Q1 2024

# UBAM – POSITIVE IMPACT GLOBAL EQUITY

Quarterly Comment

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

Fund classification under Sustainable Financial Disclosure Regulation (SFDR): Article 9

## *Market Comment*

- Q1 2024 turned out to be the best Q1 performance in five years for global equities, with the MSCI ACWI* returning 8.1% in USD, boosted by hopes of a soft economic landing, enthusiasm about AI, as well as anticipated central bank rate cuts. Despite diminished expectations for Fed rate cuts, from 5-7 implied to 3 at best in 2024, the prevailing narrative leaned toward a soft landing, supported by robust economic releases.

- Despite very low volatility in equities, the market witnessed very elevated volatility in Fed rate expectations, with initial positioning pointing to a 70% chance of a March interest cut but as inflation remained elevated coupled with solid activity and strong labour indicators, the US Fed eventually announced no change in key rates during their March, effectively pushing out expectations to at least June.

- The threat of interest rates staying higher for longer helped large caps maintain their leadership in the market, with the MSCI ACWI Large Cap Index* up 8.6%, against the MSCI ACWI SMID Cap Index* up 4.9%. Nevertheless, what began as only a tech-driven rally gradually broadened out across the quarter. In terms of style, the MSCI World Quality Index* returned 11.6%, which was both ahead of the MSCI World Growth Index*, up 10.2%, and the MSCI World Value Index* up 7.5%. Looking at sectors, unsurprisingly IT and Communication services led the markets, but Energy, Financials and Industrials were strong as well helping the S&P 500 Index slightly outperform the tech-heavy Nasdaq Index. On the negative side, Real Estate was the only sector that generated negative returns.

- Performance across regions was generally driven by North America, followed by Japan, Europe and then Emerging markets. The US, using the S&P 500 Index* as a proxy returned 10.5%, but for a change not all “Magnificent 7 performed well, with both Apple and Tesla ending the quarter in negative territory. Japan was another notable standout, with the MSCI Japan Index* up also 10.5% in USD terms over the period. The MSCI Europe Index* underperformed relatively but was up 5.2% over the quarter, as similar prevailing market concentration levels also broadened towards the second half of the quarter. Finally, the MSCI EM Index* was up only 2.1%. On the brighter side Taiwan performed quite well in the region, driven largely by TSMC and other AI-related stocks, but on the other hand, China continued to drag emerging equities down, given ongoing concerns about its growth prospects, geopolitical risks and the absence of meaningful fiscal stimulus measures. Nevertheless, its market rebounded from its January lows on the back of better economic activity data, some easing monetary measures and a general pivot from companies to increase shareholders’ returns via dividends or share buybacks.

- On the sustainability side, The International Sustainability Standards Board (ISSB) has issued what is quickly becoming a global standard either to create or supplement disclosure rules in several jurisdictions, offering hope of greater global comparability. Yet, although the European Union has indicated support for ISSB, the bloc is in the process of negotiating its Corporate Sustainability Due Diligence Directive, which plays a very similar role to the ISSB standards.

** net total return index*

*Sources: UBP, Bloomberg Finance LP.*

All performance figures are given net of fees. Past performance is not a guide to current or future returns. See full disclaimer at the end of the document.


*Performance Review*

- During the first quarter of 2024 the UBAM Positive Impact Global Equity fund climbed by 6.8% (net of fees, IC USD class), compared to an advance of 8.1% from the MSCI All Countries World*. The underperformance happened mainly in January before recovering gradually over the next two months as the rally broadened.

  ** net total return index*

- In terms of regions, the portfolio was hurt mainly by negative selection in North America, or rather its lack of exposure to some of the large cap tech stocks, Nvidia and Meta in particular. The region cost the portfolio more than 100% of underperformance. In Europe, the portfolio suffered from a mix of negative selection and currency effects, which was compensated by strong selection in both Japan and Emerging markets. Lastly, cash had negative attribution in this very strong market environment.

- Looking at sector allocation, positive contribution from good allocation and good selection in Industrials and Staples was offset by negative selection in Healthcare, and a mix of negative allocation and selection in IT, in addition to negative allocation from Materials, Communication Services and Financials

- The thematic contribution was mostly driven by Sustainale Communities and Inclusive & Fair economies names, but the portfolio also witnessed a very strong performance in the Climate Stability theme, which has smaller weight in the overall portfolio. Health & Wellbeing, was on the other hand, the most underperforming theme.

- Over Q1 2024, the three biggest contributors for the portfolio were Horiba, Sprouts Farmers Market and Trane. Horiba, a part of the Testing, Instrumentation, Analysis & Certification vertical, returned over 83.8% in 2023 and continued its progress this quarter with very strong results and good guidance for 2024 in both its semiconductor and automotive test systems segments. The company continues to trade at a significant discount compared to other semiconductor equipment firms, positioning itself favourably in the analysis/measurement technologies sector. Specialty retailer Sprouts reported another set of strong results as well, beating expectations on surprisingly resilient comps and positive traffic growth and delivering an above-consensus guidance for 2024, continuing its run of 8 consecutive quarters of improved outlook. Trane continues to benefit from technology leadership in the HVAC sector as evidenced by its very robust backlog, making the company well positioned for sustained strength behind broad secular tailwinds such as energy efficiency and improved customer value add.

- The three largest detractors over Q1 2024 were UnitedHealth, Crown Holdings and Sims. UnitedHealth, the market leader in managed care suffered from both industry-wide issues and stock specific issue over the quarter. First off, managed care has generally underperformed the broader market in presidential election years, with healthcare policy typically serving as a hot button debate topic through recent cycles. Then, the Centers for Medicare & Medicaid Services federal agency announced a final rate notice for reimbursement that was below expectation (effectively reducing budget overall and reimbursement rates companies could expect from the government). Also, the industry comes out of a multi-year period of depressed utilization of benefits from policyholders and there is uncertainty as to how high it could go to. Finally, UnitedHealth was the victim of a cyber security issue that had ramifications across the healthcare landscape as its product OptumInsight is used nationally, prompting a



Department of Justice inquiry that could take years to resolve. Despite all of this, the portfolio managers continue to see the company as a high-quality defensive name in the Large-cap healthcare services space with increasing diversification into complementary businesses and attractive valuations, complementing the profile of the portfolio quite well. Crown Holdings, is amongst the 3 leading beverage can leader globally. The company didn't manage investors' expectations well, going into its year-end results and missed its 2024 guidance, mainly due to its two non-core businesses struggling more than expected, while its core business fares relatively better. As a result, the stock sold-off significantly, which is uncharacteristic of what is supposed to be a mature and defensive business. Post correction, the business free cash yield is likely to be above 7.5% in 2024, trading below 8x 2024E EV/EBITDA, at a clear 20-30% discount to peers. Finally, Sims, a global ferrous and non-ferrous recycled metals collector, processor and exporter is not only a very commodity driven business, subject to high cyclicality and volatility but is also facing a lot of transformation in its industry. The stock is currently trading at a discount to its historical average, but this partly reflects the market's expectations.

*Portfolio activity:*

- Over the quarter, the number of holdings changed from 51 to 53 as the managers exited 3 positions and added 5 new ones.

- In terms of sales, the managers decided to completely exit their position in Solaredge, as the company's profitability remains challenged by industry dynamics and inventory risks. The managers believe that Enphase, which is also in the portfolio remains better positioned for the road to recovery from a top line, margin, and market share perspective. In addition, CNH Industrial was sold to reduce overall exposure to the agricultural sector, currently undergoing a downcycle, favouring only owning better-quality name Deere that is also in the portfolio. Finally, AMN Healthcare was exited after the company failed to meet managers' expectations in a post-COVID world, following two exceptionally strong years, as bill rates continued to normalise and demand for contract labour diminished. This unfavourable trend occurred despite a structural supply/demand imbalance for skilled labour in the US.

- In terms of additions, the managers added Palo Alto Networks, Stryker, Arcadis, ASML and Hubspot over the quarter.

  - Palo Alto Networks (Sustainable Communities, IMAP score 14) is a leading Cybersecurity name widely recognised as having the broadest product portfolio of any security vendor in the market, with an integrated platform that aims to consolidate and rationalise the space to drive better cyber outcomes. Cybercrime costs the world an estimated $8Tn per year and there is an acceleration of attacks, which are getting more and more sophisticated. In terms of portfolio construction, this position helps increase exposure to Large-Cap Tech in the US.

  - Stryker (Health & Wellbeing, IMAP score 14) is a global medical equipment innovator and aggregator with key expertise and leadership in medical surgery, neurotechnology, orthopaedics and spinal products, serving over 130m patients worldwide. The company has adopted a category leadership strategy and holds a number 1 or 2 position in most of its end markets or specialized business units with a clear objective of making healthcare better by focusing on more precise, safer, and more efficient ways to deliver care through innovation both organically and through acquisitions.



- Arcadis (Sustainable Communities, IMAP score 15) is a global leading sustainable consulting and engineering services company supported by strong structural tailwinds for better integrated infrastructure and stimulus packages, such as the EU Green Deal and IRA. The company trades at a significant discount to other global peers, despite showing very encouraging operational developments and strategy.

- ASML (Inclusive and Fair Economies, IMAP score 13) stands at the cutting edge of the semiconductor industry. The company is the world’s leading manufacturer of lithography machines which use light to etch patterning onto silicon wafers. The company is also the sole supplier of EUC machines globally, which allow customers to fabricate advanced chips with fewer process steps and resources and make ASML a driver of efficiency, productivity gains and innovation. This addition naturally helps increase exposure to the semiconductor industry.

- Hubspot (Inclusive and Fair Economies, IMAP score 15) provides a cloud-based customer relationship management (CRM) platform focusing on selling to mid-market business-to-business companies of upt to 2000 employees. One of the most significant advantages is its affordability and cost-effectiveness compared to enterprise-level CRM products like Salesforce. SMEs often operate with limited budgets, and the high licensing fees and complex pricing structures associated with enterprise CRMs can be prohibitive. HubSpot's CRM, on the other hand, offers a more accessible pricing model allowing SMEs to leverage the power of CRM technology without breaking the bank, enabling them to allocate resources more efficiently and effectively manage customer relationships. The company boasts around 167,400 customers in over 120 countries but it generates most of its sales in the Americas. This holding complements the portfolio’s Tech exposure.

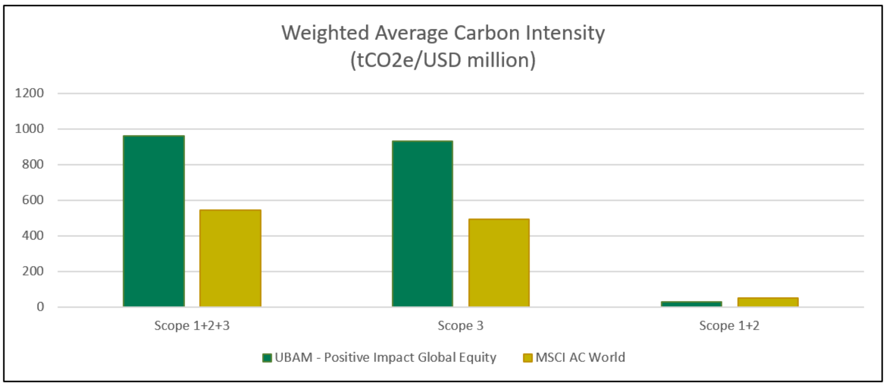
*ESG Monitoring*

➢ **Human rights**
(Disclosure: Fund 100% / Index: 100%) **and Social** (Disclosure: Fund 100% / Index: 100%)

| | UN Global Compact | | | Human Rights Compliance | | |
|---|---|---|---|---|---|---|
| | Pass | Watchlist | Fail | Pass | Watchlist | Fail |
| UBAM - GPIE | 52 | 0 | 0 | 52 | 0 | 0 |
| MSCI AC World | 2696 | 130 | 15 | 2684 | 140 | 14 |
| UBAM - GPIE | 100% | 0% | 0% | 100% | 0% | 0% |
| MSCI AC World | 95% | 5% | 1% | 95% | 5% | 0% |

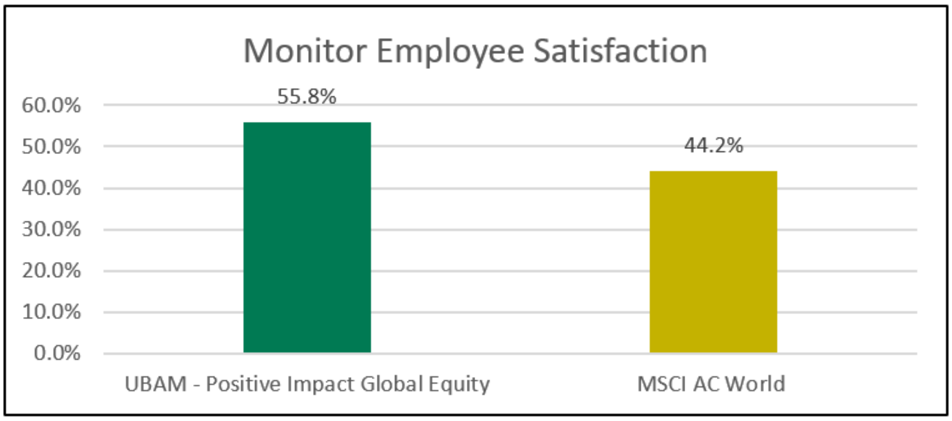
| | Labour Compliance - Core | | | Labor Compliance - Broad | | |
|---|---|---|---|---|---|---|
| | Pass | Watchlist | Fail | Pass | Watchlist | Fail |
| UBAM - GPIE | 52 | 0 | 0 | 52 | 0 | 0 |
| MSCI AC World | 2788 | 41 | 12 | 2751 | 78 | 12 |
| UBAM - GPIE | 100% | 0% | 0% | 100% | 0% | 0% |
| MSCI AC World | 98% | 1% | 0% | 97% | 3% | 0% |

➢ **Environment**
(Public Disclosure: Fund 87.5% / Index: 94%, Coverage Including estimates: Fund 100% / Index 99.9%)

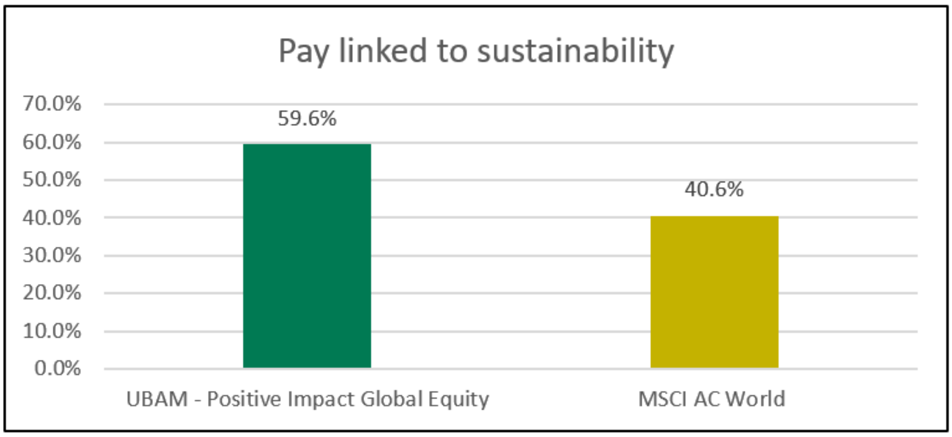



*The fund beats its benchmark on a scope 1&2 basis. If we include scope 3 emissions, the Weighted Average Carbon Intensity of the benchmark is lower than for the fund. This situation suggests a significant change from previous reporting, especially on the benchmark side, requiring further analysis from the portfolio managers. Scope 3 emissions are an important part of any analysis of GHG emissions, but they are also hard to estimate and a few outliers can lead to significantly different portfolio levels. There are also cases in which scope 1, 2 &3 emissions do not capture the full benefit of certain products. We will report on our conclusions in the next quarters.*


➢ **Labour** (Disclosure: Fund 100% / Index: 100%)




➢ **Governance** (Disclosure: Fund 100% / Index:99.9%)




*Sources: UBP, Based on MSCI ESG Research LLC and Urgentem*


## *Outlook*

- Market sentiment remained buoyant globally in Q1, and the consensus expects a continuation of the current environment with a strong US economy and inflation under control although interest rates cuts expectations have been tempered during the quarter. Sentiment surveys point to a bullish consensus outlook but not to an extreme extent.

- UBP's house view is that the strength of the US economy is challenging recent disinflationary trends and thus delaying expectations of rate cuts from the Federal Reserve.

- China will continue to suffer from the fallout of the slowdown in its real estate sector. We don't expect a sudden acceleration, but do not expect a collapse either. The consensus expects a 4.5% GDP growth in 2024, and there are still ways in which the authorities can stimulate the economy particularly as inflation is much lower than in other regions. Outside of China, we believe the flows to the rest of Emerging Markets will continue.

- Despite the constant reference to the "Magnificent 7", Q1 witnessed a relative broadening of market performance, and we believe this could be a continuing trend for the rest of the year. The small- and mid-cap segments to which we have significant exposure is trading at a significant discount to the larger names and has a lot of room to catch-up with the rest of the market. The better relative performance of the Industrial sector since Q4 last year is also a supportive factor and could continue in the current macro context.

- On the sustainability front, we were hit by the double whammy of disappointing developments on the regulatory front which led to a more uncertain outlook for electric vehicles and renewable energy on one hand, and truly alarming temperature readings in many parts of the world on the other. This difficult situation is compounded by the fact that we have another US election on the horizon, where the climate will be, unfortunately, another dividing issue. Despite that, it is important to remember that the long-term trend for emissions reductions in the US is clear, and the level of low-carbon energy deployment at the global level continues to accelerate. Our outlook on this is unchanged: those trends will have to continue, and that will open opportunities for companies in our portfolio.



*Appendix*

*Methodology*

- Global Compact Compliance
  This factor indicates whether the company is in compliance with the United Nations Global Compact principles. The possible values are Fail, Watch List, or Pass.
- Human Rights Compliance
  This factor indicates whether the company is in compliance with the United Nations Guiding Principles for Business and Human Rights. The possible values are Fail, Watch List, or Pass.
- Weighted Average Carbon Intensity
  This figure represents the company's Scope 1 + Scope 2+ Scope 3 greenhouse gas emissions normalized by sales in USD, which allows for comparison between companies of different sizes. This is a weighted average calculated using Urgentem data.
- Labor Compliance - Core
  This factor indicates whether the company is in compliance with the International Labour Organization's fundamental principles. The possible values are Fail, Watch List, or Pass.
- Labor Compliance - Broad
  This factor indicates whether the company is in compliance with the International Labour Organization's broader set of labor standards. The possible values are Fail, Watch List, or Pass.
- Monitors employee satisfaction
  Flagged as "Yes" if company monitors employee satisfaction.
- Pay Linked to Sustainability
  Has the company, if designated as having either a high environmental or social impact, failed to incorporate links to sustainability performance in its current incentive pay policies? Flagged if yes. This metric is based entirely on the company's own reporting, and is strictly focused on the specific inclusion or not of such metrics in the determination of variable pay components and does not take into consideration their effectiveness. High Environmental Impact: If any of the following ESG Ratings Key Issues carry more than a 5% weight: Carbon Emissions, Water Stress, Toxic Emissions & Waste, Product Carbon Footprint, Raw Material Sourcing, Packaging Material & Waste, Electronic Waste, Biodiversity & Land Use, Energy Efficiency. High Social Impact: If any of the following ESG Ratings Key Issues carry more than a 5% weight: Labor Management, Health & Safety, Product Safety & Quality, Supply Chain Labor

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