Q2 2021

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

- Over the second quarter of 2021, equities rose as vaccination campaigns accelerated in most developed economies, particularly in Europe. In EM, vaccination campaigns continued to lag but cases seemed to remain under control. Economic data was generally very strong in Q2, both on the GDP and business sentiment fronts. This strong rebound in economic activity has fuelled inflation in some countries and sectors. Whether this is temporary or not remains to be seen, but it has had an implication on the Fed's stance, that has become slightly more hawkish.
- The pace of vaccination campaigns and reopening of economies was the main driver of equities, as US and Europe, which were at the forefront, outperformed EM and Japan. In terms of styles, growth outperformed value in Q2, after a few quarters of underperformance. In fixed income markets, inflation was the main driver of performance, as investors looked for yield and inflation hedges in a context of very low or even negative sovereign bond yields.
- 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 second quarter of 2021, U Access (IRL) GCA Credit Long/Short UCITS returned +1.17%, bringing YTD performance to +2.73% (Class B USD, net of fees). During the period, the long strategy contributed +1.04% in capital gains, the short strategy contributed (0.33)%, and net interest carry contributed +0.46%, 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 broadcasting/media company. The position benefitted from the company announcing that one of its wholly-owned subsidiaries was selected by a large U.S. municipality as its preferred casino gaming operator to develop and operate a casino resort. Both the bonds and equity appreciated in the quarter and the investment team believes that there is additional upside for the company and has kept this position intact through the date of this letter.
- The second-largest contributing issuer for the period was a long position in a manufacturer of casino games and slot machines which also provides services to the gaming industry, including cash access and customer relationship marketing technologies. The portfolio benefitted from the company reporting better than expected earnings, record-setting financial forecasts, and a favorable refinancing agreement to repay some of its borrowings, all while receiving multiple equity analyst upgrades. The bonds and equity held in the portfolio appreciated during the period. The investment team believes that there is additional upside for this company's bonds and equity given the positive trajectory of the company, and has kept this long 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 third-largest contributing issuer for the period was a long position in a midstream energy services company that offers supply and marketing services to oil and gas producers and consumers. The portfolio gained from price appreciation on its long position which resulted from the increase in crude oil prices, better than expected earnings and forward-looking guidance, increasing free cash flow and analyst upgrades to the company's equity during the period. 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 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 short positions in five-year and ten-year U.S. Treasuries. During the reporting period, this position acted as an interest rate hedge against various interest rate sensitive portfolio positions. Given the positive performance of these U.S. Treasuries during the period, this hedge acted as expected and remains intact through the date of this letter.
- The third-largest detracting issuer for the period was a long position in an independent power producer that generates, distributes, transmits and markets electricity. This long position declined in price after the company seemingly disappointed investors during its May investor day by not providing concrete funding details or committed customers for its proposed strategic transition into building data centers and cryptocurrency operations next to its power plants. The investment team believes that there is flexibility within the company's credit documents which makes it a target for liability management and that the company could potentially still provide positive disclosure regarding equity financing and strategic partners for these new initiatives. Accordingly, the investment team has kept this long bond position intact through the date of this letter.

Portfolio Activity

- The rally of the last twelve months continued into Q2 2021, with high yield bond spreads tightening by another 30 basis points (touching recent lows), while the yield on the ten-year U.S. Treasury declined by more than 25 basis points during the same period as inflationary fears eased. Short exposure in the portfolio was added via various hedges while long exposure issues that reached their expected price targets were replaced with new names. Gross exposures at the end of April, May and June of 2021 measured +117%, +116% and +115%, respectively, while net exposures at the same periods measured +40%, +30% and +31%, respectively.
- At a more granular level, the long portfolio activity included adding more liquid, relative value positions within the Healthcare and Cable/Wireless Video sectors as well as higher coupon, shorter duration bonds that are likely candidates for refinancing at a premium to their call prices within the Broadcasting and Energy 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 June 2021 were +115% gross and +31% net (as mentioned above), with +73% long exposure and -42% short exposure.

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- The largest long sector exposures at the end of the quarter were (in order) Energy, Gaming/Leisure, Healthcare, Cable/Wireless Video, and Service.
- The largest short sector exposures at the end of the quarter were (in order) Other (risk mitigants), Energy, Gaming/Leisure, Information Technology and Healthcare.

Outlook

- With central banks now taking a more hawkish view given the global economic recovery and as the COVID-19 vaccination effort continues, further rate volatility and rich valuations continue to present near-term market challenges. With credit spreads at lows not seen since 2007 and yields reaching all-time lows, the investment team has many reasons to remain cautious from a valuation perspective. That said, with default rates declining, new issuance volumes hitting records and credit agency rating upgrades on the rise, one could argue that there are some fundamental reasons for the current level of valuations.
- In this environment, the investment team still foresees opportunity on both the long and short sides of the portfolio due to the dispersion which often occurs within corporate credit markets in uncertain rate environments, even during times of tight spread levels.

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