

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

- Over the second quarter of 2021, equities rose as vaccination campaigns accelerated in most developed economies, particularly in Europe. In EM, vaccination campaigns continued to lag but cases seemed to remain under control. Economic data was generally very strong in Q2, both on the GDP and business sentiment fronts. This strong rebound in economic activity has fuelled inflation in some countries and sectors. Whether this is temporary or not remains to be seen, but it has had an implication on the Fed's stance, that has become slightly more hawkish.
- The pace of vaccination campaigns and reopening of economies was the main driver of equities, as US and Europe, which were at the forefront, outperformed EM and Japan. In terms of styles, growth outperformed value in Q2, after a few quarters of underperformance. In fixed income markets, inflation was the main driver of performance, as investors looked for yield and inflation hedges in a context of very low or even negative sovereign bond yields.
- 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 second quarter of 2021, U Access (IRL) Shannon River UCITS returned +0.77%, bringing YTD to -1.79% (Class B USD, net of fees). During Q2 2021, the long book contributed +8.30%, while the short book detracted -6.66% (gross of fees). The fund finished the quarter with approximately \$205 million in assets.
- The portfolio's top contributors in the quarter were Sprout Social (SPT) at +210 bps, followed by Dynatrace (DT) at +176 bps, InterDigital (IDCC) at +116 bps, Manhattan Associates (MANH) at +101 bps and Target (TGT) at +77 bps.
- Top long positions in the portfolio reported first quarter earnings through late-April and early-May, and the results were almost universally positive. Growth-oriented names like SPT and DT benefitted from an additional tailwind as bond yields retreated in 2Q and money flows rotated out of value and back into growth.
- On the negative side, the portfolio's largest detractors in Q2 were hedges related to the Russell 2000 and Nasdaq. A custom short basket of high-multiple software stocks was also a detractor. New York Times (NYT) was the largest single-stock detractor on the long side at -90 bps. Prior to the bulk of sell-off, the investment team had substantially reduced the position size of NYT from approximately 7.5% to approximately 3%.
- Last quarter, we wrote in this letter that we felt the "set-up" for Q1 earnings was a favourable one. Our top long positions, including DT, GDDY, MANH, and SPT, delivered better-than-expected results in Q1 and we expect this earnings momentum to continue when our core longs begin reporting Q2 earnings in late-July and early-August.

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.

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.
- The portfolio manager continues to see significant upside to legacy positions with pending catalysts including GDDY, DT, FLEX, and ADSK. New additions to the long book in Q2 include Coupa Software (COUP), SunRun (RUN) and Smartsheet (SMAR) and SPS Commerce (SPSC).
- Current areas of focus include Logistics (COUP, MANH, SPSC), e-Commerce (SPT, GDDY, ROSE SW, TGT), digital content (NYT, WMG), Enterprise Software (DT, ADSK), and hardware (AMBA).
- Shorting stocks has proved challenging in a rising market environment, but the portfolio manager is seeing more opportunities to add single stock “alpha” short positions in recent weeks. Recent additions to the short book include an online pet food retailer, an e-commerce retailer, and a home services company. The portfolio manager has also added a sector-focused and custom-basket shorts around retail and leisure.

Outlook

- Core positions have generally been range-bound in recent weeks on relatively low trading volume. This is typical summer trading activity. Earnings reporting for our portfolio companies will begin in the last week of July and carry through into early August. We expect earnings to provide stock-specific catalysts, and the summer lull will fade as investors look forward into the second half and early 2022.
- Market dynamics can change quickly, and the investment team believes the portfolio is well-positioned to deliver on risk-adjusted return goals through the second half of the year.
- COVID variants Delta and Lambda present near-term risks to the market and could delay re-opening activity in the fall. The investment team is monitoring the situation and will seek to mitigate downside volatility with shorts and hedges in the event of market sell-off.

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