

MFM CONVERTIBLE BONDS STRATEGIES

REVIEW 2020 & OUTLOOK 2021

2020 A ROLLER-COASTER FOR MANY ASSETS

In March, the global economy's emergency shutdown induced by the global financial meltdown plunged the financial markets into a whirlwind. Equity markets suffered one of the most impressive falls before central bankers and governments' intervention, which simultaneously put economies and financial markets on a drip. This initiated one of the strongest market rebounds in history. Simultaneously, interest rates collapsed around the world. This fall will have a significant impact on investment strategies and asset allocation in the coming years.

CONVERTIBLE BONDS AS THE BEST ASSETS WITHIN FIXED-INCOME UNIVERSE

In this incredible environment, convertible bonds were among the best-performing asset classes. Convertible bonds benefited from three distinct factors.

- First, as in previous crises, the convexity offered by convertible bonds made it possible to limit damage during the fall (both in terms of spreads and the fall in share prices). The same convexity allowed also to exploit the ensuing rebound, without the need to time the bottom.
- Second, as in previous crises, there has been a surge in the number of new convertible issues. These new issues bring both performance and depth to the investment universe. It allows active managers to optimize and diversify portfolios.
- Finally, the convertible universe is highly exposed to new internet companies offering explosive growth. During the recent crisis, these companies have been the primary beneficiaries of the lockdowns.

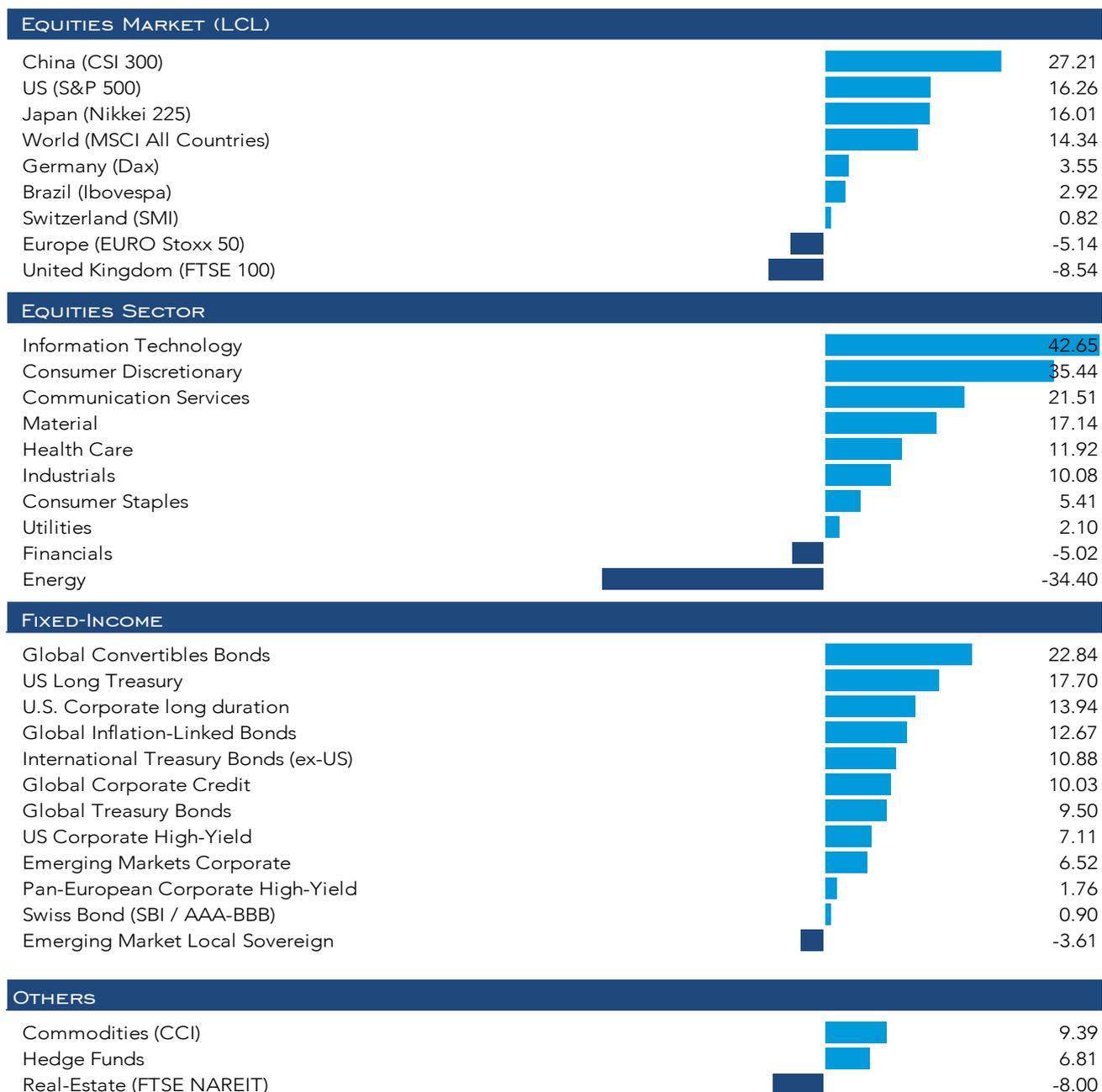


Figure 1 – Asset Classes Performance 2020

MFM GLOBAL CONVERTIBLE BONDS (CHF-I class, ISIN LU1105776212)
 returned +7.94% in 2020 versus +5.83% for its investment grade reference benchmark

In relative terms, our overweight in Asia-Ex and in the US contributed positively against the benchmark, especially our exposure to Consumer Discretionary and Information & Technology sectors. The most negative contribution came from our underweight in Europe, mainly in Utilities, Real Estate and Materials.

Analyzing the relative performance at a single-line level, our outperformance came mainly from Chegg (US, Consumer Discretionary), Match Group (US, Communication Services), Zillow, (US, Communication Services) and Delivery Hero (Europe, Consumer Discretionary), names among the biggest winners due to pandemic and that are not in the benchmark. Au contraire, our underweights in EDF (Europe, Utilities), Southwest Airlines (US, Industrials), LG Chem (Asia-ex, Materials), and Sika (Europe, Materials) were the worst contributors.

In absolute terms, Argentum/Wirecard (Europe, Information & Technology) was the worst detractor after they revealed a massive fraud leading to a complete disaster, while our exposure was aligned with the benchmark.

Equity exposure of the portfolio and universe increased significantly last year. This change in profile arose in two folds:

- 1) from an increase in our US allocation
- 2) from a mechanical feature of convertible bonds, as their underlying increased strongly in value across most regions.

start date: 31-12-2019, end date: 31-12-2020

Relative contributions to performance								Regions / Contributions
Sectors	Africa/Middle E...	Asia Ex Japan	Eastern Europe	Japan	Latin America	North America	Western Europe	Grand total
Communication Services	-	0.04%	0.26%	0%	-	1.5%	0.15%	1.95%
Consumer Discretionary	-	0.72%	-	0.09%	-	-0%	0.59%	1.4%
Consumer Staples	-	-	-	0%	-	0.01%	-0.03%	-0.02%
Energy	-	-	-	0%	-	0.01%	-0.1%	-0.09%
Financials	-	-0.18%	-	0.01%	-	-0.23%	0.01%	-0.39%
Health Care	-	0.27%	-	0%	-	0.1%	0.03%	0.4%
Industrials	-	-0.05%	-	-0.22%	0.06%	-1.05%	0.16%	-1.1%
Information Technology	-0.03%	-0.09%	-	-0.05%	-	1.6%	0.13%	1.56%
Materials	-0.01%	-0.19%	0.2%	0.09%	-	-0.01%	-0.36%	-0.28%
Real Estate	-	-0.05%	-	-0.07%	-	-0.4%	-0.56%	-1.08%
Utilities	-	-	-	0.08%	-	-0.01%	-0.99%	-0.92%
Grand total	-0.04%	0.47%	0.46%	-0.07%	0.06%	1.52%	-0.97%	1.43%

Figure 2 – MFM Global Convertible Bonds Relative Contribution

Top contributors to performance					
Issuer	Region	Sector	Weig...	Contrib. ▼	Perf.
STMICROELECTRO...	Western E...	Information Technology	4.12%	0.88%	0%
BOOKING HOLDING...	North Ame...	Consumer Discretiona...	1.77%	0.79%	0%
AMADEUS IT GROU...	Western E...	Information Technology	3.22%	0.72%	0%
CHEGG INC	North Ame...	Consumer Discretiona...	0.52%	0.68%	0%
SOUTHWEST AIRLI...	North Ame...	Industrials	0.89%	0.67%	0%

Worst detractors to performance					
Issuer	Region	Sector	Weights	Contrib. ▲	Perf.
ARGENTUM (WIREC...	Western Euro...	Information Technology	0%	-1.51%	0%
MTU AERO ENGINE...	Western Euro...	Industrials	0%	-0.3%	0%
GLENCORE FUNDIN...	Asia Ex Japan	Materials	0%	-0.21%	0%
DERWENT LONDON...	Western Euro...	Real Estate	0%	-0.2%	0%
BP CAPITAL MARK...	Western Euro...	Energy	0%	-0.2%	0%

Top relative contributors to performance					
Issuer	Region	Sector	Rel. Weights	Contrib. ▼	Perf.
CHEGG INC	North Ame...	Consumer Discretio...	0.52%	0.62%	0%
MATCH GROUP FIN...	North Ame...	Communication Servi...	0.56%	0.61%	61.37%
ZILLOW GROUP INC	North Ame...	Communication Servi...	0.53%	0.48%	0%
STMICROELECTRO...	Western E...	Information Technolo...	2.06%	0.46%	0%
DELIVERY HERO AG	Western E...	Consumer Discretio...	1.59%	0.44%	0%

Worst relative detractors to performance					
Issuer	Region	Sector	Rel. Weights	Contrib. ▲	Perf.
ELECTRICITE DE FR...	Western E...	Utilities	-4.45%	-0.8%	0%
SOUTHWEST AIRLI...	North Ame...	Industrials	0.89%	-0.7%	0%
LG CHEM LTD	Asia Ex Ja...	Materials	0%	-0.54%	0%
JP MORGAN CHASE...	North Ame...	Consumer Discretio...	-2.95%	-0.44%	8.81%
SIKA AG	Western E...	Materials	-1.92%	-0.41%	16.25%

Figure 3 – MFM Global Convertible Bonds Main Performance Contributors

MFM CONVERTIBLE BONDS OPPORTUNITIES (EUR-I class, ISIN LU1105777020)

returned +24.72% in 2020 versus +21.49% for its benchmark.

In relative terms compared to its benchmark, the performance is explained by our selection in the US and Asia-ex through our satellites, especially in Communication Services and Information Technology positions. The best contribution came from our equity plays like Bilibili (Asia-ex, Communication services), Wayfair (US, Consumer Discretionary), Square (US, Information & Technology) and Zillow (Communication Services), all among biggest winners of the pandemic and pushed by strong equity markets. Au contraire, our credit plays Luckin Coffee (Asia-ex, Consumer Discretionary) and Argentum/Wirecard (Europe, Information & Technology) were the main detractors due to massive fraud.

In absolute terms, the credit plays weighed on the performance, which show the cost of opportunity when markets are very strong and explains why we kept a small weight in this satellite. Around 75% of the performance came from the US, especially our equity plays, that benefited from the pandemic through strong rally of Information & Technology, Communication Services and Consumer Discretionary, and by the rebound of sectors in difficulties like airlines and cruises.

Equity exposure of the portfolio and universe increased significantly last year. This change in profile arose in two folds: 1) from an increase in our US allocation and Information & Technology, and 2) from a mechanical feature of convertible bonds, as their underlying increased strongly in value across most regions.

Relative contributions to performance								
Sectors	Regions / Contributions							Grand total
	Africa/Middle E...	Asia Ex Japan	Eastern Europe	Japan	Latin America	North America	Western Europe	
Communication Services	-	1.11%	0.15%	-0.05%	-	1.27%	0.03%	2.51%
Consumer Discretionary	0%	0.02%	-	0.3%	-	0.32%	0.12%	0.76%
Consumer Staples	-	0.01%	-	0%	-	-0.04%	0.27%	0.24%
Energy	-	-	-	0%	-	0.36%	-0.11%	0.25%
Financials	-	-0.05%	-	-0.05%	-	0.03%	0.01%	-0.06%
Health Care	-	0.46%	-	-0.03%	-	-0.55%	0.04%	-0.08%
Industrials	-	-0.42%	-	0.01%	0.23%	-0.18%	0.26%	-0.1%
Information Technology	-0.16%	-0.11%	-	0.01%	-	1.26%	-0.18%	0.82%
Materials	-0.16%	0.2%	0.28%	-0.03%	-	-0.02%	0.05%	0.32%
Real Estate	-	0.3%	-	-0.06%	-	-0.17%	-0.2%	-0.13%
Utilities	-	-	-	0.02%	-	0.08%	-0.17%	-0.07%
Grand total	-0.32%	1.52%	0.43%	0.12%	0.23%	2.36%	0.12%	4.46%

Figure 4 – MFM Convertible Bonds Opportunities Relative Contribution

Report updated as at 31-12-2020

Top contributors to performance						Worst detractors to performance					
Issuer	Region	Sector	Wgt...	Contrib. -	Perf.	Issuer	Region	Sector	Weights	Contrib. -	Perf.
SQUARE INC	North Ame...	Information Technology	1.37%	1.46%	0%	ARGENTUM (WIREC...	Western Euro...	Information Technology	0%	-0.73%	0%
WAYFAIR INC	North Ame...	Consumer Discreiona...	0%	1.35%	0%	LUCKIN COFFEE INC	Asia Ex Japan	Consumer Discretionary	0.48%	-0.39%	0%
TESLA INC	North Ame...	Consumer Discreiona...	0%	1.13%	0%	DISH NETWORK CO...	North America	Communication Services	0.58%	-0.33%	-1.12%
SNAP INC	North Ame...	Communication Servi...	0.67%	1.07%	0%	NUVASIVE INC	North America	Health Care	0.92%	-0.16%	-24%
BILIBILI INC	Asia Ex Ja...	Communication Servi...	1.41%	0.97%	0%	CHINA EVERGRAN...	Asia Ex Japan	Real Estate	0%	-0.16%	0%

Top relative contributors to performance						Worst relative detractors to performance					
Issuer	Region	Sector	Rel. Weights	Contrib. -	Perf.	Issuer	Region	Sector	Rel. Weights	Contrib. -	Perf.
BILIBILI INC	Asia Ex Ja...	Communication Servi...	1.41%	0.97%	0%	SEA LTD	Asia Ex Ja...	Communication Ser...	0%	-0.64%	0%
WAYFAIR INC	North Ame...	Consumer Discreiona...	0%	0.75%	0%	PINDUODUO INC	Asia Ex Ja...	Consumer Discretio...	0%	-0.5%	0%
SQUARE INC	North Ame...	Information Technolo...	1.37%	0.69%	0%	WAYFAIR INC	North Ame...	Consumer Discretio...	0.77%	-0.39%	0%
ZILLOW GROUP INC	North Ame...	Communication Servi...	0.72%	0.68%	0%	PALO ALTO NETWO...	North Ame...	Information Technol...	-1.53%	-0.34%	0%
SEA LTD	Asia Ex Ja...	Communication Servi...	0%	0.65%	0%	LUCKIN COFFEE INC	Asia Ex Ja...	Consumer Discretio...	0.48%	-0.33%	0%

Figure 5 - MFM Convertible Bonds Opportunities Main Performance Contributors

OUTLOOK 2021

The short-term will be particularly unpredictable linked to the evolution of the pandemic and the vaccines' rollout. It is probable that a successful rollout of vaccines will generate a robust recovery and the start of a new economic cycle. This cycle will be fiscal. The government's policies will lead to growth, employment, and low bankruptcy rate. It is unlikely that investors and politicians will be systematically on the same wavelength. It should lead to a fair amount of volatility in the financial markets, although governments will try as much as possible to avoid significant crises with central bankers' help.

For investors one of the main challenges will be to manage the transition from an environment of recession and health crisis to the beginning of the next economic cycle. The sensational movements in the financial markets are presumably the first illustration of this uncertain path. Short-term uncertainties and long-term trends in this new cycle will have to be carefully weighed. Overall, robust diversification remains one of the most effective tools to navigate this type of transition in the best possible manner. With interest rates likely to stay low for a long time, expected returns will be lower than in the previous cycle for all financial assets. As a result, performance generation will require humility and robust risk allocation with a bias towards assets able to generate attractive returns adjusted to risk.

The biggest unknown in this new cycle remains the behaviour of inflation. It is undoubtedly the most debated macroeconomic subject today. On the one hand, the reduction in global supply due to the pandemic combined with an unprecedented stimulation of demand financed by governments could fuel an inflationary dynamic. Will these factors be sufficient to overcome the secular forces driving down inflation for several decades? The aging of the population and the increasing use of new technologies are among the main factors of low and sustainable inflation. It is not trivial that these trends will fade as we enter the next economic cycle.

In terms of allocation, the roller-coaster ride experienced by most asset classes in 2020 raises the question of valuations. In terms of allocation, consistent response is to observe the change in the equity risk premium. It refers to the excess return provided by an investment in shares compared to a risk-free rate. The higher the premium, the more attractive it is to invest in equities compared to bonds. After the impressive movements across all asset classes, this risk premium indicates that it is still appealing to be exposed to growth assets to generate performance within the fixed-income asset classes.

WHY CONVERTIBLE BONDS REMAIN ONE OF THE MOST PROMISING ASSETS CLASS

In an environment combining (i) high level of uncertainty, (ii) low interest rates, and (iii) inflation risk increase, convertible seems to be an ideal asset class.

- Convertibles bonds, in an environment of low real return with a smooth return of growth and inflation, have historically been able to generate a strong performance on a risk-adjusted basis compared to other asset classes, more sensitive to these specific drivers.
- Within the fixed-income universe, convertibles bonds remain a best-in-class asset in a low rates environment. It is mainly due to its implicit exposure to emerging growth sectors like e-commerce, new technologies in the cloud and data analysis, healthcare innovation.
- Convertible bonds will benefit from an uncertain environment inducing erratic volatility due to their embedded option value.

- Once again, in 2020, convertible bonds have demonstrated their resilience during strong markets' corrections due to their convexity.
- In a time of crisis and strong market correction, convertible bonds offer exposure to the most exciting sectors: either the ones that benefit directly from the situation and need money to expand their business; or those that are the most impacted by the crisis and need money to survive. This last comes to the market with extremely attractive conditions/valuations for investors.
- The significant increase in the convertible bond investment universe makes it possible to build even more diversified investment strategies with optimal risk/return profiles.
- Finally, if the start of the cycle coincides with booming financial markets, the exposure to growth within fixed-income is usually provided by convertibles bonds.

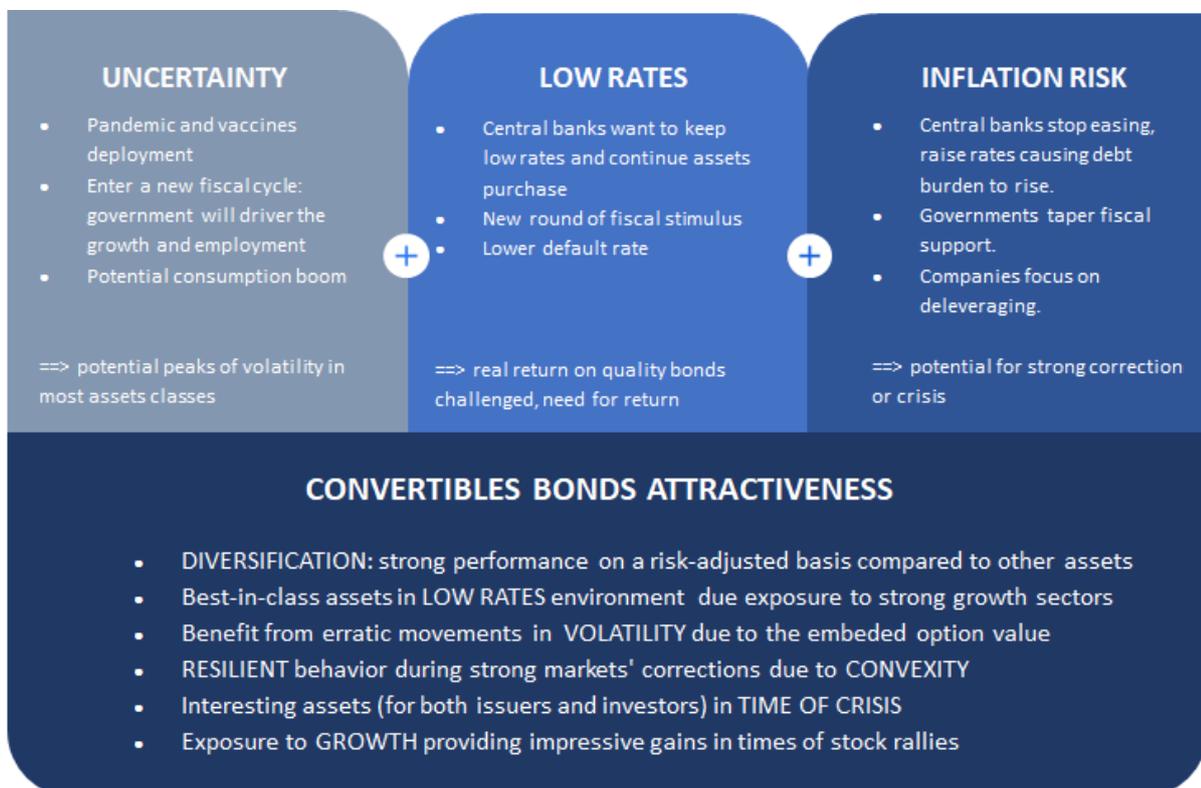


Figure 6 – MFM Mirante Fund Management SA

POSITIONING OF OUR CONVERTIBLE BONDS' STRATEGIES

The prospect of persistently low-interest rates should continue to boost growth assets' attractiveness. With fewer uncertainties ahead, investors will undoubtedly take more risks to generate the returns they need, especially within their fixed-income allocation.

- We favor high credit quality, lower duration, and balanced convertible bonds in the **MFM Global Convertible Bonds** fund. Hence, the strategy profile remains defensive, and we will keep seizing opportunities in the continuously expanding convertible bonds universe.
- In the **MFM Convertible Bonds Opportunities**, besides from a more diversified core, we actively manage our equity exposure to benefit from attractive entry points in Equity and Gamma satellites while participating in the primary market.

CURRENT ABSOLUTE ALLOCATION OF OUR STRATEGIES (AS OF 31.12.2020)

MFM Global Convertible Bond

Report updated as at 31-12-2020



Absolute allocation							Regions / Weights
Sectors	Asia Ex Japan	Eastern Europe	Japan	North America	Western Europe	Grand total	
Communication Services	1.15%	0.79%	-	2.15%	2.25%	6.34%	
Consumer Discretionary	4.6%	-	-	4.73%	6.25%	15.58%	
Consumer Staples	-	-	-	0.71%	1.27%	1.98%	
Energy	-	-	-	3.53%	1.92%	5.45%	
Financials	0.94%	-	-	-	-	0.94%	
Health Care	0.72%	-	-	4.53%	2.46%	7.71%	
Industrials	2.37%	-	0.64%	3.43%	4.99%	11.43%	
Information Technology	3.32%	-	-	8.74%	11.87%	23.93%	
Materials	-	-	0.97%	-	4.5%	5.47%	
Real Estate	0.6%	-	-	-	10.79%	11.39%	
Utilities	-	-	-	-	5.04%	5.04%	
Grand total	13.7%	0.79%	1.61%	27.82%	51.34%	95.26%	

MFM Convertible Bonds Opportunities

Report updated as at 31-12-2020



Absolute allocation							Regions / Weights
Sectors	Africa/Middle East	Asia Ex Japan	Eastern Europe	Japan	North America	Western Europe	Grand total
Communication Services	-	1.88%	1.49%	-	5.38%	1.19%	9.94%
Consumer Discretionary	-	4.84%	-	0.96%	6.33%	7.14%	19.27%
Consumer Staples	-	-	-	-	-	2.31%	2.31%
Energy	-	-	-	-	1%	1.63%	2.63%
Financials	-	1.78%	-	0.51%	0.59%	-	2.88%
Health Care	-	1.5%	-	-	8.48%	0.44%	10.42%
Industrials	-	-	-	1.58%	4.98%	2.81%	9.37%
Information Technology	0.59%	2.19%	-	-	21.09%	2.62%	26.49%
Materials	-	-	1.07%	0.61%	-	1.76%	3.44%
Real Estate	-	1%	-	-	-	3.85%	4.85%
Utilities	-	-	-	-	-	3.43%	3.43%
Grand total	0.59%	13.19%	2.56%	3.66%	47.85%	27.18%	95.03%

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