

UBAM - EUROPE MARKET NEUTRAL

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

- Equities posted strong returns over Q4, with the MSCI World returning 9.76% in USD terms. The MSCI Europe returned 9.55%, while the MSCI Europe Small Cap outperformed with 10.92%. The MSCI EM was up 9.70% and the S&P 500 as a US proxy was up 7.42%. The overall performance was driven by signs of abating inflation, a general ease off the tightening pedal, helping build optimism that the recession might not be as deep as initially feared, and a weaker US dollar.
- 2022 was a very difficult year for markets and highly unusual in the sense that it was only the third time in the past century that major equity and bond indices produced negative returns in the same calendar year. In contrast to 2021 which was fuelled by extraordinary levels of monetary stimulus the year started with a clear commitment from the Fed to address inflationary pressures by raising rates and setting out a plan to withdraw quantitative support. Subsequently we have seen a fast pace of rate hikes in the US which has been followed by central banks globally, including by the ECB.
- Inflation has proven to be very 'sticky' rather than transient as many had hoped and we ended the year with a clear expectation of further rate rises and quantitative tightening to come despite weaker economic growth becoming apparent. Markets have also been absorbing elevated geopolitical risks after the shocking invasion of Ukraine which has created huge volatility in energy, agriculture, and commodity markets. The supply side issues that came to light during the covid pandemic continued to cause shortages and disruption not least because of China's self-imposed measures as it continued to attempt to contain the spread of infections.
- Unsurprisingly the tightening of monetary conditions has had the greatest negative impact on the assets that had become most inflated by the previous unprecedented level of stimulus and the bull market leaders became the bear market laggards – notably technology, pre profit growth stocks and cryptocurrencies.
- It is natural to expect the corporate sector to suffer as economies experience recessionary conditions, but earnings have been remarkably resilient so far given the strength of macro headwinds. It is notable how many companies have proven adept at passing on higher costs to consumers particularly those with strong brands and hence good pricing power. Dollar strength was also a major feature of the year and for many European companies operating globally this provided a strong tailwind for earnings when translated back to Euro's.

Sources: UBP, Bloomberg Finance LP. *Net total return indices.

Quarterly Performance Review

- During the quarter, UBAM - Europe Market Neutral returned -0.5% (Class I EUR), outperforming the EuroStoxx 50 Index (total return) but underperforming the HFRX Equity Market Neutral Index that returned +14.6% and +0.6% respectively.
 - ▶ In terms of quarterly contribution, our Long bucket contributed +11.4% (gross of fees) to the overall portfolio, generating -1.4% alpha versus the beta-adjusted Eurostoxx 50 TR (SX5T) reference.
 - ▶ The Short bucket contributed -11.9% (gross of fees) on an absolute basis, but generated +0.7% alpha.
- Within the Long book:
 - ▶ The underperformance of the long book was largely a result of stock selection within the Information Technology and Consumer Staples sectors; on the other hand, stock picking within Financials added. In terms of countries, positions in Spain, France and Finland detracted the most on a relative basis; on the other hand, positions in Italy added.
 - ▶ In terms of specific stocks positions, positive outperformance was recorded in BNP Paribas (FR), ING (NE), Total (FR), Elis (FR) and Metso Outotec (FI). On the other hand, Cap Gemini (FR), Neste (FI), Worldline (FR), Amadeus IT (SP) and Pernod Ricard (FR) underperformed the main Eurostoxx reference on a relative basis.
 - ▶ Overall, the Long book underperformed the EuroStoxx 50 on a beta-adjusted basis, with a defensive beta of approximately 0.89, a one-way quarter-on-quarter turnover of 20% and estimated active share of 80% vs the EuroStoxx 50.
- Within the Short book:
 - ▶ Short Bias, which represents 85% of the overlay allocation and is implemented via both futures and options on the Eurostoxx 50 Index most liquid contract, underperformed its Benchmark during the quarter. The allocation was positioned bullish on average, which translated into a relative loss when the market recovered, especially during October and November.
 - ▶ Tail Risk represents the remaining 15% of the overlay allocation and is implemented via front-contract Vstoxx volatility futures. The strategy outperformed during the quarter because the Volatility underreacted when the equity market recovered.
 - ▶ Overall, the Overlay bucket outperformed its Benchmark all along the quarter. Due to the positive delta of the short strangle, the Overlay bucket is slightly overprotected at the end of the quarter

Outlook

- 2022 was a relatively low volatility year, mainly because of the known risk and sentiment drivers. Conversely, single stocks performance dispersion was very high: indeed, outperformance was concentrated in few themes such as value and commodities, whilst prior secular themes such as growth, ESG and quality were crashed, particularly among large cap stocks.
- During 2022, UBAM - Europe Market Neutral returned -10.5% (Class I EUR), underperforming the industry-reference HFRX Equity Market Neutral Index (hedged in EUR) and the EuroStoxx 50 Index (total return) that returned -1.9% and -9.5% respectively.
 - ▶ The fund experienced a negative net return for the calendar year despite its market neutrality, mainly because European equity active managers suffered the sharp sector and style reversal embedded in the risk aversion and rates changes of 2022.



- ▶ In terms of gross annual contribution, the fund long book contributed approximately -17% to the overall portfolio, generating a negative alpha of -11% versus the beta-adjusted Eurostoxx 50 Total Return (SX5T) reference. The Short bucket contributed +7% (gross of fees) on an absolute basis but generated approximately a gross alpha of +1%.
- ▶ During the past year, there has been lots of dispersion among competitors pursuing liquid, EUR, market-neutral approaches. In this context, the fund continued to deliver low volatility and low correlation to equity markets.
- UBAM – Europe Market Neutral combines two complementary alpha generating engines in a single systematic investment process. The long leg is invested in the AM League Euro 50A© Index, which is based on best ideas from top-performing buy-side managers and is rebalanced on a quarterly basis and weighted according to conviction. The short leg is comprised of a dynamically managed short index overlay, which uses ultra-liquid index futures and options and volatility futures. UBP has partnered with AM League to launch this innovative investment solution to capture this alpha.
- The AM League methodology is fully transparent, but their underlying database is proprietary, with alpha capture mainly driven by their capability to access portfolios of active managers' best ideas in a way that isn't available to other players. For example, European carve-outs of global unconstrained (buy-side) portfolios with high active share.
- On January 5th, 2023, the long book quarterly rebalancing triggered a significant rebalancing in favour of Industrials and Consumer Staples at the expense of Financials and IT. New top stock picks are BNP Paribas, Total, Sanofi, Siemens and Stellantis.

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