U ACCESS (IRL) GCA CREDIT LONG/SHORT UCITS

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

- The first quarter of 2021 was dominated by rising bond yields and the outperformance of value and small-cap equities. In terms of regions, Japan and Europe were the strongest equity markets in Q1 while Asia and EM underperformed. Chinese equities sold-off from mid-February until the end of the quarter, due to a combination of cyclical concerns, fears of policy tightening, increased regulatory/anti-trust pressure by domestic Chinese authorities and geopolitical tensions. Most commodities continued to rally in Q1.
- The main drivers of market action in Q1 were the large stimulus coming from various governments, the US in particular, and the progress on the Covid-19 vaccine rollout, fueling investor's optimism on global growth prospects. The size of the US stimulus package and the prospect of a large infrastructure plan, both unprecedented in size, also increased the prospects of higher inflation. Most fixed income markets suffered as a result, both in Developed and Emerging markets.
- This market environment should provide an interesting set of opportunities for our U Access (IRL) GCA Credit Long/Short UCITS fund, a Long/Short corporate credit strategy focusing primarily on high yield, distressed and investment grade opportunities, largely in the US. This strategy enables investors to expand the opportunity set offered by traditional credit, by taking advantage of current dispersion in the market, offering opportunities both the long and short side.

Sources: UBP, Bloomberg Finance LP, BofA Merrill Lynch

Performance Review

- For the first quarter of 2021, U Access (IRL) GCA Credit Long/Short UCITS returned +1.54% (Class B USD, net of fees). During Q1 2021, the long strategy contributed +0.85% in capital gains, the short strategy contributed +0.29% in capital gains, and net interest carry contributed +0.40%, all expressed on a net of fees basis.
- The portfolio's largest contributing issuer for the quarter was a long position in a U.S.-based operator of retail store chains and online retail websites which offer home furnishings, as well as food, giftware, health and beauty care items, and infant and toddler merchandise. Although the company's equity was involved in the short squeeze of certain equities in the beginning of the period, the portfolio team's thesis was based on fundamentals, rather than on momentum. The position benefitted from the company's accelerated stock buybacks, a transformation of its marketing initiative, and an upgrade in the company's credit outlook by S&P. Both the bonds and equity appreciated in the quarter, and the equity position was fully exited later in the period at a profit. The investment teambelieves that there is additional upside for the bonds given the continuing turn-around story at the company, and has kept this long bond position intact through the date of this letter.

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.

- The second-largest contributing issuer for the period was a long position in a U.S.-based department store operator which also offers its products online. The portfolio benefitted from the company reporting better than expected earnings, upbeat financial forecasts, a favorable financing agreement to repay some of its borrowings, while receiving multiple equity analyst upgrades. The bonds held in the portfolio appreciated during the period. The investment team believes that there is additional upside for these bonds given the positive trajectory of the company and the retail landscape, and has kept this long position intact through the date of this letter.
- The third-largest contributing issuer for the period was a long position in a crude oil and natural gas exploration and production company. The portfolio gained from price appreciation on its long position which resulted from both the increase in crude oil prices and analyst upgrades to the company's equity during the period. Although Q4 2020 earnings announced during the period were largely in line with expectations, the company projected that operating results would continue to improve into 2021 due to higher commodity prices, thus accelerating its leverage reduction plans. The investment team believes that there is additional upside for the bonds and has kept this long bond position intact through the date of this letter.
- On the negative side, the portfolio's largest detracting issuer for the quarter was a short position in the Markit CDX North American High Yield Index (HY CDX). During the reporting period this position acted as a general market portfolio hedge against single-name long positions. Given the positive performance of the high-yield market during the period, this hedge acted as expected and remains intact through the date of this letter.
- The second-largest detracting issuer was a long position in a company that offers internet, video and data services in the U.S. The portfolio suffered a loss from price depreciation in the bonds as a result of the company reporting weaker than expected net additions to video and broadband subscribers (even though Q4 2020 earnings exceeded estimates), as well as a significant increase in interest rates during the period. The investment team's view on this long position remains unchanged as the underlying fundamentals of the investment thesis remain intact and, as such, has kept this long position intact through the date of this letter.
- The third-largest detracting issuer for the period was a long position in a real estate investment trust that is invested in hotels and service-oriented retail properties. The portfolio suffered a loss from price depreciation in the bonds and the equity as the trust reported weaker than expected Q4 2020 earnings during the period, while the bond position was also adversely affected by the significant increase in interest rates noted above. The investment team's thesis on this long position remains unchanged and, as such, has kept this long position intact through the date of this letter.

Portfolio Activity

- Given the period's rise in U.S. interest rates (while credit spreads tightened), rising commodity prices, an improving economic outlook (and lower default expectations), along with further inflationary fears, short exposure in the portfolio was reduced while long exposure in less rate-sensitive names was added. Gross exposures at the end of January, February and March of 2021 measured +116%, +117% and +113%, respectively, while net exposures at the same periods measured +31%, +38% and +36%, respectively.
- At a more granular level, the marginal long portfolio expansion included adding higher coupon, shorter duration bonds that are likely candidates for early refinancing at a premium to their call prices within the Transportation, Healthcare, and Gaming/Leisure sectors.
- As to new credit issues, the robust dollar volume of new deals and repricings in the high-yield and investment-grade markets continued during the period as issuers looked to take advantage of investors' search for yield.

- At the overall portfolio level, the exposures at the end of March 2021 were +113% gross and +36% net (as mentioned above), with +74% long exposure and -39% short exposure.
- The largest long sector exposures at the end of the quarter were (in order) Gaming/Leisure, Energy, Healthcare, Housing, and Service.
- The largest short sector exposures at the end of the quarter were (in order) Other (risk mitigants), Gaming/Leisure, Transportation, Information Technology and Energy.

Outlook

- The rally of the last three quarters of 2020 continued into Q1 2021, with high-yield bond spreads tightening over 50 basis points while the yield on the ten-year U.S. Treasury climbed more than 80 basis points during the same period. As central banks continued to be accommodative and as COVID-19 vaccine and stimulus optimism continued, further rate volatility and richer valuations continue to present near-term market challenges. With credit spreads approaching all-time lows, the investment team has many reasons to remain cautious.
- However, through this uncertainty, while continuing to build the portfolio's gross exposures and keeping net exposures relatively low, the investment team also foresees opportunity on both the long and short sides of the portfolio due to the dispersion which often accompanies these periods of uncertainty.

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