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 first quarter of 2022 saw a broad selloff across risky assets, except for commodities. Both global equities and bonds were down mid-to-high single digits for the quarter, despite two-week rally at the end of March. Concerns about economic implications of the Russian invasion Ukraine, as well as the high levels of inflation and their impact on the pace of interest rates increases negatively impacted equities and bonds. On the equity side, the rotation from growth to value continued, as investors re-assess the level of multiples to be applied to high growth assets. In terms of geography, Europe and EM underperformed, while Japan and the UK outperformed.
- Equity volatility remained relatively high during the quarter, as investors tried to grasp the effects of the drastic sanctions, and the effects of higher commodity prices and supply chain disruptions on the economy. On the fixed income side, the strong shift in central bank policy as a result of persistently high inflation and strong economic data led to a continuation of the flattening of the yield curve. Some parts of the curve even inverted which could suggest we are heading towards a recession.
- 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 first quarter of 2022, U Access (IRL) Shannon River UCITS returned -8.99% (Class B USD, net of fees). During Q1 2022, the long book detracted -13.97%, while the short book contributed +5.43% (gross of fees). The fund finished the quarter with approximately $106 million in assets.
- The portfolio’s top contributors in the quarter were a custom short basket of high multiple software stocks (GS 8XEV/SALES) at +150 bps, followed by a Nasdaq hedge at +62 bps, a short in the online real estate services space at +57 bps, a Russell 2000 hedge at +46 bps and a Retail Sector short at +36 bps.
- Top detractors for the quarter included Dynatrace (DT) at -204 bps, a long position in Zur Rose (ROSE SW) at -161 bps, and a long Digital Ocean (DOCN) at -137 bps. Dynatrace and Digital Ocean traded lower with general weakness in technology shares, but we continue to be constructive on prospects for both stocks. Valuations are reasonable at current levels relative to growth prospects and underlying business fundamentals. We made the decision to exit our long position in Zur Rose after the German government cast more doubt around the timing of the country’s online pharmaceutical prescription rollout.

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.

- Major stock indices traded sharply lower in the first quarter. The Nasdaq fell into bear market territory before partially recovering in the last two weeks of the quarter. The War in Ukraine is a humanitarian crisis that has stoked inflation expectations and given one more reason for skittish investors to sell stocks. Corporate earnings, however, continue to meet or exceed expectations in most cases, and we expect Q1 earnings to provide price support for our long positions when earnings season beings later this month.

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.
- Early in Q1 the portfolio manager reduced some long positions in growth technology to mitigate downside risk and added to short exposure to reduce the portfolio factor exposure to growth. Later in the quarter, after earnings reports, the portfolio manager took advantage of the pullback to add to certain long positions in companies like Flex Ltd, Manhattan Associates, ZoomInfo, and New York Times.
- Current areas of focus continue to include digital content (WMG, NYT), Enterprise Software (DT, DOCN), company specific GARP opportunities (GDDY, FLEX), supply chain logistics (MANH), and intellectual property (SONO, IDCC).
- Our shorts and hedges were profitable in Q1, contributing approximately +540 bps on short exposure that average approximately 55%. Our shorts in high-multiple, cash-burning, software stocks were to the top contributors. We expect to see more downside in the stocks of unprofitable companies as interest rates continue to rise. Our other trades on the short side are currently focused on transaction-oriented pandemic beneficiaries that will have an increasingly difficult time meeting lofty investor expectations over the coming quarters. Overall Net exposure is defensive at approximately 40%.

Outlook

- Valuations in many high-quality growth stocks have been cut in half or more since the highs in November 2021. We believe the risk/reward set-up for our long positions is as attractive as it has been since the taper tantrum of 2018.
- Secular trends in technology will continue to gain momentum in 2022. Some of these trends include Digital Transformation and IT Spend, Omni-channel Retailing, the proliferation of Digital Content, the move to Digital Payments, and the ever-increasing need for Processing Power. We own what we believe to be some of the best ways to gain exposure to these trends in pure-play mid-cap technology companies.
- The broader indices have traded lower in early-April, with the Nasdaq down approximately -6% MTD at the time of this writing. The portfolio manager has mitigated downside volatility and taken a small percentage of that downside with shorts in growth software, index hedges, and other company-specific situations. The short book should continue to provide a cushion during periods of downside volatility.

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