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 fourth quarter of 2021, DM equities, except for Japan, were broadly positive, ending the third year in a row with strong calendar year returns, driven by strong earnings growth. Small cap underperformed large cap, as the fears about weaker growth going forward weighed on their performance. EM equities suffered, mainly dragged down by higher inflation and expectation of more interest hikes, as well as the continually negative news on China, in particular on the real estate sector front.
- The emergence of the Omicron variant in November initially led to a strong increase in equity volatility. However, markets were quick to recover as initial data indicated a lower risk of severe disease. On the fixed income side, uncertainties about future growth due to less accommodative central bank policy led to a flattening of the US yield curve. The front end of the curve moved higher, while the back end remained flat.
- 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 fourth quarter of 2021, U Access (IRL) GCA Credit Long/Short UCITS returned +0.24%, bringing YTD performance to +2.91% (Class B USD, net of fees). During the period, the long strategy contributed (0.59%), the short strategy contributed +0.35%, and net interest carry contributed +0.47%, all expressed on a net of fees basis.
- The portfolio's largest contributing issuer for the quarter was a long position in a diversified media company. The portfolio's long bond position benefitted from credit ratings upgrades due primarily to greater than expected debt repayment through the end of the third quarter and company guidance on further debt reduction in future quarters through excess cash flows. The company also reported better than expected revenues, reflecting the successful acquisition and integration of a competitor combined with increases in local and national network advertising revenue. The bonds held in the portfolio appreciated during the period and the investment team believes that there is additional upside for this company's bonds given the positive trajectory of the company resulting from the strengthening advertising environment and has kept this long position intact through the date of this letter.
- The second-largest contributing issuer for the period was a long position in a car rental company. The portfolio gained from price appreciation on its long position because of the continued recovery of the rental car market as utilization rates and rental rates increased given the continued shortage of new and used vehicles. In addition, the company hired an experienced automotive industry executive, prompting speculation of the near-term public re-offering of its equity (which was completed during the quarter), and a renewed focus on electric vehicle and ride-

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.

sharing initiatives, which the market viewed favourably. The portfolio's position in the company's equity warrants, equity, and bonds appreciated during the period and was closed out at a profit. The investment team believes that the company's equity call options which depreciated in value during the quarter are attractive, and therefore maintained that position through the date of this letter

- The third-largest contributing issuer for the period was a long position in a European construction services provider. The portfolio's long position in the bonds and equity of the company benefited from the company's divestment of certain non-strategic assets with the proceeds being used to reduce its debt, as the company had promised when it emerged from its recent restructuring. The position also benefitted from a report that the company was awarded a major U.S. railway contract as part of a consortium with another European construction service provider, continuing the growth of its contract portfolio, and analyst upgrades of the equity during the quarter. With the prospect for debt reduction through asset sales and improved profitability due to increased infrastructure spending, the investment team believes that there is additional upside for the bonds and equity and has kept this long position intact through the date of this letter.
- On the negative side, the portfolio's largest detracting issuer for the quarter was a long position in a U.S. based broadcasting/media company. This long position declined in price after a public vote denied approval for the company's wholly-owned casino gaming subsidiary's development of a casino resort in a large U.S. municipality. The investment team continues to believe that there are future growth opportunities for the core broadcasting business of the company, as well as debt reduction opportunities, and has kept this long position in the company's equity and bonds intact through the date of this letter.
- The second-largest detracting issuer for the period was a short position in the Markit iTraxx Europe Crossover Index. During the quarter, 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, particularly in the most liquid sub-investment grade European corporate entities, 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 a telecommunications, cable broadband, and media company. This long position declined in price after the company announced lower full-year guidance on broadband subscriptions due in part to consumers opting for streaming television packages over its legacy video distribution business, which along with increased competition has led to a series of analyst downgrades and decreases in price targets across the cable industry. The investment team's view on this long position remains unchanged as the underlying fundamentals for broadband growth in the long term should continue and, as such, this long position remains intact through the date of this letter.

Portfolio Activity

- The rally of the last six quarters continued into Q4 2021, as the high yield market had another positive return for the quarter. This positive return was mostly due to interest carry, as there was price depreciation during the quarter, with high yield bond spreads tightening by 4 basis points, while the yield on the five-year U.S. Treasury increased by 29 basis points as inflationary concerns resurfaced. Over the last seven quarters, high yield bond spreads have tightened by more than 550 basis points, a notable move which reflects an improved economic outlook and significantly lower default expectations. Short exposure in the portfolio was added via various hedges while long issues that reached their expected price targets were replaced with new names. Gross exposures at the end of October, November and December 2021 measured +128%, +120% and +111%, respectively, while net exposures at the same periods measured +22%, +19% and +33%, respectively.

- At a more granular level, the long portfolio activity included adding more liquid, relative value positions within the Information Technology, Service, and Diversified Media sectors among others, as well as higher coupon, shorter duration bonds that are likely candidates for refinancing at a premium to their call prices within the Energy, Gaming/Leisure, and Telecommunications 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 December 2021 were +111% gross and +33% net (as mentioned above), with +72% long exposure and -39% short exposure.
- The largest long sector exposures at the end of the quarter were (in order) Energy, Gaming/Leisure, Healthcare, Cable/Wireless Video, and Information Technology.
- The largest short sector exposures at the end of the quarter were (in order) Other (risk mitigants), Energy, Healthcare, Gaming/Leisure, and Information Technology.

Outlook

- With central banks now taking a more hawkish view given the global economic recovery and with COVID-19 vaccination efforts expanding, further interest rate volatility and rich valuations continue to present near-term market challenges. With credit spreads near lows not seen since 2007, the investment team has many reasons to remain cautious from a valuation perspective. That said, with low default rates, wide open capital markets and credit agency rating upgrades on the rise, there is some fundamental justification for the current level of spreads.
- 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 interest rate environments, even during times of tight spread levels. On the long side, the investment team continues to find select opportunities in new issues as well as in short-dated refinancing plays of high-coupon debt, while deemphasizing interest rate sensitive longs as interest rate risk has become more of a factor in the high yield market of late. On the short side, in addition to certain macro shorts, the investment team will continue to seek opportunities in deteriorating companies and those issuers that have too much priced-in confidence in the success of their pandemic responses and their ability to pass through rising costs. With rising commodity and transportation costs, labor shortages, and supply chain disruptions, certain highly leveraged companies will likely struggle to meet investor expectations, setting the stage for potentially greater attribution from the short side of the portfolio.

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