Q2 2022

# UBP DISTRESSED OPPORTUNITY FUND I

Quarterly Comment

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

## *Market Comment*

- Q2 2022 was another tough quarter for global markets, with few places to hide for investors. Both global equities and bonds corrected meaningfully, with most Developed Market (DM) equities entering a bear market. The main drivers of this market uncertainty were the persistently high inflation data, and DM central banks' hawkish stance on interest rates policy, particularly by the Fed. Interest rates volatility remained high during the quarter as recession fears started to gain momentum in May and June. As a result, high yield spreads, which had remained relatively tight until May, widened to over 600 bps at the end of the quarter.
- The war in Ukraine continued to have an impact as well, in particular on energy and commodities markets which are the most directly impacted by this situation. In China, the strict lockdowns imposed by some of the main cities contributed to meaningful market volatility, both in equities and fixed income, in particular the real estate sector that remains under pressure. However, a more accommodative stance by the authorities towards some sectors that had been hit in the last several months triggered a rally in Chinese equities in June.
- As described more in detail below, the current market environment provides a compelling set of opportunities for our UBP Distressed Opportunity Fund I, which invests in a broad range of distressed securities in the US and Europe through four specialist partners each investing in specific assets in their respective markets.

*Sources: UBP, Bloomberg Finance LP, BofA Merrill Lynch*

## *Performance Review*

- The UBP Distressed Opportunities Fund (Class A) returned -7.2% in Q2 22, bringing YTD to -7.5%. Q2 was a challenging quarter for the fund, across all three sleeves. While the fund proved resilient through Q1 markets' volatility, Q2 saw a significant sell off in credit markets which was also reflected in to private credit markets. In particular US high yield debt traded of ~10%, its second worst quarter since the Global Financial Crisis in 2008, reflecting the markets increased concerns of a near term recession and potential for higher default rates
- Within the three sleeves: The CLO book was down -7% in Q2, with older vintage equity tranches the main detractor. Newer vintage equity tranches were only down modestly given the recent issue collateral, and debt tranches were positive. European Distressed was down -5% in Q2. The industrials company was the main detractor given materially high energy input costs and negative performance of comparable companies, while the Service station group was flat. Finally, The European Hotels saw better occupancy, but higher energy inputs and negative FX impacts (-5%) offset any gains.

| | NAV | Fund AUM | Q2 | YTD |
|---|---|---|---|---|
| **Class A** | **92.24** | **USD 35.7** | **-7.2%** | **-7.5%** |

*Source of data: UBP. Past performance is not a reliable indicator of future results. The value of investments can fall as well as rise. Past performance figures are stated in the currency of the share class and calculated with dividends reinvested; they are free of ongoing charges. The calculation does not take into account sales commissions and other fees, taxes and applicable costs to be paid by the investor*

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.

*Portfolio Activity*

- The fund is fully invested by the end of Q2 2022. The CLOs continue to pay out high levels of cash and these were reinvested in CLOs over the quarter as prices weakened.

**European Hotels - Pygmalion**

- Total allocation as of the end of Q1 2022 ~42% (no change from Q1)
- As a reminder, in April 21 we purchased 2 hotels in Florence from a private owner who had gone into default on their loan. Following significant negotiations with the original owner, the position was purchased at ~40% discount to local average prices and ~60% discount to construction costs, with the local bank in the original transaction provided the new financing. In Q2 22, the Hotel sleeve detracted from performance as while the hotels saw good occupancy levels, this was offset by high energy costs and negative FX impacts.
- Q2 was a good quarter for the hotels after a tough start to the year with a spike in Covid/Omicron. May and June were exceptional months in Florence with air travel connectivity back to “normal”. Particular to the hotel, they benefited from their close proximity to a new sporting venue, hosting both the Men’s and Women’s Volleyball teams, and some business from Premier league football teams. Finally, some travel and business which was postponed from earlier in the year, happened in Q2/Q3. At the end of June, the Garden Inn was at 95% occupancy vs 77% budget, and the Metropole at 84% occupancy vs 66% budget. Figures remain in good shape for July and are expected to fall somewhat as normal in August as people leave the city during the hottest summer months.
- Costs however are the hotel’s main difficulty with Energy costs the main concern. Both gas and electricity prices are high, and the hotels are somewhat dated in terms of efficiency. They are currently working on quick wins; changing all non LED lightbulbs, training staff, planning the use of AC (with guest arrival/departure) and finalising a discussion to retrofit the hotels with room by room control from OpEx. On the labour side, they have not faced significant inflation and have rationalised and outsourced staff significantly over the past year.
- On CapEx, designs were finalised/signed off with all partners and put the contract out to tender. Ultimately, after negotiations, quotes came in 25-65% above initial expectations. The market is currently overheated with many companies trying to capitalise on government incentives which expire at the end of 2022. As such, larger capex on hold for now and revisited early 2023, prior to the peak season in May/Jun. While this pushes the time horizon of the project out somewhat, economically it still makes sense to not pay the higher construction costs.

**European Distressed – Brigade**

- Total allocation as of the end of Q2 2022 ~16% (unchanged from Q4)
- Mannock is an Industrials company based in Northern Ireland, UK. Their main business line is producing cement and they also run a small packaging company.

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.

- As a reminder, Mannock completed restructuring (and rebranding) in early 2021 and is in the process of stabilising revenues following the restructuring and pandemic. The Fund holds a piece of the firm's post re-org equity. Valuation was negative in Q2 to reflect materially higher input costs (energy and carbon) and reflecting weaker prices of comparable companies over the quarter given European high yield traded off significantly over Q2. The company was able to pass on a price increase to customers earlier in 2022, with only modest impact in demand nevertheless input prices increased further over Q2. The packaging part of the business performed well throughout given the firm produces sustainable packaging, which is in high demand.
- We expect the firm to both pass on further increases to customers and to refinance part of their debt to cheapen the cost of financing in the next 6 months which will improve profitability. As the firm achieves further growth targets in the next 12 months, they aim to refinance the remainder of their debt and eventually list or sell to a strategic buyer.
- EG Group is a large owner of service stations in UK, US, Europe and Australia. The fund hold a slice of the company's preference shares and attached warrants.
- The group is in the process of internal restructuring following some recent acquisitions in Austria and the UK. The position was slightly negative in Q2 as the company's public market instruments sold off in-line with broader markets despite strong operating results. Looking forward the firm continue with their restructuring plans and scheduled capex (including EV infrastructure) readying the firm for listing or strategic sale in the coming 12-18 months

**US Structured Credit, CLOs – CIFC**

- Total allocation as of the end of Q1 is ~40% (unchanged from Q1).
- The book was down -7% in Q2, with secondary market equity tranches being the main detractors. Primary market equity tranches were down modestly given the recent issue collateral, and debt tranches were positive. While CLOs protected well in Q1, they were not immune to the significant sell off in corporate credit markets in Q2. US high yield debt traded off ~10%, its second worst quarter since the GFC, reflecting the markets increased concerns of a near term recession and potential for higher default rates. Given CLOs are backed by floating rate paper, they were somewhat insulated from the concerns of rising rates. We were also able to protect performance through fundamental selection – avoiding concentrations within the CLOs in inflation impacted sectors such as retail and hospitality, and favoring CLOs with a large cap bias.
- All the CLOs in the portfolio continued to pay high cash coupons as expected which are being strategically reinvested as prices weaken across the space. We remain confident in the positions with default rates of large cap companies exceptionally low as of 2022 and expected to remain low in the coming months/year
- As of Q2 ~85% of the portfolio is in equity tranches of CLOs, formed of a mix of new issue and secondary market purchases. The bias to new issue equity tranches is due to the attractive excess spread available in 2021, i.e. the cost of financing a CLO was far cheaper than the earnings made from the loans, and so this generates a high current income for the equity tranches. The remaining capital is in debt tranches of CLOs which they opportunistically purchased over H1 22.

*Outlook*

- We believe there is a continuing opportunity set in specific areas of the markets, particularly small and medium sized companies where new issue market is looking too expensive in a rising rate environment. What is also interesting is companies that had been recovering from the pandemic are now coming under increasing cost pressure and won't be able to maintain new elevated debt levels. Those sectors with high staff or materials inputs such as retail, leisure, and industrials may see pressure to restructure.

**Disclaimer**

This is a marketing document and is intended for informational and/or marketing purposes only. It is confidential and is intended to be used only by the person(s) to whom it was delivered. It may not be reproduced (in whole or in part) or delivered, given, sent or in any other way made accessible, to any other person without the prior written approval of Union Bancaire Privée, UBP SA or any entity of the UBP Group (UBP). This document reflects the opinion of UBP as of the date of issue. This document is for distribution only to persons who are Professional clients in Switzerland or Professional Clients or an equivalent category of investor as defined by the relevant laws (all such persons together being referred to as "Relevant Persons").
This document is directed only at Relevant Persons and must not be acted on or relied on by persons who are not Relevant Persons. It is not intended for distribution, publication, or use, in whole or in part, in any jurisdiction where such distribution, publication, or use would be unlawful, nor is it directed at any person or entity at which it would be unlawful to direct such a document. In particular, this document may not be distributed in the United States of America and/or to US persons (including US citizens residing outside the United States of America). This document has not been produced by UBP's financial analysts and is not to be considered financial research. It is not subject to any guidelines on financial research and independence of financial analysis. Reasonable efforts have been made to ensure that the content of this document is based on information and data obtained from reliable sources. However, UBP has not verified the information from third sources in this document and does not guarantee its accuracy or completeness. UBP makes no representations, provides no warranty and gives no undertaking, express or implied, regarding any of the information, projections or opinions contained herein, nor does it accept any liability whatsoever for any errors, omissions or misstatements. The information contained herein is subject to change without prior notice. UBP gives no undertaking to update this document or to correct any inaccuracies in it which may become apparent. This document may refer to the past performance of investment interests. Past performance is not a guide to current or future results. The value of investment interests can fall as well as rise. Any capital invested may be at risk and investors may not get back some or all of their original capital. Any performance data included in this document does not take into account fees, commissions, and expenses charged on issuance and redemption of securities, nor any taxes that may be levied. Changes in exchange rates may cause increases or decreases in investors' returns. All statements other than statements of historical fact in this document are "forward-looking statements". Forward-looking statements do not guarantee future performances. The financial projections included in this document do not constitute forecasts or budgets; they are purely illustrative examples based on a series of current expectations and assumptions which may not eventuate. The actual performance, results, financial condition and prospects of an investment interest may differ materially from those expressed or implied by the forward-looking statements in this document as the projected or targeted returns are inherently subject to significant economic, market and other uncertainties that may adversely affect performance. UBP also disclaims any obligation to update forward-looking statements, as a result of new information, future events or otherwise. The contents of this document should not be construed as any form of advice or recommendation to purchase or sell any security or funds. It does not replace a prospectus or any other legal documents, which can be obtained free of charge from the registered office of a fund or from UBP. The opinions herein do not take into account individual investors' circumstances, objectives, or needs. Each investor must make their own independent decision regarding any securities or financial instruments mentioned herein and should independently determine the merits or suitability of any investment. In addition, the tax treatment of any investment in the fund(s) mentioned herein depends on each individual investor's circumstances. Investors are invited to carefully read the risk warnings and the regulations set out in the prospectus or other legal documents and are advised to seek professional counsel from their financial, legal and tax advisors. The tax treatment of any investment in a Fund depends on the investor's individual circumstances and may be subject to change in the future. This document should not be deemed an offer nor a solicitation to buy, subscribe to, or sell any currency, funds, products, or financial instruments, to make any investment, or to participate in any particular trading strategy in any jurisdiction where such an offer or solicitation would not be authorised, or to any person to whom it would be unlawful to make such an offer or solicitation. Telephone calls to the telephone number stated in this presentation may be recorded. UBP will assume that, by calling this number, you consent to this recording.
The Swiss representative is 1741 Fund Solutions AG, Burggraben 16, 9000 St. Gallen, Switzerland. The Swiss paying agent is Tellco AG, Bahnhofstrassse 4, 6430 Schwyz, Switzerland. The Funds' Legal Documents may be obtained free of charge from Union Bancaire Privée, UBP SA, 96-98 rue du Rhône, P.O. Box 1320, 1211 Geneva 1, Switzerland, as well as from the Swiss representative.
Any subscriptions not based on the funds' latest prospectus, annual or semi-annual reports or other relevant legal documents (the "Funds' Legal Documents") shall not be acceptable.
This content is being made available in the following countries:
**Switzerland**: UBP is authorised and regulated in Switzerland by the Swiss Financial Market Supervisory Authority (FINMA). The head office is Union Bancaire Privée, UBP SA, 96-98 rue du Rhône, P.O. Box 1320, 1211 Geneva 1, Switzerland.
ubp@ubp.com | www.ubp.com
**United Kingdom**: UBP is authorised in the United Kingdom by the Prudential Regulation Authority (PRA) and is subject to regulation by the Financial Conduct Authority (FCA) and limited regulation by the PRA.
**France**: Sales and distribution are carried out by Union Bancaire Gestion Institutionnelle (France) SAS, a management company licensed with the French Autorité des Marchés Financiers, - licence n° AMF GP98041 ; 116, av. des Champs Elysées l 75008 Paris, France T +33 1 75 77 80 80 Fax +33 1 44 50 16 19 www.ubpamfrance.com.
**Hong Kong**: UBP Asset Management Asia Limited (CE No.: AOB278) is licensed with the Securities and Futures Commission to carry on Type 1 – Dealing in Securities, Type 4 – Advising on Securities and Type 9 – Asset Management regulated activities. The document is intended only for Institutional or Corporate Professional Investor and not for public distribution. The contents of this document have not been reviewed by the Securities and Futures Commission in Hong Kong. Investment involves risks. Past performance is not indicative of future performance. Investors should refer to the fund prospectus for further details, including the product features and risk factors. The document is intended only for Institutional Professional Investor and not for public distribution. The contents of this document and any attachments/links contained in this document are for general information only and are not advice. The information does not take into account your specific investment objectives, financial situation and investment needs and is not designed as a substitute for professional advice. You should seek independent professional advice regarding the suitability of an investment product, taking into account your specific investment objectives, financial situation and investment needs before making an investment. The contents of this document and any attachments/links contained in this document have been prepared in good faith. UBP Asset Management Asia Limited (UBP AM Asia) and all of its affiliates accept no liability for any errors or omissions. Please note that the information may also have become outdated since its publication. UBP AM Asia makes no representation that such information is accurate, reliable or complete. In particular, any information sourced from third parties is not necessarily endorsed by UBP AM Asia, and UBP AM Asia has not checked the accuracy or completeness of such third-party information.
**Singapore**: This document is intended only for accredited investors and institutional investors as defined under the Securities and Futures Act (Cap. 289 of Singapore) ("SFA"). Persons other than accredited investors or institutional investors (as defined in the SFA) are not the intended recipients of this document and must not act upon or rely upon any of the information in this document. The financial products or services to which this material relates will only be made available to clients who are accredited investors or institutional investors under the SFA. This document has not been registered as a prospectus with the MAS. Accordingly, this document and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of this product may not be circulated or distributed, nor may the product be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to institutional investors under Section 274 or 304 of the Securities and Futures Act (Cap. 289) of Singapore ("SFA"), (ii) to relevant persons pursuant to Section 275(1) or 305(1), or any person pursuant to Section 275(1A) or 305(2) of the SFA, and in accordance with the conditions specified in Section 275 or 305 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. This advertisement has not been reviewed by the Monetary Authority of Singapore.
**MSCI** : Although Union Bancaire Privée, UBP SA information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the "ESG Parties"), obtain information from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness of any data herein. None of the ESG Parties makes any express or implied warranties of any kind, and the ESG Parties hereby expressly disclaim all warranties of merchantability and fitness for a particular purpose, with respect to any data herein. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein. Further, without limiting any of the foregoing, in no event shall any of the ESG Parties have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.
The Swiss representative is 1741 Fund Solutions Ltd, Burggraben 16, CH-9000 St. Gallen, Switzerland. The Swiss paying agent is Tellco AG, Bahnhofstrasse 4, 6430 Schwyz, Switzerland. Any subscriptions not based on the fund's latest prospectus, annual or semi-annual reports or other relevant legal documents (the "Fund's Legal Documents") shall not be acceptable. The Fund's Legal Documents may be obtained free of charge from Union Bancaire Privée, UBP SA, 96-98 rue du Rhône, P.O. Box 1320, 1211 Geneva 1, Switzerland, as well as from the Swiss representative. In respect of the shares offered in Switzerland, the place of performance and jurisdiction is the registered office of the Swiss representative. The fund mentioned in this document is not registered for public distribution in any jurisdiction and no public marketing may be carried out for it. In Switzerland, this fund may only be offered to professional investors.
Prospectus Key Investor Information: A copy of the English version of the prospectus of the Fund is available on www.ubp.com and may also be obtained from the Administrator or the AIFM.
Hyperlink to Summary of Investor Rights: A summary of investor rights associated with an investment in the Fund shall be available in English from the AIFM at www.innocapglobal.com.
Termination of marketing arrangements: A decision may be taken at any time to terminate the arrangements made for the marketing of the Fund in any EEA Member State in which it is currently marketed. In such circumstances, Shareholders in the affected EEA Member State will be notified of this decision and will be provided with the opportunity to redeem their shareholding in the Fund free of any charges or deductions for at least 30 working days from the date of such notification.