

UBAM - EUROPE MARKET NEUTRAL

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 financial markets continued to reflect investor optimism about the upturn in economic output and corporate earnings. For the first quarter of 2021, the S&P 500* posted a return of 6.05% and hit new all-time highs. The technology sector underperformed, which meant that European markets fared even better: the MSCI Europe* returned 8.35% with strong gains for both cyclical and defensive stocks. However, many emerging markets lost ground in March, usually for country-specific reasons. For example, the Chinese and Turkish markets both fell 6% during the month and the MSCI Emerging Markets* in USD finished the quarter with a performance of 2.29%.
- Investors were very optimistic at the turn of the year, but quickly saw several risks appear on their radar screens. Investor sentiment deteriorated from mid- January onwards because of the spread of new coronavirus variants, slow vaccination roll-outs in Europe and the possibility that the new US president's stimulus package would be reduced in size. Observers were also concerned about extreme price movements in some stocks, driven by hordes of retail investors. In the end, most equity markets fell slightly during January, although some large Asian markets strongly outperformed.
- In February, in the US, many economic indicators exceeded expectations, reflecting the rebound in activity. Generally, as the vaccination roll-out progressed, and economies started opening up again. In the eurozone, indicators ticked up. While consumer confidence was being undermined by the slow progress of the vaccination campaign and the protracted lockdown, the industrial sector took heart from the prospect of economies reopening. The UK remained resilient despite the strict lockdown, and sentiment indicators recovered with the promise of a gradual lifting of restrictions. As for China, while it remained ahead of developed economies in terms of economic recovery, the traditional lunar new year volatility caused a dip in manufacturing and services sentiment.
- In March, the economic outlook continued to improve in the US, with sharp increases in business confidence – in both manufacturing and services – and consumer sentiment. Joe Biden's USD 1.9 trillion stimulus plan, which includes extensive support for households, was finally passed and a USD 2.25 trillion infrastructure plan was presented at the end of the month. In the eurozone, confidence levels in manufacturing and services rebounded even though tougher restrictions on people's movements were introduced during the month. In the UK, confidence increased sharply because of the rapid vaccine rollout and the plan to reopen the economy. In China, the authorities announced a minimum growth target of 6% along with a medium-term strategy that emphasises consumer spending and self-sufficiency in high-tech sectors. China's dialogue with the US remained tense, and the US kept its sanctions in place.

Sources: *UBP, Bloomberg Finance LP. * net total return index*

Performance Review

- In the first quarter of 2021, UBAM - Europe Market Neutral returned -3.4% (Class I EUR), underperforming the HFRX Equity Market Neutral Index (hedged in EUR) and the EuroStoxx 50 Index (total return) that returned +2.3% and +10.7% in Q1 respectively.
 - ▶ In terms of quarterly contribution, our Long bucket contributed positively +5.2% (gross of fees) to the overall portfolio, generating -3.7% negative alpha versus the beta-adjusted Eurostoxx 50 TR (SX5T) reference. The Short bucket detracted -8.35% (gross of fees) on an absolute basis, but generated +0.65% alpha.
- Within the Long book:
 - ▶ The underperformance of the long book was largely a result of poor stock picking within the Consumer Discretionary, Energy and Utilities sectors; on the other hand, stock picking within Information Technology and Industrials was accretive. In terms of countries, positions in Germany, Finland, Spain and France detracted the most with only Netherlands being a significant positive offset.
 - ▶ In terms of specific stocks positions, significant underperformance was recorded in Neste (Energy), Adidas (Consumer Discretionary), Verbund (Utilities), Zalando (Consumer Discretionary), Kerry (Consumer Staples). On the other hand, ASML (IT), Siemens (Industrials), OMV (Energy), CNH (Industrials), Total (Energy) outperformed the main Eurostoxx reference on a relative basis.
 - ▶ Overall, our Long book underperformed significantly the EuroStoxx 50 on a beta-adjusted basis, suffering the acute style rotation induced by reflationary market expectations.
- Within the Short book:
 - ▶ Short Bias, which represents 85% of the overlay allocation and is implemented via both futures and options on the Eurostoxx 50 Index most liquid contract, outperformed during the quarter. The allocation was positioned bullish on average during the quarter, which translated into a gain when the market rallied in February and March.
 - ▶ Tail Risk represents the remaining 15% of the overlay allocation and is implemented via front-contract Vstoxx volatility futures. The strategy brought some alpha as the allocation was in average low, in a bullish equity market.
 - ▶ Overall, our Short book outperformed its reference proving complementarity to the long book but could not offset the long negative alpha as volatility did not spike unlike 2020.

Portfolio Activity

- UBAM – Europe Market Neutral combines two alpha generating engines in a single systematic investment process. The long leg is invested in the AM League Euro 50A© Index, which is based on best ideas from top-performing buy-side managers and is rebalanced on a quarterly basis and weighted according to conviction. The short leg is comprised of a dynamically managed short index overlay, which uses ultra-liquid index futures and options and volatility futures. UBP has partnered with AM League to launch this innovative investment solution to capture this alpha.
- Overall, our long book positioning during the quarter was much more defensive than the market, with a beta of the long book of approximately 0.86, a one-way quarter-on-quarter turnover of 79% and estimated active share of 44% vs the EuroStoxx 50.



- ▶ In terms of sectors, the largest allocations were in Industrials and Information Technology, with the former representing significant overweight versus the EuroStoxx 50 at the expense of underweights in sectors such as Consumer and Healthcare.
- ▶ In terms of countries, the largest active bets were notable underweights in Finland and Austria with a corresponding overweight in France.
- ▶ The portfolio is relatively skewed towards mid-caps, with an average market cap of 50bn vs 75bn for the EuroStoxx 50.
- ▶ Looking at single stocks, the top 5 positions were ASML (IT), Schneider (Industrials), Allianz (Financials), Adidas (Consumer Discretionary) and Neste (Energy), nearly all representing significant overweight versus the EuroStoxx 50 and some with membership in the wider EuroStoxx 300 only.
- Within the Risk Management Overlay bucket:
 - ▶ Within the Risk Management Overlay bucket, trend signals used in the Short Bias strategy began the quarter with a slightly bullish positioning. Signals turned bullish in mid-February and until the end of the quarter.
 - ▶ Within the Tail Risk bucket, the exposure to volatility futures was low at the beginning of the quarter. It remained stable with an under-protection until the end of the quarter.
- In terms of currency exposure, the portfolio remains 100% invested in EUR.

Outlook

- Given where we are in the cycle, an equity market neutral product should appeal to many investors, with very low correlation to traditional assets and absolute returns. UBAM – Europe Market Neutral combines two complementary systematic strategies that may generate value both on the long side and the short side in a single daily liquid UCITS EUR-based fund.
- The AM League methodology is fully transparent, but their underlying database is proprietary, with alpha capture mainly driven by their capability to access portfolios of best ideas in a way that isn't available to other players. For example, European carve-outs of global unconstrained (buy-side) portfolios with high active share.
- On April 5th, 2021, the long book quarterly rebalancing triggered a significant sectorial reduction in Energy and Industrials in favour of Financials, Materials, Consumer Discretionary and Utilities. The new ex-ante beta has reset to approximately 0.9. New top stock picks are ASML, Intesa San Paolo, Iberdrola, Allianz, Moncler.

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