U ACCESS (IRL) SHANNON RIVER 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

- The fourth quarter of 2022 saw a relief rally in risk assets across the board, capping a very difficult year for equity and bond markets. This rebound did come with some volatility however as markets corrected in December after a strong positive move in October and November. Expectations of a more dovish fed, with even some participants anticipating rate cuts as soon as 2023 were the main catalysts. In terms of regions, Europe and Emerging markets outperformed the US, with the UK even ending the year in positive territory, driven by the weakness of the British Pound. China ended a very volatile year with a strong rally as the government's looked to move beyond its zero Covid policy. In Fixed Income, EM debt and Investment grade outperformed High Yield. Government bonds were positive overall but Europe and Japan saw negative returns.
- Despite some relief in Q4, 2022 will be remembered as the year when both equity and fixed income markets were repriced due to higher inflation and interest rates. A recession is now widely expected in 2023 and markets are anticipating a decline in inflation and possibly in interest rates, which could be supportive. Commodity prices stabilised on aggregate in Q4, which helped taming inflationary pressures. Markets could remain macro driven in the near future, focusing on the Fed and economic data, but once the extent of the potential recession becomes clearer, fundamentals could reclaim centre stage and dispersion could return.
- In this disruptive environment, we believe that expanding asymmetric exposure through alternative solutions is a smart asset allocation move today. We are convinced that one efficient way to improve the risk-return profile of a traditional long-only equity portfolio is to favour Long/Short sector specialists like U Access (IRL) Shannon River UCITS. Indeed, technology is present in more and more aspects of our life as it continues to disrupt sectors and companies.

Sources: UBP, Bloomberg Finance LP, BofA Merrill Lynch

Performance Review

- For the fourth quarter of 2022, U Access (IRL) Shannon River UCITS returned -2.08% (Class B USD, net of fees), bringing YTD performance to -20.60%. During Q4 2022, the long book added +1.17%, while the short book detracted -3.15% (gross of fees).
- The portfolio's top contributors in the quarter were Flex Ltd (FLEX) +229 bps, Rambus Inc. (RMBS) at +135 bps, Warner Music Group (WMG) at +69 bps, Royal Caribbean Cruises Ltd (RCL) at +66 bps and Shift4 Payments Inc. (FOUR) at +63bps.
- Top detractors for the quarter were a short int the digital manufacturing services space at -63bps, Advanced Micro Devices (AMD) at -59 bps and Kornit Digital Ltd. (KRNT) at -49bps.
- Major stock indices were mixed in the fourth quarter. The S&P 500 gained 7.08%, and the Russell 2000 gained 5.8% while Nasdaq fell by -1.03%.

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

- U Access (IRL) Shannon River UCITS focuses on companies across the broad technology sectors, and typically invests in the $1-$20 billion market cap range where sell-side research coverage is less efficient. The team takes a company-specific, bottom-up approach to investing, and seeks out asymmetric opportunities that it believes to be temporarily misunderstood or ignored.
- In Q4, the portfolio manager continued to reduce Gross and Net exposure to mitigate downside volatility. Gross exposure was in the 54-98% range for most of the quarter, while Net exposure was in the 5-72% range.
- Top high conviction long ideas currently include Flex Ltd (FLEX), Interdigital Inc. (IDCC), Vicor Corp (VICR), Cognex Corp (CGNX) and Manhattan Associates Inc. (MANH). New long positions include Shift4 Payment Inc (FOUR), a leader in the payment processing industry and Appfolio Inc. (APPF), a provider of cloud-based software solutions.
- Our short book has been profitable in 2022, delivering a return of over 18% to help mitigate losses from the long book. The short book is currently comprised almost entirely of single stock “alpha” shorts. Areas of focus include consumer services and hardware, semiconductors, and advertising companies.

Outlook

- Recession fears and heavy tax selling put downward pressure on stocks into year end, extending losses in the indices for the year and especially on areas of growth. In hindsight the Covid period fed fuelled multiple expansions for growth stocks, and for all risk assets for that matter, is now acknowledged to have been a bubble and we have seen a dramatic reset to valuations that are more in keeping with the ranges typical of pre 2019. We have also seen some positive inflation data and as we come up on the one year comps it appears inflation will moderate. If rate hikes moderate - not necessarily come back down - the investment team believes it will be a greatly improved stock picking environment.
- This reset in valuations has created exciting opportunities for the strategy. Furthermore, we all realize we live in a rapidly changing environment, driven by accelerating innovation and deployment of existing and new technologies across just about every aspect of life in either the home or the office. These trends have and will continue regardless of the marco conditions and will reveal winners and losers in increased numbers in the coming years. We have also witnessed unprecedented weakness in the “FAANG” stocks. As is typical in tech, the leaders of the last 10 years are almost never the leaders of the next 10. SMID cap stocks will be a fantastic opportunity set for investors and will grow in number and dispersion.
- Within proven tech trends the team is identifying idiosyncratic opportunities. Companies that the team believes have mispriced growth as well as identifiable catalysts that it believes will unlock value. On the short side there are still many companies that the team does not feel will grow into their valuation and/or have some flaw in their business model or unit economic that will manifest in earnings disappointments in the coming quarters.
- The portfolio is highly diversified across many sectors. The team is both revisiting companies that it has known over its 20 track record, and initiating positions in newer companies that it has followed but waiting for attractive entry points. These included companies in payments, semis, industrial automation, and software, to name a few.

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- LONG FOUR: Shift4 Payments is a global payment processor focused on software integrations to drive end to end payment volumes. The team believes the company is executing well on its gateway conversion strategy and monetizing the full payment transaction. Early success in new verticals and improving free cash flow metrics setup the company to outperform street estimates in 2023.
- LONG APPF: Appfolio is an under the radar property management software company benefiting from a move up market. Appfolio offers a complete software package that helps digitize leasing, maintenance and payments for both property managers and tenants. Average deal sizes are increasing from 300 units to over a thousand which should support growth in the mid to upper 20% range well above expectations. After a multi-year investment in building out new functionality to support the high end of the market the company is poised to show operating leverage over the next several years.
- LONG CGNX: Cognex manufactures computer vision systems that allow machines to see far more quickly and more accurately than humans or even other technology such as bar code readers, for example. CGNX is benefitting from the increased automation in many fields, including e-commerce, logistics and manufacturing, where cost efficiency is paramount. We believe the company is set to bounce back from a perfect storm of headwinds last year. Besides COVID digestion of purchases among its e-commerce customers and a limited phone upgrade at Apple, CGNX also experienced a fluke fire that destroyed key components and exacerbated well-known and more general industry supply issues. We expect international e-commerce/omnichannel companies to continue to purchase CGNX gear to provide better logistics and catch up to US peers, while our checks indicate a very significant phone upgrade at Apple in 2H23. We've followed CGNX for more than 10 years and significant iPhone upgrades drive significant purchases from CGNX by Apple's contract manufacturers. The team expects CGNX to have a strong year, better than market expectations.
- LONG VICR: Vicor specializes in making high voltage power semiconductors ("high power"). VICR's products are protected by publicly filed patents as well as trade secrets. VICR is leveraged to the increased needs for high-powered systems and servers to drive artificial intelligence (AI) and machine learning (ML) workloads. These systems use VICR's chips. For years, the bear case has been that VICR will lose share as the AI market became more important, but we believe there is still very limited competition and VICR's products remain years ahead of the competition. With the market concerned about overall data center spend growth in 2023, we believe investors are "throwing the baby away with bathwater" with respect to VICR. We believe high-power spend on AI and ML systems will be very strong in 2023 and VICR will outperform. Furthermore, we believe AI is still in its early innings and years of strong spend will follow.
- LONG IDCC - We continue to be long Interdigital (IDCC). IDCC licenses wireless and video patents to handset makers and consumer electronics companies. IDCC began the year with a positive announcement that it had renewed its deal with longtime customer Samsung. With this signing, and the signing of Apple last fall, IDCC has completed a major renewal cycle and has highly visible and steady revenue streams guaranteed for years to come. IDCC is so confident in its future that it announced a $400M stock buyback - or 25% of the company - the same day it announced Samsung. We expect IDCC to sign new contracts with handset OEMs and consumer electronics manufacturers in 2023 and drive revenue and

EBITDA well above the current run rate. Even under highly conservative assumptions, IDCC is trading at only 6.5x EBITDA, which is why, we believe, the company is comfortable buying back so much stock. We expect IDCC's stock to appreciate more in 2023.

- LONG FLEX - We continue to be long Flex LTD (FLEX), a contract manufacturer. Our thesis on FLEX is proving out. New management continues to execute a revamped portfolio in a stellar fashion. Growth is steadier and higher, margins are expanding, and the company's profitability continues to increase. COVID and geopolitical tension have further increased FLEX's importance to its customers, and manufacturing and supply chain management are now CEO-level issues. We expect FLEX to continue to beat expectations and for its multiple to slowly expand to reflect the improved execution and financial model. We also expect a significant catalyst by May of this year, which is when FLEX will have its fiscal yearend conference call. We expect FLEX to announce the imminent spinoff of its NexTracker solar business on or before this call. We believe the Nextracker spin could increase FLEXs stock price by 20% or more.
- SHORT- semiconductor company - This company has gone "all in" on a new material used to make semiconductors. These materials are particularly used in electronic vehicles (EVs). We, however, find one must make huge assumptions between now and 2027 to get any sort of value for the company. Until then, we expect the company to post losses, bleed cash and probably need to raise more cash. There is tremendous uncertainty in developing a new production process, while huge capex investments are required. Management has already had to lower margin and raise capex targets several times and we expect more of the same to follow. We believe the company's projections are guesswork. In our years of analyzing the semiconductor industry, companies have almost universally underestimated the difficulty in bringing stairstep technologies to market. The company has announced many long-term supply agreements, but again history tells us that these contracts are almost always very malleable - everything from delivery times to quantities to pricing can change when it comes time for actual revenue. We expect continued milestone disappointments from this company over the next few years.
- SHORT - Travel Services Company - The Company provides an annual subscription to air travel passengers, providing subscribers a streamlined process through airports' security lines. The Company benefited in 2022 from heighted post-covid air travel activity and the rollout of its partnership with a large credit card company, the latter driving 1/3 of total growth. The Company has positioned future growth stemming from a) its recently launched ability to handle enrolments & reenrolments for TSA Pre-Check, b) from increasing penetration of existing airports, and c) from growth of entertainment venue-associated use cases (venue entry & register-less vendor checkout). However, we believe a) the TSA Pre-Check financial upside to be limited, b) new airports have been demonstrating rapidly decreasing marginal returns, and c) venue-associated initiatives have and will continue to fail due to a combination of more robust competition and limited use cases. In summary, we expect the Company to underperform as credit card-associated subscriber penetration naturally plateaus and the air travel industry normalizes, driving significantly lower gross adds and more normalized churn, creating an opportunity to the downside considering the Company's asymmetric valuation.

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