

UBAM - MULTIFUNDS ALTERNATIVE

Second Quarter Review

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

Market Comment

- The second quarter was very strong for equities and credit as central banks and governments provided enormous amounts of stimulus and economies started to reopen. World equities rallied across the board, up close to 20% on aggregate, with the US and EM leading the way, while Europe and Japan lagged somewhat. In terms of styles, growth continued to strongly outperform value, as we have seen in the last several quarters. Central bank support also helped supporting High Yield which rallied by close to 10% in Q2. EM Debt also rallied as many central banks cut rates, some even implemented QE for the first time, and oil rallied following an extraordinary collapse into negative territory. Despite the strong rebound in risk assets, traditional portfolio hedges such as government bonds and gold held up well. US Treasuries are up about 9% year to date, while gold is up close to 18%.
- The lock down has reduced consumers' spending and led to a surge in savings rates. This provided the liquidity for retail day trading via cheap trading platforms. The retail trading combined with algorithmic systems designed to piggyback on this approach has led to some staggering moves in individual stock prices driven by key words rather than earnings prospects.
- 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 traditional 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.

Performance Review

- During the second quarter of the year, UBAM - Multifunds Alternative (Class UC USD) gained 5.31% (reported net of fees). This return was driven by 11 of the 12 underlying managers posting healthy returns after the challenge of March.
- In terms of positive contributors- the two Marshall Wace systematic funds posted positive gains in each of the three months, which was led by alpha generation through their long books. AKO Global captured strong gains through the quarter, driven by their bias to quality growth and allowing the short protection to roll off post the March sell off. Blackrock UK Emerging Companies posted gains across each month as long exposure bounced after the March sell off, but they also actively managed the net exposure to reduce the impact of the short portfolio offsetting long gains. Brilliance China Core Long Short generated strong consistent returns as the portfolio is focused on domestic growth opportunities. Cheyne Arbitrage generated the highest return among managers with gains focused in April as deal spreads which had widened out in March narrowed sharply. KLS Arete Macro posted its fifth consecutive monthly gain for the year as it benefited from its pivot into equity risk. RV Capital Asia posted a strong quarter to recapture its March losses as exposure to rates and credit benefited from continued reach for yield. We were pleased with the addition of the newly launched, Campbell Absolute Return, which posted a gain of 2.6% in June. Finally, GCA Credit Long Short posted its third consecutive monthly gain as wide dispersion between similar credits suits their investment style.



Q2 2020

Portfolio Activity

- In terms of negative contributors only Schroder GAIA Two Sigma posted a negative return, which was driven primarily from the macro focused strategies.
- UBAM - Multifunds Alternative is a weekly UCITS FoF investing in 10 to 20 uncorrelated, high conviction alternative managers from UBP's Recommended List. It aims to be an Absolute Return portfolio acting as an alternative and/or complement to traditional fixed income investments.
- Over the period we redeemed from one manager EMSO Emerging markets and added a new position in the Campbell Abs Return UCITS.

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 high real yields outside of G10, mean reversion strategies where as market volatility stabilizes so these spread should narrow and in systematic strategies where investor biases will generate good entry and exit points.
- For greater depth on our outlook please access the AIS Quarterly Outlook & Review report.

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