

# 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

- Major equity markets ended the first quarter of 2021 in the green with the MSCI AC World gaining 4.6%. European equities took the lead in Q1 with a return of 8%, followed by Japanese and US equities with 6.9%, Swiss equities with 5.2% and Emerging Markets with 2.5%.
- The year started with some volatility following concerns around the deployment of Covid-19 vaccines and the evolution of new variants of the virus. The start of the earnings season however revealed positive earnings momentum for cyclical sectors, including financials and technology. This trend was met by investor optimism for a gradual lifting of confinement measures as vaccination rates progress and was exacerbated by the promises of continued stimulus, which pushed Treasury yields and commodity prices higher and credit spreads lower. The consequential expectations for significantly accelerating global GDP growth led to a significant rebound of “beaten down” sectors like energy and metals & mining.
- Global equity valuations declined slightly to 19.4x 12-month forward PE ratio at the end of March, but continued to stay well above the long-term average of 15.7x. Earnings growth expectations rose back to 30% for 2021 as a result of an improving revenue outlook and strong cost management. However, 2021 earnings growth expectations still show divergences between regions with +26% for the US, +33% for the Eurozone, +18% for China and +37% for Emerging Markets.
- The Fed announced no change to its strategy in March and attributed the accelerating trend to higher long-term yields to the improving economic outlook, bolstered by the passage of the American Rescue Plan and progress on vaccinations. Expectations for US GDP growth for 2021 stood at 6.5% while the unemployment rate came in at 4.5%. The US manufacturing PMI has also reflected an improvement in sentiment increasing to 64.7 at the end of March, getting closer to historic highs. The rebound was broad-based, with production and new orders seeing the biggest uplift. The Eurozone manufacturing PMI also saw a rebound to 62.5, the highest level since 2017 with new orders strongly improving on optimistic views regarding future production.
- Over Q1 2021, all sectors of the MSCI AC World finished in the green with defensive sectors recovering over the month of March. More cyclical sectors like Financials and Industrials were the top performance contributors over the period, building on the sector rotation that started in Q4 2020.

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## Performance Review

- UBAM - Tech Global Leaders Equity delivered +2.5% in gross performance in the first quarter of 2021 versus +1.8% for the MSCI AC World Information Technology. Stock selection, particularly in Semiconductors & Equipment subsectors was a major performance contributor, along with the underweight Technology Hardware (+50bps and +58bps respectively). Currency effect was also positive (+44bps) given the absence of exposure to the Japanese yen, which has witnessed some weakness against the US dollar in Q1.
- Over the first quarter of the year, the biggest contributors to performance were the underweight in Apple, the overweight in ASML and the position in Google (+87bps, +70bps, +50bps respectively). Apple lost 7.8% over the quarter in line with other mega cap Tech names less exposed to the “reopening” trade. ASML’s share price appreciated by more than 24% over the period as the company benefited from a significant acceleration in demand for its EUV tools from semiconductor manufacturers. Google was up 18% in Q1 after reporting a strong fourth quarter for 2020, with a rebound in ad spending during the holiday season and strong momentum expected to continue as the pandemic has shifted more activity online and some major categories like travel and entertainment are expected to recover strongly.
- The main performance detractors in Q1 were the overweight in Paycom Software, the absence of exposure to Intel and the position in Take-Two Interactive (-44bps, -42bps and -25bps respectively). Paycom Software lost 18% over the period, despite reporting solid Q4 results paired with a good 2021 outlook. The company still faced however some headwind from Covid-19 lockdowns due to its exposure to hospitality and restaurants. After its share price collapsed in 2020, Intel’s stock price was up close to 29% on the back of the global chip supply shortage, and the company’s plan to invest USD 20bn in order to expand its manufacturing activities in Arizona. Take-Two Interactive dropped 15% over the quarter, despite reporting bookings above expectations and lifting the full year guidance. However, the company’s conservative outlook for fiscal 2022 seems to have disappointed the market.

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## Portfolio Activity

- Over the first quarter of the year, three new positions were added to the portfolio, Advanced Micro Devices (AMD), Applied Materials (AMAT) and Sunny Optical. Since AMD made the strategic decision to divest its foundry business ten years ago and focus on chip design, its CFROI level improved dramatically vs a poor history of barely covering its cost of capital. Today, the company is the innovation leader in CPU chips, rapidly gaining market share against Intel. A position was built on AMAT to gain exposure to the strong semiconductor cycle in the short-term (chip shortage in automotive) as well as in the long term (electrification, electric vehicles, efficiencies, chip based technologies).
- 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 lower carbon footprint than the wider global equities universe with 34.2 tons of CO2/\$m sales vs 157.6 for the MSCI AC World index. The portfolio is aligned with the Paris Agreement's long term temperature goal of keeping the rise in global average temperature to well below 2 °C above pre-industrial levels, as reported by ISS Climate Impact Assessment.



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## *Outlook*

- Investing in “quality” companies identified as having proven ability to create value (in the sense of CFROI spread), in a sustainable and repeatable way (with superior ESG and carbon footprint characteristics) is expected to continue delivering positive performance without the need to time the market or investment styles.
- The new and improved normal emerging post-pandemic will be accompanied by changing consumer and investor habits with an increased attention to ESG and especially climate change. Focusing on high and sustainable value creation combined with attractive ESG profiles, as implemented in the strategy should allow investors to navigate this new dynamic by offering exposure to long term structural trends while benefiting from global growth recovery themes.

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