U ACCESS (IRL) GCA CREDIT LONG/SHORT UCITS

Quarterly Comment

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

Market Comment

- The second quarter was very strong for equities and credit as central banks and governments provided enormous amounts of stimulus and economies started to reopen. World equities rallied across the board, up close to 20% on aggregate, with the US and EM leading the way, while Europe and Japan lagged somewhat. In terms of styles, growth continued to strongly outperform value, as we have seen in the last several quarters. Central bank support also helped supporting High Yield which rallied by close to 10% in Q2. EM Debt also rallied as many central banks cut rates, some even implemented QE for the first time, and oil rallied following an extraordinary collapse into negative territory. Despite the strong rebound in risk assets, traditional portfolio hedges such as government bonds and gold held up well. US Treasuries are up about 9% year to date, while gold is up close to 18%.
- The lock down has reduced consumers' spending and led to a surge in savings rates. This provided the liquidity for retail day trading via cheap trading platforms. The retail trading combined with algorithmic systems designed to piggyback on this approach has led to some staggering moves in individual stock prices driven by key words rather than earnings prospects.
- Credit and Event Driven strategies performed strongly during the quarter. Within Event and credit, Activist equities were the top performing strategy with higher beta names bought at the depths of the March crisis performed strongly in the rebound. Merger Arbitrage managers also performed well, largely capturing the collapse in spreads in April (from extreme levels in March). The fixed income side of the market also performed well, but also typically lagging equity markets. Asset backed positions (portfolios of RMBS, CMBS) that were added in the March crisis performed well as fundamentals began to reassert their influence on prices after several months of negative technicals.
- This market environment should provide an interesting set of opportunities for our U Access (IRL) GCA Credit Long/Short UCITS fund, a Long/Short corporate credit strategy focusing primarily on high yield, distressed and investment grade opportunities, largely in the US. This strategy enables investors to expand the opportunity set offered by traditional credit, by taking advantage of current dislocations in the market, offering opportunities both the long and short side.

Performance Review

- For the second quarter of 2020, U Access (IRL) GCA Credit Long/Short UCITS returned +3.42%, bringing the YTD performance to +3.91% (Class B USD, net of fees). The Fund's net performance since inception (February 20, 2019) is now +8.26%. During Q2 2020, the long strategy contributed +4.96% in capital gains, the short strategy contributed -1.77% in capital gains, and net interest carry contributed +0.23%, all expressed on a net of fees basis.
- The portfolio's largest contributing issuer for the quarter was a long position in a natural gas and crude oil producer. The portfolio gained from price appreciation on this company's discounted bonds resulting from improving prices in both commodities as well as the company's pursuit of better liability management through a bond exchange that seeks to eliminate near-term default risk. The investment team believes that the financial impact from the bond exchange has yet to fully materialize and as such has kept this long position intact through the date of this letter.

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.

- The second largest contributing issuer was a long position in a manufacturer and distributor of automotive parts. The portfolio gained from price appreciation on the bonds in concert with the general market rally during the period along with the company's announcement of new bond offerings which would further improve its liquidity. The investment team believes that there is additional upside for these bonds on a relative value basis and as such has kept this long position intact through the date of this letter.
- The third largest contributing issuer for the period was a long position in a manufacturer of casino games and slot machines which also provides services to the gaming industry, including cash access and customer relationship marketing technologies. Along with the general market rally during the period, the company benefitted from a strong rebound in most of their business segments which reduced cash burn and improved liquidity, and both the bonds and equity appreciated in value. The investment team believes that there is additional upside for these bonds on a relative value basis, and as such has kept this long position intact through the date of this letter.
- On the negative side, the portfolio's largest detracting issuer for the quarter was a short position in a health care services provider. Although during the reporting period the company reported lower volumes, further pricing pressures and withdrew guidance, the portfolio suffered a loss from price appreciation on the bonds in concurrence with the general market rally. The investment team continues to believe that these bonds are overvalued with this short position remaining in the portfolio as of the date of this letter.
- The second largest detracting issuer was a short position in a casino, distributed gaming and pub operator with venues predominantly in Nevada. This short position was the portfolio's largest contributor in Q1 2020. The portfolio suffered a loss from price appreciation on the bonds in concurrence with the general market rally during the period, along with the company announcing that recently re-opened gaming operations were performing at pre-COVID-19 levels. The investment team believes that the financial impacts from the pandemic on the company and the gaming/leisure sector have yet to fully materialize and as such has kept this short position intact through the date of this letter.
- The third largest detracting issuer for the period was a short position in a manufacturer of Information Technology network infrastructure components. The portfolio suffered a loss from price appreciation on the bonds in line with the general market rally during the period, along with the company's announcement of a new bond offering which would further improve its liquidity. The investment team believes these bonds remain an attractive risk/reward profile on the short side and as such it remains in the portfolio through the date of this letter.

Portfolio Activity

- Given the extremely volatile Q1 2020, the investment team was cautious at the start of the quarter and throughout the period, which was reflected in the portfolio's exposure levels. Gross exposures at the end of April, May, and June of 2020 measured +91%, +89% and +99%, respectively, while net exposures during the same time period measured +15%, +21% and +21%, respectively.
- At a more granular level, rather than add market beta to the portfolio during the period's rebound in the credit markets, the investment team took advantage of some attractive risk/reward cyclical opportunities within the portfolio. These short-term opportunities included adding liquid distressed names within the Energy and Service sectors, as well as adding rescue-type secured financings with attractive loan-to-value for select fallen angels and investment grade credits.
- From an event driven strategy perspective, the dollar volume of new deals and repricings in the high yield and investment grade markets during the period set all-time records as issuers looked to take advantage of the influx of capital within the capital markets (including those issuers that were affected by the lockdowns and economic weakness caused by COVID-19).

Outlook

- At the overall portfolio level, the exposures at the end of June 2020 were +99% gross and +21% net (as mentioned above), with +60% long exposure and -39% short exposure.
- The largest long sector exposures at the end of the quarter were (in order) in the Cable/Wireless Video, Gaming/Leisure, Healthcare and Energy sectors.
- The largest short sector exposures at the end of the quarter were (in order) in the Healthcare, Information Technology, Gaming/Leisure, and Energy sectors.
- Q2 2020 showed some positive signs, with high yield bond spreads tightening more than 200 basis points, central banks continuing to be accommodative, and some economic indicators recovering. On the negative side, the end of the period also saw virus related concerns reappear in many countries, the LTM high yield bond par-weighted default rate increase to 6.2% at the end of the quarter (a 10-year-high, with expectations for further increases), and increasing uncertainty within the U.S. political and civil climates. As such, the investment team still has many reasons to remain cautious, especially with valuations of many bonds near or even above pre-Covid levels.
- However, through this uncertainty, while keeping the portfolio's gross and net exposures low on a relative basis, the investment team also foresees opportunity on both the long side and short side of the portfolio due to the dispersion which often accompanies periods of uncertainty.

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