MFM
MIRANTE FUND MANAGEMENT

REVIEW Q1 2021

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WHAT HAPPENED IN THE CONVERTIBLE BONDS ASSET CLASS

The beginning of 2021 was a bumpy ride for the convertible bonds. The strong performance of February was followed by a strong sector rotation within equities and a cheapening of the convertible universe. Pandemic's optimism thanks to vaccinations has given way to concerns on inflationary risk and rising interest rates. Despite volatile markets, the primary market was on fire, with several issues above USD 1bln like Airbnb or Ford for example, emphasizing the remarkable strength of the convertible bonds market, which continues the past year's momentum. In the future, the increase of the size of the universe should allow us to build more diversified strategies with better risk-return profiles. Asia-ex Japan as well as Japan performed well, gaining respectively +4.08% and +2.15%. On the contrary, the US were almost unchanged, skyrocketed in the first weeks but then deeply hit by the sector rotation, from growth to cyclical sectors. Europe remained relatively weak, being the only region in negative territory with -0.85%, despite sector rotation that should have been positive.

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MFM Global Convertible Defensive (EUR-I class)

returned **+0.46%** against its benchmark at **+1.15%**.

In relative terms, the underperformance came mainly from the sector rotation from growth to cyclical sectors. Our overweight in US information technology, combined with the cheapening of the US convertible bonds, cost us -55bps. In Europe, we suffered from our underweight in investment-grade universe's mastodon Sika (CH, materials), contributing to -14bps. Nevertheless, the fund benefited from its exposure to Haier Smart Home (CN, consumer discretionary) and Twitter (US, communication services, bringing +22bps and +18bps, respectively.

In the portfolio, we have actively managed our equity risk through volatile markets. We took profit in positions with high delta, especially from US growth names like Etsy (US, consumer discretionary), Twitter (US, communication services), and Haier Smart Home (CN, consumer discretionary). We increased our allocation to Europe through EDF (FR, utilities), America Movil/KPN (NL, communication services), and Schneider Electric (FR, industrial).

MIRANTE FUND MANAGEMENT

MFM Global Convertible Opportunities (EUR-I class)

returned **+0.11%** against its benchmark at **+0.70%**.

In relative terms, we suffered from our selection in US information technology, mainly due to our higher equity exposure in this sector, costing us -43bps. Moreover, Aphria (US, health care), a weed company pushed strongly by a group of Reddit traders (+280% YTD before it dropped from the index), cost us -27bps, while we were not exposed to this bond because of the risks associated with. On the positive side, the main contribution came from our Asian-ex "equity play", Bilibili (CN, communication services), and "gamma play", Haier Smart Home (CN, consumer discretionary), bringing +34bps and +24bps respectively. We also benefited from our US "equity play", Southwest Airlines (US, industrials), which profited from the pandemic's optimism thanks to vaccinations, gaining +21bps.

In the portfolio, we participated in new issues with a healthy primary market, as we initiated a position in Beyond Meat 27s (US, consumer staples) and Ford 26s (US, consumer discretionary). We took profit in positions with high delta, on the one hand in "equity play" satellites like Bilibili (CN, communication services) and Dufry 23s (CH, consumer discretionary), and on the other in "gamma plays" like Zillow (US, communication services) and Haier Smart Home (CN consumer discretionary). We initiated new positions among our different satellites, like for example Xiaomi (CN, information technology) and Shop Apotheke (DE, consumer discretionary). We also rebalanced our "core" to maintain a genuine diversification and an optimal convexity into our portfolio.

WHAT'S NEXT

As it remains challenging to predict the level of investor anxiety about the expected inflationary surge, we believe it is wise to maintain a diversified approach. Although the risk of rising interest rates will continue to weigh on growth stocks' valuations, the fundamentals argue for an allocation to these assets. The rise in interest rates should continue, even if most of the way has probably been covered.

We favor high credit quality, lower duration, and balanced convertible bonds in the MFM Global Convertible Defensive. Hence, the strategy profile remains defensive, and we will keep seizing opportunities in the continuously expanding convertible bonds universe.

In the MFM Global Convertible Opportunities, asides 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.

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