



# UBAM CONVERTIBLES EUROPE

A sub-fund of the French Sicav UBAM Convertibles (UCITS IV)

Monthly Report | August 2016

For professional clients only as defined by MIFID

## Performance

As at 31.08.2016	Compartment	Index <sup>1</sup>
MTD	0,97%	0,78%
YTD	-4,19%	-2,03%
2015	3,30%	5,07%
2014	1,91%	2,37%
2013	13,94%	11,45%
2012	16,86%	16,97%
2011	-9,99%	-7,05%
2010	4,34%	6,92%
2009	27,47%	31,60%

<sup>1</sup>Thomson Reuters Europe Focus Convertible Bond Index (Hedged into Euro). For information purpose only.

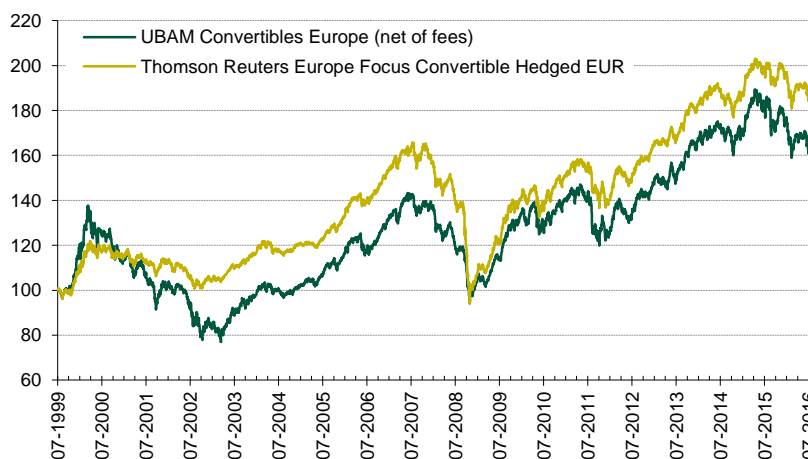
## Statistics

As at 31.08.2016	Compartment
Volatility	10,08%
Yield to best	-1,78%
Duration	3,63
Interest rate sensitivity	2,40
Premium	41,09%
Equity sensitivity	39,28%

Source: UBI\*, Bloomberg.

\*Union Bancaire Gestion Institutionnelle (France) SAS, UBI, is a subsidiary of Union Bancaire Privée, UBP SA, Geneva.

## Track-Record vs. Reference Index



UBAM Convertibles Europe added 0.97% in August (net of fees), bringing its performance year-to-date to -4.19%.

As an illustration of the European convertible bond universe, the Thomson Reuters Europe Focus Convertible Bond index (hedged EUR) ended the month up 0.78%, bringing its performance YTD to -2.03%.

## Market Review

August was quite calm in comparison with recent years. Major equity indices reported flat to positive performance. In Europe, the Euro Stoxx 50 NR ended the month up 1.1% while the Stoxx Europe 50 NR ended slightly down (-0.1%). Volatility further decreased in the area as evidenced by the V2X, down -1pt over the month to 19pts at August-end.

Regarding European credit indices, the iTraxx Main ended flat m/m at 68bps while the Cross Over tightened, down to 309bps (-9bps m/m).

Regarding peripheral countries, Italy's 5Y-CDS spread closed at 136bps (+2bps m/m); Portugal's spread widened by 16bps, up to 286bps at month-end; Spain's spread closed at 83bps (-4bps m/m). Eventually, France's 5Y-CDS spread tightened by 4bps, down to 29bps at month-end, and German's tightened by 1bp, down to 16bps.

In Europe, it looked like there would be no primary activity until the very last day of the month, when 3 new issues were announced for a total of about EUR 1.1bn. In the US, new issuance in August totalled USD 8.9bn. In Asia, a total of USD 0.2bn was issued. There was no new deal in Japan this month. YTD, global primary issuance now amounts to USD 52.3bn.

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## Performance Analysis

Main Contributors		Main Detractors	
Name	Impact	Name	Impact
SIEMENS 1.65% AUG 2019	0,20%	STEINHOFF 4.0% JAN 2021	-0,06%
SWISS LIFE 0.0% DEC 2020	0,15%	STEINHOFF 1.25% OCT 2023	-0,05%
DEUTSCHE POST 0.6% DEC 2019	0,13%	BEKAERT 0.0% JUN 2021	-0,03%
SIEMENS 1.05% AUG 2017	0,11%	ACS (IBERDROLA) 2.625% OCT 2018	-0,03%
SAINSBURY 1.25% NOV 2019	0,07%	BRITISH LAND 1.5% SEP 2017	-0,02%

The average equity sensitivity of the portfolio increased over the month, from 34% end of July up to 39% end of August.

Over the month, the portfolio's components had the following influences:

- ▶ Bond portion: 0.16%
- ▶ Equity sensitivity: 0.57%
- ▶ Optional features: 0.40%
- ▶ Other factors: -0.14%

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## Portfolio Changes

The following changes were made within the portfolio this month:

Main Sales		
Name	Size	Action
AMERICA MOVIL (KPN) 0.0% MAY 2020	-2,30%	Reduced
DP WORLD 1.75% JUN 2024	-0,68%	Closed

In August, we notably reduced our position in **AMERICA MOVIL/KPN 2020** and closed the **DP WORLD 2024**.

At month-end, the portfolio is invested for about 72% in Investment Grade names & cash, versus 48% for the European convertible bond universe.

Assets Under Management for the strategy total EUR 471 million at the end of the month.

## Positioning & Outlook

Given the overall strong rally we have witnessed over the summer, markets would be more vulnerable to a pullback should central banks or post-Brexit data be disappointing. This could lead to accrued volatility in the short-to mid-term. In such an environment, convertible bonds' asymmetrical profile should remain a key competitive edge relative to equities.

In the European convertible bond market, we continue to believe that the relative low implied volatility ("IV") environment provides a compelling case for selective convex investment opportunities. Although convertible bonds' IV recovery is underway overall, at month-end, IV levels remain below their mid-term average level in most markets, especially in Europe. This opens in our view strong valuation opportunities in the area. On the valuation front, we also find value in the current very high risk premium in the European equity market, close to a 1.75-standard deviation discount from historical average.

In these post-Brexit markets where uncertainties remain (over the future actions of Central Banks, over the forthcoming elections in various European countries...), we continue to trade carefully. In the short-term, we expect to maintain our portfolios' equity sensitivity level within a +/-5pts range around their neutral level.

## Primary market

To the market's surprise, August -a month typically defined by sluggish issuance- saw the largest August convertible bond issuance in a long time, with over USD 11bn of new paper issued globally.

In Europe, it looked like there would be no primary activity in August until the very last day of the month, when three new issues were announced: Inmarsat 3.875% 2023 (EUR 650m), Klockner 2023 (EUR 150m) and Remy Cointreau 0.125% 2026 (EUR 275m). In the US, new issuance in August totalled USD 8.9bn (vs USD 0.9Bn in August 2015). The largest issues were DISH Network 3.375% 2026 (USD 3.0Bn) and NextEra Energy \$3.0615 2019 (USD 1.5Bn). In APAC, primary issuance amounted to USD 0.2Bn (vs zero in August 2015), through one issue from Suntec REIT (USD 0.2Bn). There was no primary issue in Japan this month.

YTD, global primary activity now amounts to USD 52.3bn, to which the US accounts for USD 25bn, Europe for USD 18bn, Asia-Pacific for USD 3.6bn and Japan for USD 3.9bn.

While the volume of the primary issuance is an important element of the renewal of our market, selectivity remains the key pillar. Our philosophy leads us to primarily focus on accessing cheap option characteristics and strong bond-floors. This answers to one key objective: capturing the convex potential of the asset class. Beyond the sole benefit of diversification, we analyse the absolute and relative attractiveness of a new issue. We will not invest in a paper unless we truly believe it is worth it, based on its characteristics at issuance and its differentiating value versus our existing holdings.

This approach particularly leads us to keep a cautious stance towards expensive convertible bonds, for which the convex potential is considerably limited. On the contrary, we will favour convertible bonds displaying strong drivers of convexity: cheap implied volatility, high credit quality, and strong upside potential.

Since 2012, the majority of new issues have been assorted with dividend pass-through and "ratchet clauses". Both are designed to provide investors with strong protection, either in case the underlying company pays a dividend (dividend pass-through) or in case of a takeover on an issue's underlying equity (ratchet clause).

**At month-end, the average equity sensitivity of the portfolio is positioned at 39%. The yield to best is currently of -1.8%<sup>1</sup> for a duration of 3.6 years and an interest rate sensitivity of only 2.4%.**

**UBAM Convertibles Europe is an efficient way for investors to be exposed to the European equity markets while limiting their downside risk. Since inception and on a monthly basis we have participated in 70% of the rises in the equity markets<sup>2</sup> and only suffered from 55% of the falls.**

<sup>1</sup> A negative Yield to Best does not imply an equivalent negative headwind to performance from the bond. This metric is based on the bond floor component of the convertible bond only and does not take into account its embedded conversion option which is supporting the convertible bond value.

<sup>2</sup> The equity index used as reference is the Stoxx Europe 50 NR.

## Top 10 Portfolio Holdings

As at 31.08.2016

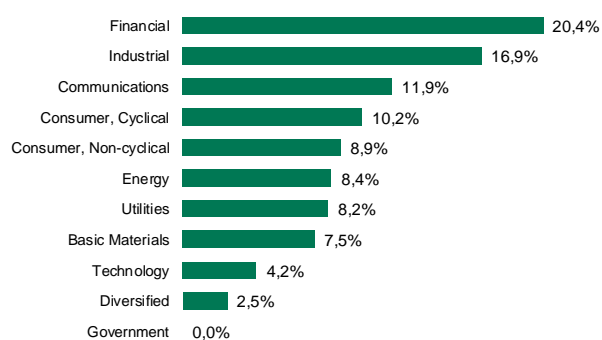
Name	GICS Sector	Country	Weighting	Equity Sensitivity	Premium	Yield to best
Kpn	Communications	Netherlands	5,05%	3,89%	50,69%	0,41%
Siemens	Industrial	Germany	4,32%	41,81%	28,37%	-3,73%
Deutsche Post	Industrial	Germany	4,07%	80,24%	2,85%	-9,56%
Swiss Life	Financial	Switzerland	4,02%	48,54%	14,75%	-4,05%
Ica Gruppen	Consumer, Non-Cyclical	Sweden	3,84%	45,29%	12,54%	-3,86%
Galp	Energy	Portugal	3,66%	21,44%	24,99%	-0,69%
Steinhoff Holding	Consumer, Cyclical	Germany	3,23%	27,96%	45,25%	1,21%
Rocket Internet	Communications	Germany	2,67%	19,76%	114,24%	5,98%
Veolia	Utilities	France	2,62%	13,15%	59,46%	-0,30%
Siemens	Industrial	Germany	2,44%	39,63%	20,84%	-8,76%

	March	April	May	June	July	August
Weighting of the ten top holdings	37,87%	36,34%	36,53%	39,13%	36,17%	35,91%
Number of convertible-like positions	61	60	61	59	63	62
Equity sensitivity	39,95%	37,05%	40,07%	31,14%	34,43%	39,28%
Convexity +20%	9,56%	8,97%	9,68%	8,03%	8,79%	9,98%
Convexity -20%	-6,47%	-5,88%	-6,38%	-4,66%	-5,14%	-5,86%

Source: UBP, Bloomberg

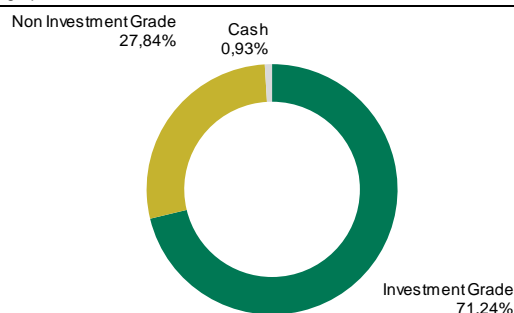
## Portfolio Breakdowns

Sector allocation 31.08.16



Sources: UBI, Bloomberg

Rating Split 31.08.16



Sources : UBI, Bloomberg

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