Q3 2023

UBAM - MULTIFUNDS ALTERNATIVE

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 second quarter of 2023 saw risk assets trading up once again, as some of the systemic risks related to US regional banks and the US debt ceiling dissipated, and economic data remained resilient, in particular on the unemployment front. After a spike in March, both equity and bond volatility decreased substantially during the quarter, with the VIX ending Q2 at 13.6, its lowest level since before the pandemic. Developed Market (DM) equities lead the way up +7% in Q2 and +15% YTD, while Emerging Markets (EM) were marginally positive, up 1% in Q2 and +5% YTD. In DM, the Japanese market saw the strongest performance in local terms (+14% in Q2, +23% YTD for the Topix), as the weakening of the JPY vs major trading partners had a positive effect on Japanese exporters. US stocks also performed strongly, with the S&P 500 up 9% in Q2 and +17% YTD. Interestingly, almost all of the YTD performance is due to multiple expansion, as the S&P P/E ratio increased from 18 to 21 since the end of 2022. This remains above the historical average of 16 and doesn't seem to price an economic contraction. In EM, the optimism surrounding the China reopening faded and stock returns were impacted as a result.
- In Fixed Income, the strongest performance came from credit, with High Yield Yield (HY) leading the way, followed by EM debt and Investment Grade. At a more granular level, the riskier/lower quality securities rallied the most, with CCC bonds showing double digit returns YTD versus 6% and 5% respectively for B and BB bonds. Government bonds were mostly flat-to down in Q2. UK Gilts particularly hit by the persisting inflation and interest rates increases. On the other end of the spectrum, Italian BTPs rallied further as the spread vs German Bunds continued to narrow. On the economic front, there seems to be a decoupling between the /manufacturing sector, which is showing increasing signs of weakness, while the service sector remains resilient. This may be related to the strength of the consumer, which is spending more on travel, leisure and experiences, rather than goods. This divergence should create attractive opportunities for hedge fund managers as dispersion could increase in the coming months..
- This market environment should provide an interesting set of opportunities for our UBAM - Multifunds Alternative fund. The Absolute Return characteristics of the portfolio, which combines mainly alpha drivers, traders and to a lesser extent, fundamental value managers, typically benefits from more risky environments. As equity and bond investors look for alternative strategies, we then believe that UBAM - Multifunds Alternative provides diversification through uncorrelated return drivers, limited beta and volatility, as well as controlled drawdowns.

Sources: UBP, Bloomberg Finance LP, BofA Merrill Lynch

Performance Review

- During the second quarter of the year, UBAM - Multifunds Alternative (Class UC USD) returned +2.2%. The positive trend in alternative strategies' performance continued in Q3 as higher dispersion and volatility were tailwinds. Macro related strategies were once again the main drivers of performance, whilst equities related strategies generated consistent gains throughout the period.

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 main gains for the quarter were in macro strategies, which produced strong gains in August and September, more than offsetting the negative performance in July.. Macro factors, primarily rising long end yields, began to reassert themselves in investor sentiment. At end of July, the Bank of Japan relaxed its yield curve control framework to allow 10 year yields to increase. This had a knock on effect in the US as concerns refocused on the size of fiscal deficits and the level of issuance needed to cover these new large fiscal deficits in a quantitative tightening environment. Whilst US economic data remained firm, China & EU continued to show signs of weakness. Within this environment the strategy benefited from yield curve steepeners and a tactical combination of paying and receiving rates in developed markets.. After a difficult Q2, Merger Arbitrage reboubded as overall conditions improved for the strategy.
- Systematic strategies also generated positive returns. Gains were primarily driven by profits generated in the latter part of the quarter as rates markets continued to reprice. Gains were led by positioning in the largest and most liquid markets including shorts in DM rates and bonds and long USD vs most currencies as the market began to further price in a US “higher for longer” theme given reliant US macro data. Shorter-term strategies tended to perform better as these had switched short on a number of losing assets in September including equities, and GBP and CHF whilst longer-term models and more diversified strategies with more carry related components underperformed.. Relative value and equities related strategies were relatively subdued for the month with credit related positions positive as spreads tightened.

Portfolio Activity

- UBAM - Multifunds Alternative is a weekly UCITS comingled fund investing in 8 to 12 uncorrelated, high conviction alternative managers from UBP’s Recommended List. It aims to be an Absolute Return, all-weather portfolio acting as a diversifier to traditional assets.
- The portfolio allocation remained relatively stable during the quarter with a strong focus on macro-orientated strategies.

Outlook

- UBAM - Multifunds Alternative focuses on having a limited correlation to equity and bond markets, but at the same time to target attractive risk adjusted returns in the 4-6% range. Our macro views remain aligned with those of UBP’s Global Investment Committee as one of the biggest challenges to investors will be muted returns from fixed income investments over the medium term. Therefore, we are positioning the portfolio towards strategies that can produce attractive risk adjusted returns and can be a diversifier to fixed income exposure.
- We believe that there are opportunities to capture above trend returns in areas such as active trading to capture macro uncertainty and high real yields outside of G10, mean reversion strategies where market volatility stabilisation could see potential attractive spreads and in systematic strategies where higher price volatility and investor biases generate good entry and exit points.
- For greater depth on our outlook please access the AIS Quarterly Outlook & Review report.

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