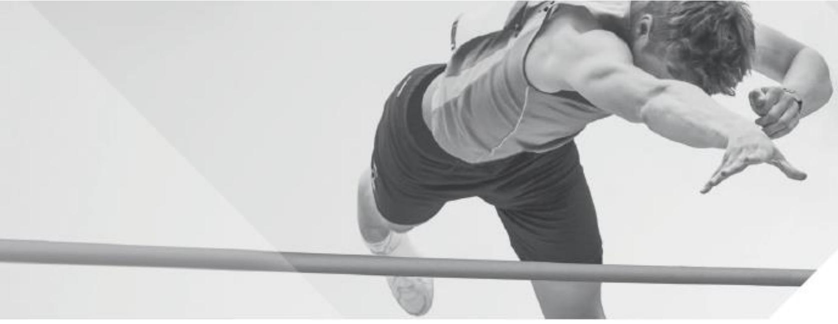

THE DRIVE YOU DEMAND

U ACCESS (IRL) TREND MACRO

Quarterly Comment | Q4 2019

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

Markets

- Global equity markets were up +7.7% during the fourth quarter of 2019, capping a fantastic year with a return of +26.2% for the year, as measured by the MSCI AC World Daily TR Net Index. After mainly trading sideways during Q2 & Q3, a risk-on sentiment prevailed in Q4 for global markets, led by continued support from central banks, positive developments in the trade negotiations between the US and China, more clarity around Brexit and some improved economic data in the US and Europe.
- Developed Markets (DM) performed positively in Q4, slightly underperforming global markets on aggregate. The S&P 500 was up +9.1%, the Japanese Topix gained +8.6%, while the MSCI Europe returned +5.3% during the quarter. In terms of styles, small cap and growth were the best performers, value was in line with the market, while REITs underperformed. Looking at sectors, IT and healthcare were the strongest contributors, while utilities and consumer staples were laggards.
- Emerging Market (EM) equities had a strong performance during the fourth quarter of the year, with the MSCI EM TR Index up +11.9. Here again, reduced trade tension, along with abating global recession fears helped Emerging Markets pick up after a more difficult third quarter.
- Volatility dropped during Q4, ending the quarter at 12.5, below the average levels it has been trading this year. Strong equity markets along with the absence of any major adverse event were the main factors.
- Oil rallied during Q4 (+14.1%), ending the year at +34.5%. With the improvements in global economic activity fears of worldwide recession abated, and further production cuts voted by OPEC members during Q4, helped pushing prices up.
- The political risks that have been lingering for most of the year, like a US-China trade war and a hard Brexit, seem to have been avoided for now and the outlook has improved. However, other geopolitical risks remain, like the tensions in the Middle-East and the US elections and a slowdown in global growth. Equity multiples remain high, particularly in the US, while earnings expectations are relatively modest. In this environment, we continue to believe that investors should favour alternative risk-reward profiles, which should protect against negative economic or geopolitical risk while allowing for participation in upside potential. On the fixed income side more specifically, with long-term rates at multi-year lows and tight credit spreads, alternative sources of yields to generate steady income in portfolios should be preferred.
- This market environment should provide an interesting set of opportunities for our U Access (IRL) Trend Macro fund, which offers access to diversifying risk drivers and exposures by seizing long and short investment opportunities across mainly interest rates, credit and currencies, both in developed and Emerging Markets. It has historically shown a limited correlation to traditional assets.

Performance Review

- U Access (IRL) Trend Macro posted a solid return of +2.22% during Q4, bringing the YTD performance to +9.59% (Class B USD, net to investors).
- The fourth quarter rally across asset classes and markets reflected the increased confidence of market participants as witnessed by the steepening of the yield curve following a reversal in Fed policy and the perception that the economy looks stronger. The increased possibility of a US-China trade truce and a resounding win for Boris Johnson was all icing on the cake. The investment team's focus on portfolio longs that benefit from the dovish tilt in global monetary policy and display limited beta to market volatility served the portfolio well in the fourth quarter.
- EM local currency rates and FX continue to remain the most profitable part of the portfolio with Ukraine and Egypt being the biggest drivers of performance in Q4. Egypt cut interest rates twice over the quarter, while in the case of Ukraine, the IMF reached an agreement on a new facility. Those two themes were also the strongest contributors to the performance for the full year as the investment team's thesis has played out well.
- In credit, the portfolio was negatively impacted by a position in Ecuador, particularly in November, after a critical vote failed to pass in their Congress regarding the IMF program resulting in the thesis changing from economics to politics. On the other hand, corporate credit contributed positively as the portfolio's Chinese real estate credits rallied into positive news on the US China trade deal and monetary easing. Ukraine credit also rallied as the IMF approved a new package in December.
- On the long side, the positioning of the portfolio worked well in Egypt, Ukraine, and Nigeria, as mentioned, while Ecuador and small remaining positions in Argentina were detractors
- On the short side, the hedges in U.S. high yield and equities were detractors given the strong rally in risky assets in Q4. However, the investment team's active management helped limiting those costs. They continue to be the investment team's preferred hedging vehicles given high valuations and low volatility. EM credit hedges also slightly detracted from performance.

Portfolio Activity

- The core of U Access (IRL) Trend Macro is a moderately risk-on exposure combining a long positioning in select EM credits and a short exposure in U.S. equities and HY as well as high beta EM credits.
- The investment team continues to find new idiosyncratic opportunities in EM local and hard currency assets with strong macroeconomic fundamentals. It has successfully rotated out of positions where the team felt valuations were over-extended or fundamentals had changed while continuing to eschew outright political risk. On the short side and as mentioned, the team's preferred portfolio hedge has been to buy protection in developed market credit indices and select EM sovereigns and puts in US equity markets, where valuations are stretched. Optionality is cheap and they have traded hedges actively to minimize the costs in a period of rising markets.
- In Egypt, the investment team exited the position in T-Bills, taking profits and cutting some of the exposure to a country that has been a strong contributor to performance. The exposure there is now only in local government bonds. In the credit book, the team liquidated the position in Ecuador following a vote in Congress regarding the IMF program, as mentioned above. The bill was finally passed in December, and that has been a catalyst to re-enter the position. The team also tactically exited some selective EM credit hedges before year end as strong market dynamics favoured a risk-on positioning.

Outlook & Positioning

- Looking ahead, global growth should pick up in 2020, but the lift will be relatively modest. The forthcoming partial resolution of the U.S.- China trade war means there's going to be some lift to capital expenditure globally. Growth, in Emerging Markets in particular, could surprise to the upside due to the prior easing of monetary policy and fiscal policy in many EM countries. In the United States, the team thinks growth is going to be held up by strong consumption driven by a tight labor market and continued wage growth. Exports should also be boosted as a result of the phase one deal between United States and China. Europe getting its act together through some fiscal stimulus and a capital expenditure uptick driven by the phase one bill are factors that can cause an upside surprise to global growth. Given that growth slowed down in 2019, the team sees limited downside risk to growth. As monetary policy has been eased substantially around the world, risks should all be biased to the upside in 2020.
- In terms of the Fed and inflation, the investment team thinks inflation will be at or above the Fed's target in 2020. The Fed should be on hold throughout 2020 in line with its symmetric targeting framework. There is potential for upside risk if growth accelerates and inflation rises further into 2021 with all the knock-on effects on bond yields.
- The team believes the most significant risk in the markets today are the U.S. elections. The left wing of the Democratic party has forced even centrist candidates to adopt extremely socialist programs in their campaign promises. Even a moderate candidate such as Joe Biden is campaigning on $3.2 trillion of tax increases. This is in addition to promising a substantial swing to the left especially regulatory changes in sectors like healthcare, technology, energy and the environment. The team believes that markets are priced for a Trump victory and that a Democratic victory or even polls suggesting a higher probability of one, will result in a sharp sell-off.
- Given a decent economic backdrop, then the starting point for portfolio construction has to be valuations. Unfortunately, valuations for equity markets here are not particularly cheap. The only valuations that seem reasonable are in Europe and EM The team believes EM earnings can show double digit growth in 2020, which is one of the reasons why it is favorably inclined towards Emerging Markets relative to Europe, where earnings growth is still insipid.
- The team believes that the rate cutting cycle is not yet over in certain Emerging Markets. These markets are facing a structural disinflation and a change in balance payments dynamics, which bodes well for currency strength, so the team continues to be positioned in those markets, anticipating capital gains from rate cuts and generally stable FX (‘foreign exchange’) rates.
- On the sovereign side, there are a few highly indebted countries (all in Emerging Markets) that are likely to restructure their debts in 2020. The team is following these restructurings very closely.
- Looking precisely at the portfolio positioning of U Access (IRL) Trend Macro today, the key trades are as follows:
  - Two main themes represent the “risk-on” component of the portfolio, namely rate cutsand prudently driven IMF policies, and EM credit select opportunities. The first one is played through local rates positions, mainly in Ukraine & Egypt. The second one is implemented through corporate positions in Ukraine, Ecuador and China.
  - One main theme represent the “risk-off” component of the portfolio, namely a market sell-off. It is being played through shorts in U.S. High Yield and equities, as well as EM Credit shorts.

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