europe has a 28% allocation including the UK at 9%, slightly lower than last quarter.
- At the end of September, the portfolio's top 5 positions were Kroger (3.6%), AmerisourceBergen (3.4%), Toro (3.4%), Genpact (3.3%), and Service Corp. (3.2%).

Outlook

- We have seen various COVID-19 related tailwinds play out in the portfolio this year including: (i) the work from home phenomena benefiting Information Technology and Telecom Services companies, (ii) increased consumption of food and home care driving Consumer Staples names, plus (iii) increased levels of home improvements and more localised outdoor activities which has boosted sales of Consumer Discretionary names.
- The investment team expects these trends to continue for the foreseeable future, especially given the second wave of infections and subsequent lockdowns in cities around the world. As we enter 2021, the team also expects to benefit from a strong rebound in some Health Care verticals such as elective surgeries where there has been a pause in discretionary spend.
- The other key near term driver is related to the outcome of the US Presidential election and the possibility that if it is contested, subsequent delays and uncertainty could create near term volatility. Having said that, ultimately, the key driver will most likely be the magnitude of ongoing stimulus, not only in the US, but around the world, as it is needed to support the economy, save jobs and ultimately underpin equity markets.
- Overall at the portfolio level the team has been very cognisant to ensure that solid absolute revenue and earnings outcomes are considered. As we look into 2021 and beyond, the investment team is very confident that growth of the selected companies should accelerate and revert back to their pre-COVID levels, with many companies in fact strengthening their competitive positioning.

Disclaimer

This is a marketing document and is intended for informational and/or marketing purposes only. This document has been prepared and is issued by UBP Asset Management Asia Limited (ARBN 638 682 765, CE No.: AOB278) ("UBP AM"). UBP AM is registered as a foreign company in Australia under Part 5B.2 of the *Corporations Act 2001* (Cth). It is licensed to carry on Type 1 – Dealing in Securities, Type 4 – Advising on Securities and Type 9 – Asset Management regulated activities (collectively, "Regulated Activities"). The contents of this document have not been reviewed by the SFC in Hong Kong.

UBP AM is exempt from the requirement to hold an Australian financial services licence under the *Corporations Act 2001* (Cth) in respect of providing financial services pertaining to the Regulated Activities. UBP AM is regulated by the Securities and Futures Commission of Hong Kong ("SFC") under Hong Kong laws, which differ from Australian laws.

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 UBP AM. This document reflects the opinion of UBP AM as of the date of issue. This document is for distribution only to persons who are "wholesale clients" under the *Corporations Act 2001* (Cth) ("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 prepared specifically for Australian investors. It:

- may contain references to dollar amounts which are not Australian dollars;
- may contain financial information which is not prepared in accordance with Australian law or practices;
- may not address risks associated with investment in foreign currency denominated investments; and
- does not address Australian tax issues.

This document has not been produced by UBP AM'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 AM has not verified the information from third sources in this document and does not guarantee its accuracy or completeness. UBP AM 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 AM 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 or guarantee of 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 performance. 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 AM 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, sell or continue to hold 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 AM.

The information herein does 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. Before acting on any information the investor should consider its appropriateness having regard to their investment objectives, financial situation and needs. 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.

The contents of this document and any attachments/links contained in this document have been prepared in good faith. UBP AM accepts no liability for any errors or omissions. Please note that the information may also have become outdated since its publication. UBP AM makes no representation that such information is accurate, reliable or complete. In particular, any information sourced from third parties is not necessarily endorsed by UBP AM, and UBP AM has not checked the accuracy or completeness of such third party information. To the extent that this document contains financial product advice, that advice is provided by UBP AM.