U ACCESS (IRL) GCA CREDIT LONG/SHORT UCITS

Quarterly Comment

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

Market Comment

- The first quarter of 2020 has not been an easy one for investors and will be remembered for a long time. Global equity markets were down -20.0% during Q1, as measured by the MSCI AC World - Net Return Local Index, almost erasing the entire gains of 2019. Some markets had the worst quarterly performance since 1987. The most notable was the speed and steepness of the decline, with all losses occurring in a four-week span between February and March, as the uncertainties related to COVID-19 triggered an indiscriminate sell-off across the board, exacerbated by a massive deleveraging of several market participants. Peak-to-trough, most markets were down over -30%.
- Developed Market (DM) equities fell sharply, in line with global markets. The Japanese Topix lost -17.5%, the S&P 500 was down -19.6%, while Europe was hit the hardest with the MSCI Europe down -23.1% in Q1. There was a lot of dispersion within both styles and sectors, as investors tried to assess the impact lockdowns would have on different parts of the economy. In that context, small caps, REITs and, to a lesser extent, value strongly underperformed, while growth strongly outperformed. In terms of sectors, IT and healthcare strongly outperformed, while energy and financials suffered.
- Emerging Market (EM) equities underperformed DM during the quarter, with the MSCI EM TR Index down -23.6%. Here again, a “rush” to quality triggered a very strong sell off in all EM assets, that sometimes became illiquid, further accelerating the price drop. In general, Asian markets were able to resist better while Latam and MEA suffered significantly.
- Volatility spiked to levels last seen during the 2008-2009 GFC, even surpassing it slightly. As for equities, it is the violence of the move that was notable, as the VIX went from 14 to 82 in one month. It ended the quarter at 53.5, almost 4 times higher than it’s close of December 31st, 2019.
- Oil collapsed by -66.5% in Q1 (WTI), one of the worst quarterly percentage drops on record, as Saudi Arabia and Russia went into an all-out price war with unprecedented production increases. At the same time, demand tumbled as countries ordered lockdowns and imposed strict travel restrictions. Gold rallied along with other safe heaven assets, as DM interest rates were cut to zero.
- An unprecedented shock requires an unprecedented policy response, and that is what we have seen. Governments like the UK and Germany have committed to pay a significant proportion of workers’ wages during the shutdown to enable companies not to lay off staff. In the US, a very substantial fiscal stimulus package has been agreed, worth about 10% of GDP, which will include some grants to small businesses. Central bankers have thrown the kitchen sink at the problem, cutting rates to their lower bound and restarting and expanding asset purchase programmes to unlimited levels. The depth and duration of this recession will therefore depend on the extent to which governments fill in the gaps in their current fiscal responses.
- 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 dislocations in the market, offering opportunities both the long and short side.

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.

Performance Review

- For the first quarter of 2020, U Access (IRL) GCA Credit Long/Short UCITS returned +0.47% (Class B USD, net of fees). The Fund's net performance since inception (February 20, 2019) is now +4.67%. During Q1 2020, the long strategy contributed -11.50% in capital gains, the short strategy contributed +11.52% in capital gains, and net interest carry contributed +0.45%, all expressed on a net of fees basis.
- The portfolio's largest contributing issuer was a short position in a casino, distributed gaming and pub operator with venues predominantly in Nevada. The portfolio gained from price depreciation on the bonds in response to the disruption in casino and pub visitation resulting from the efforts to contain the spread of Coronavirus (e.g. mandatory closing of casinos and pubs) by Federal, state and local governments, the virus mitigation efforts' negative effect on consumer spending (loss of wages), as well as downgrades from ratings agencies. The investment team believes that the financial impacts from the pandemic on the company and the gaming/leisure sector have yet to fully materialize and as such has kept this short position intact through the date of this letter.
- The second largest contributing issuer was a short position in a global casino operator. The portfolio gained from price depreciation on the bonds in response to the Coronavirus issues noted above. The investment team believes that there is additional downside for these bonds and as such has kept this short position intact through the date of this letter.
- The third largest contributing issuer for the period was a long position in a company that offers internet, voice, video and data services in the U.S. This long position is part of the portfolio manager's long broadband theme, which is constructive on providers of the broadband connection that benefit from increased consumer and business demand for data, entertainment and video-related content. The portfolio benefitted from price appreciation on the additional purchases of the company's bonds at a significant discount towards the bottom of March's market rout. The portfolio manager believed that a higher quality credit such as this one was undervalued and would continue to benefit from the increased at-home broadband demand resulting from the stay at home mandates instituted in response to the Coronavirus. The portfolio manager believes this bond maintains an attractive risk reward profile and as such it remains in the portfolio through the date of this letter.
- On the negative side, the portfolio's largest detracting issuer for the quarter was a long position in the Markit high yield credit default swap index (HY CDX). During the reporting period this position acted as a general market portfolio hedge against single-name short positions. Given the high yield market downturn during the period, this hedge acted as expected and was eliminated going into the end of the period.
- The second largest detracting issuer 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 company was the largest positive contributing issuer last quarter, as well as the second largest positive contributing issuer last year. Unfortunately, during the period, the company, and its customer base (casinos), faced the headwinds related to the Coronavirus noted above, and both the bonds and equity depreciated in value.
- The third largest detracting issuer for the period was a long position in a land-based oil drilling rig operator and oil well servicer. Although some of this position was hedged with another capital structure arbitrage short position which made money, the portfolio suffered from price depreciation on the company's bonds it held long mainly due to the more than 50% decline in crude oil prices during the month of March resulting from the Russia-Saudi Arabia oil price war and the demand destruction from the Coronavirus situation. This position was fully exited towards the end of the period.

Portfolio Activity

- While the investment team remained cautious going into the start of the year due to valuations, much of the portfolio activity during the current reporting period included de-risking the portfolio as a whole. Gross exposures at the end of January, February, and March of 2020 measured +103%, +98% and +75% respectively, while net exposures during the same time period measured +37%, +29% and +5% respectively.
- At a more granular level, the de-risking of the portfolio included decreasing long risk in lower quality non-core names primarily in the Service, Metals/Minerals and Energy sectors and adding long risk to higher quality core names in the Telecommunications, Diversified Media, Information Technology, Cable/Wireless Video and Healthcare sectors. The portfolio team also added short exposure to Coronavirus affected sectors including Gaming/Leisure and Retail.
- From an event driven strategy perspective, as expected, the number of new deals and repricings in the high yield markets significantly declined during the period given market conditions, although a record amount of investment grade deals was pushed through on days where markets rallied.

Outlook

- At the overall portfolio level, the exposures at the end of March 2020 were +75% gross and +5% net (as mentioned above), with +40% long exposure and -35% short exposure.
- The largest long sector exposures at the end of the quarter were (in order) in the Cable/Wireless Video, Forest Products/Containers, Telecommunications and Healthcare sectors.
- The largest short sector exposures at the end of the quarter were (in order) in the Information Technology, Gaming/Leisure, Healthcare, and Food/Tobacco sectors.
- With the U.S. and global economies receding, U.S. high yield market spreads widening significantly and hovering around +850bps, U.S. Treasury yields continuing to test historic lows, default rates starting to pick up, equity markets continuing to be volatile, and the uncertainty surrounding the future effects of Coronavirus, the investment team has many reasons to remain cautious.
- However, through this uncertainty, while keeping the portfolio's gross and net exposures lower on a relative basis, the team also foresees opportunity on the long side of the portfolio, adding quality names at a discount, while remaining selective on shorts that have yet to find a bottom.

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 Qualified Investors in Switzerland or Professional Clients, Eligible Counterparties or an equivalent category of investors 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 to any person to whom or entity to 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 represent forecasts or budgets but 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. This document 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 his/her 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 financial, legal and tax specialists. The tax treatment of any investment 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.
The Swiss representative is 1741 Fund Solutions AG, Burggraben 16, 9000 St. Gallen. The Swiss paying agent is Tellco AG, Bahnhofstrassse 4, 6430 Schwyz. The prospectus, articles of association, KIIDs, and annual and semi-annual reports may be obtained free of charge from UBP as well as from the Swiss representative.
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. In Switzerland, UBP is authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA); in the United Kingdom, it is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority (FCA).