

# 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](http://ubp.com) or in the latest prospectus

### Market Comment

- 2021 has seen an uneven recovery in the world's economy, with variations driven to a large extent by the success of measures to stop the spread of Covid-19 and, particularly in the West, the speed of vaccine roll-outs.
- However, the world's central banks, and increasingly fiscal policymakers as well, have stepped in to fill any gaps with stimulus measures of a kind not seen since the Second World War. This has driven a broad-based rally in risk assets around the world, while bond yields have risen and the US dollar has weakened as a result.
- Global equities ended the quarter up 7.39% (MSCI ACWI\*). In the US specifically, the S&P 500\* index progressed by 8.44% during the second quarter with a noticeable outperformance of the Growth segment over the Value (11.9% q/q for the Russell 1000 Growth\* and +5.06% q/q for the Russell 1000 Value\*). Likewise, the MSCI North America Information Technology Index\* progressed by 11.82% q/q, +3% above the broad S&P 500 index. In this context the MSCI Europe\* delivered +6.46%, ahead of the MSCI Europe Small Cap\* with + 5.30%. Finally, the Emerging markets delivered +5.05% but with a high dispersion. Brazil delivered +22.91% and on the other side, Chile was down - 14.19%.
- May 2021 will likely go down as a turning point in the fight against climate change, with three of the world's largest oil companies suffering defeats not only in the courts but also in their own boardrooms. Royal Dutch Shell became the first company to be ordered by a court to cut its carbon emissions – by 45% by 2030 – while the management teams of two of its American counterparts, Exxon and Chevron, saw their own shareholders vote against inadequate corporate climate targets.
- These events represent a challenge to a sector already under pressure from climate change measures, but they also serve as a warning to boards, management teams and shareholders across a wide range of companies and sectors beyond Big Oil. They show that an old-school approach to governance when it comes to combating climate change will have real economic costs in the future.

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



## Performance Review

- In the second quarter of 2021, UBAM - Europe Market Neutral returned +1.3% (Class I EUR), outperforming the HFRX Equity Market Neutral Index (hedged in EUR) and the EuroStoxx 50 Index (total return) that returned -0.05% and +4.9% in Q2 respectively.
  - ▶ In terms of quarterly contribution, our Long bucket contributed positively +4.1% (gross of fees) to the overall portfolio, generating +0.43% alpha versus the beta-adjusted Eurostoxx 50 TR (SX5T) reference. The Short bucket detracted -3.7% (gross of fees) on an absolute basis, but generated +0.96% alpha.
- Within the Long book:
  - ▶ The performance of the long book was largely a result of good stock picking within the Consumer Discretionary and Industrials sectors; on the other hand, stock picking within Financials and Utilities detracted. In terms of countries, positions in the Netherlands and Italy contributed the most whilst Spain and France detracted.
  - ▶ In terms of specific stocks positions, positive outperformance was recorded in Signify (Industrials), ASML (IT), Moncler, Kering and Zalando (Consumer). On the other hand, Iberdrola (Utilities), Covestro (Materials), Valeo (Consumer), Atos (IT) underperformed the main Eurostoxx reference on a relative basis.
  - ▶ Overall, our Long book outperformed slightly the EuroStoxx 50 on a beta-adjusted basis, navigating the style rotation induced by shifting inflationary market expectations.
- 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, outperformed during the quarter. The allocation was positioned bullish on average, which translated into a gain when the market rallied during the quarter.
  - ▶ Tail Risk represents the remaining 15% of the overlay allocation and is implemented via front-contract Vstoxx volatility futures. The strategy brought some alpha as the allocation was in average low, in a bullish equity market.
  - ▶ Overall, our Short book outperformed its reference adding both value and complementarity to the long book.

## Portfolio Activity

- UBAM – Europe Market Neutral combines two 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. UBAM has partnered with AM League to launch this innovative investment solution to capture this alpha.
- Overall, our long book positioning during the quarter was more defensive than the market, with a beta of the long book of approximately 0.91, a one-way quarter-on-quarter turnover of 46% and estimated active share of 42% vs the EuroStoxx 50.
  - ▶ In terms of sectors, the largest allocations were in Industrials and Financials, both representing significant overweight versus the EuroStoxx 50 at the expense of underweights in sectors such as Consumer and Healthcare.



- ▶ In terms of countries, the largest active bets were notable underweights in France with a corresponding overweight in Italy and Spain.
- ▶ The portfolio is relatively skewed towards mid-caps, with an average market cap of 52bn vs 76bn for the EuroStoxx 50.
- ▶ Looking at single stocks, the top 5 positions were ASML (IT), Intesa SanPaolo (Financials), Iberdrola (Utilities), Allianz (Financials) and Moncler (Cons Disc), nearly all representing significant overweight versus the EuroStoxx 50 and some with membership in the wider EuroStoxx 300 only.
- Within the Risk Management Overlay bucket:
  - ▶ Within the Risk Management Overlay bucket, trend signals used in the Short Bias strategy began the quarter with a bullish positioning, holding such a stance through the quarter.
  - ▶ Within the Tail Risk bucket, the exposure to volatility futures was low at the beginning of the quarter. It remained stable with an under-protection until the end of the quarter.
- In terms of currency exposure, the portfolio remains 100% invested in EUR.

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## Outlook

- Given where we are in the cycle, an equity market neutral product should appeal to many investors, with very low correlation to traditional assets and absolute returns. UBAM – Europe Market Neutral combines two complementary systematic strategies that may generate value both on the long side and the short side in a single daily liquid UCITS EUR-based fund.
- 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 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 July 5th, 2021, the long book quarterly rebalancing triggered a significant rebalancing in favour of defensive sectors such as Consumer Staples but also Consumer Discretionary and Communication Services at the expense of Industrials, Financials and Materials. The new ex-ante beta has reset lower to approximately 0.83. New top stock picks are L'Oreal, Pernod Ricard, Adidas, Elisa Corp and Kering.

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