THE DRIVE YOU DEMAND

UBAM - MULTIFUNDS ALTERNATIVE

Quarterly Comment | Q1 2019

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

Markets

- Global equity markets were up +12.48% during the first quarter of 2019, as measured by the MSCI World TR Index. The year started off extremely strong, as the change of tone of the Fed coupled with easing trade talks between the US and China triggered a rally in all risk assets. The main overhang remained the Brexit discussions, which continued to create uncertainty for the UK and the EU without significantly impacting financial markets.
- Developed Markets (DM) rebounded strongly and outperformed global markets in Q1, with growth outperforming value. In the US, market sentiment was dominated by a change of stance coming from the Fed and good numbers from corporates. The Technology sector and other growth sectors recovered from improving talks around trade war. The S&P 500 TR was up +13.65%, erasing most losses of Q4 2018. The MSCI Europe gained +10.84% over the quarter, while performance dispersion among the different European markets was quite significant ranging between +8% and +16%. Finally, the Nikkei 225 did not recover from the Q4 volatility, being up “only” +5.95% over the first quarter of 2019.
- Emerging Market (EM) equities also recovered well in Q1 – with the MSCI EM Index being up +9.78% –, although they underperformed marginally DM. Chinese markets rallied the most based on the good news around trade talks; the Shanghai Composite Index was up +23.93% for the quarter.
- As markets recovered, the volatility collapsed to its lowest levels of the last 18 months. Whereas we saw unprecedented spikes of volatility since the GFC during Q4 2018, we also saw the VIX Index going from 25.4 to 13.7 during Q1 2019.
- This bullish sentiment was also reflected in the price of oil. Q1 2019 was actually the symmetrical opposite of Q4 2018, with crude being up by more than 32% from $45 per barrel to $60.
- The picture on the bond side was more complicated for developed economies. Both the Fed and the ECB took a cautious stance on the back of economic data, which were often disappointing during the quarter. This resulted in a significant drop in long yields, which in turn translated into an inversion on the 3-month / 10-year part of the curve. While the picture for equities was globally bullish, the fixed income situation highlighted concerns on growth, especially in the US and in Europe.
- An increased market and interest rates volatility should provide a fertile ground for UBAM - Multifunds Alternative. The Absolute Return characteristics of the portfolio, which combines mainly alpha drivers, traders and to a lesser extent, fundamental value managers, typically benefits from more volatile environments. As traditional bond investors look for alternatives strategies, we believe that UBAM - Multifunds Alternative provides diversification through uncorrelated return drivers, limited beta and volatility, as well as controlled drawdowns.

Performance Review

- During the first quarter of the year, UBAM - Multifunds Alternative (Class IC USD) gained +2.91% (reported net of fees). The HFM UCITS FoF Index gained +2.51% for the period. UBAM - Multifunds Alternative has then outperformed its benchmark by 40bps thus far in 2019.
- All main strategies had a positive contribution during the quarter. Long/Short Equity and Macro/CTA contributed +211bps and +90bps respectively, while the Event Driven, Relative Value and Commodities allocations added +26bps, +6bps and +3bps to the portfolio (all expressed in gross terms).
- Long/Short Equity strategies all contributed positively to the portfolio’s quarterly gains, with Fundamental Long-Biased and Moderate Net exposure strategies providing the largest weighted contributions, reversing most of the declines from the 4th quarter of 2018. In particular, the healthcare and biotech fund delivered +14% gains, while one of our long-biased managers was up over +8% in the quarter. Fundamental Market Neutral and Quantitative strategies also contributed significantly to returns.
- Looking at the underlying fund level, all managers contributed positively with the exception of the Quantitaitve Macro manager who suffered minor declines in the sharp reversal in equity and bond markets, and a Long/Short Equity Market Neutral manager who was roughly flat for the period.
- One of our Fundamental Long-Biased managers saw a rebound in many of their high quality long ideas, which had been hit hard in the 4th quarter, while our Moderate Net healthcare and biotech manager recovered strongly after a brutal sell-off in the space during Q4; this remains an exciting sector with the confluence of technology and research leading to advances in diagnostics and treatment with drug pipelines becoming very interesting. In Fundamental Market Neutral, a reversion in quality momentum names provided strong gains during the quarter with limited negative contribution from the short exposures. Our Quantitative Equity manager continued to provide uncorrelated returns in line with expectations
- Our Commodity manager made modest gains, only partially participating in the recovery of energy prices from the declines in the previous quarter as a result of limitations of risk-taking whilst in a drawdown. The majority of gains from the Global Macro space came from EM exposures, with one manager benefiting from positions in Russia, as well as positions in Brazil, Argentina, Nigeria and Egypt. Their positioning towards the end of 2018 positioned them well for the moves in the first quarter, while the Asian-focused portfolio manager has performed well across most of their themes, with a contrarian aspect to most of them with respect to excessive bearishness, and a view to some more dovish central bank behaviour, in particular in Singapore, Australia, New Zealand, and with a fiscal improvement theme in Indonesia.
- On the negative side, there was only one main detractor, namely our Quantitative Global Macro manager who suffered moderate declines, as their fundamental and systematic approach continued to position them with a defensive bias, and with a moderately negative correlation to equities.

Portfolio Activity

- UBAM - Multifunds Alternative is a weekly UCITS FoF investing in 10 to 20 uncorrelated, high conviction alternative managers from UBP’s Approved List. It aims to be an Absolute Return portfolio acting as an alternative and/or complement to traditional fixed income investments.

- Its objective is to generate attractive risk-adjusted returns with low directional market exposure (low equity beta). The focus is on managers who have consistently generated alpha in different market environments. The portfolio is built around three main return drivers in order to deliver uncorrelated returns versus financial markets: (1) Alpha Drivers with a moderate to neutral equity market exposure, such as Relative Value and Long/Short Equity Market Neutral strategies; (2) Trading managers with high trading skills, such as Discretionary Global Macro, Commodity and Long/Short Equity with a trading bias; and (3) Fundamental Value managers seeking to exploit valuation opportunities.
- During the quarter, we fully redeemed from one of the Long/Short Equity Market Neutral managers, a strategy in which we had a relatively large exposure, in order to make space for a new credit manager with a similar risk-reward profile, but with differentiated risk drivers. We also redeemed fully from our Long/Short Equity, Fundamental Moderate Net manager focused on the utility sector; while we continued to have a high regard for the manager, they unfortunately decided to close down their UCITS fund in its current format.
- A Relative Value Long/Short Credit manager was added to the portfolio in March. This is a high quality manager who has a variable bias which will be driven from their bottom-up fundamental work. Long exposure will expand when default expectations are low and spread relatively high, but shorts will increase when spreads narrow significantly and default risks start to rise.
- Strategy wise, the Long/Short Equity allocation was decreased from 53% to 45%. This decline was mainly driven by the desire to keep overall equity beta low, and to facilitate entry of the Long/Short Credit. The Macro book was stable at approximately 35%; we reduced exposure to thematic Global Macro (which tends to be more directional in nature) and increased exposure to more Relative Value focused Global Macro managers. Event Driven strategies were stable at 8%, focusing on Merger & Mixed Arbitrage strategies. Commodity exposure was slightly increased from 2% to 3%, where we continue to see interesting opportunities.
- UBAM - Multifunds Alternative is a high conviction, hence relatively concentrated portfolio with 12 positions currently. The portfolio's top 10 positions account for 88% of exposure; from a risk attribution perspective, these top 10 positions represent 92% of the portfolio's overall risk profile.
- The portfolio's equity beta remained fairly stable throughout the quarter at about 0.14.

Outlook & Positioning

- As just mentioned and in terms of positioning, UBAM - Multifunds Alternative has become more concentrated in high conviction names. The Absolute Return profile continues to focus on having a limited correlation to equity markets. We continue to expect increased and more changeable volatility, with a wide variety of outcomes possible with respect to growth and interest rates given new stimulus/central bank dovishness despite tight economic conditions. In such an environment, we expect greater dispersion in financial markets. The portfolio is therefore positioned to generate returns with limited reliance on market directionality.
- Within Long/Short Equity, we believe 2019 could be a strong year for stock picking alpha, even if equity markets move lower or sideways in a volatile fashion. As such, we favour low net Absolute Return strategies, which could

potentially generate attractive returns – even when equity markets decline – over long-biased funds.

- Within Global Macro, the current environment should continue to favour Relative Value over Directional strategies given the renewed central bank interventions. The risks of a break-out in volatility are however increasing as these interventions should continue to distort market pricing, and volatility sellers could become increasingly emboldened. The medium-to-longer-term outlook for Directional Macro strategies with high convexity is improving, and we are actively looking for exposures in this area. Timing these calls is difficult; however, the rotations are often very quick, so best to have some exposure built should the indications of fragility increase.
- Finally, Systematic Equity managers shall continue to offer alternative, liquid, risk-adjusted return streams via efficient, diversified, active, largely market-neutral portfolios in a late cycle market environment, which is otherwise challenging for fundamental, concentrated, and directional managers.