

WSP Fund Report

XYZ Global Fund

SAMPLE

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Opinion Report (e-report)

Independent due diligence report on UCITS funds

Opinion Report (e-report)

XYZ Global Fund



SCOPE

- Analysis of the **XYZ Global Fund** as a stand-alone investment in Global Equity.
- Brief report on key fund characteristics, risk factors and style bias to consider when investing into this fund.
- Comparison to the peer group universe of Global Biotechnology Equities funds and to our selection.
- Process analysis limited to high level quantitative screening and concise qualitative due diligence as requested.
- Full ODD or IDD, out-of-scope.

FUND PROFILE

- Strategy: **bottom-up, systematic mapping of the universe**
- Base Currency: **USD**
- Benchmark: **MSCI ACW in USD Index**
- Liquidity: **Daily until 17:00 (CET)**
- Fund Type/Domicile: **Luxembourg UCITS V (FCP)**
- Inception date: **01.01.2010**
- Fund size (US\$): **100 mio USD (as of xx.xx.2022)**
- Style Profile: **All Caps, with bias to Small & Mid cap markets**
- Instruments: **Listed equities, derivatives for hedging purpose**
- Main source of alpha: **Security selection**
- ESG analysis: **NA**
- WSP Selection List: **Not selected by WSP**

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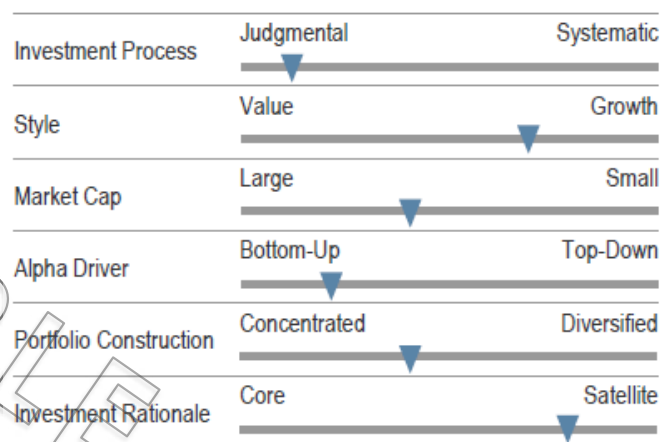
XYZ Global Fund



INVESTMENT OBJECTIVE

The fund is an aggregate strategy with a total return approach, investing in sovereign, investment grade (“IG”) and high yield (“HY”) corporates, MBS, and emerging markets (“EM”) bonds in hard currencies. The duration is actively managed between 1 to 4 years and the average credit quality is always IG, providing the fund a defensive stance.

PORTFOLIO STYLE



WSP scoring

Peer group: Sector Biotech Equity

WSP scoring: **73 / 100**

WSP rank: **3rd quartile (23/31)**

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Operational Review

- **Management Company:** Fund Management S.A., a company under Luxembourg law with registered office at 100 rue Centrale, L-2180, Luxembourg, founded on 01 January 2000, recorded in the Luxembourg Trade and Companies Register under Register Number R.C.S. Luxembourg B 123456. The share capital amounted to 1,234,567 Euro, as provided for in the Articles of Incorporation. Fund Management S.A. is an integral part of Bank Investor Services, the Bank competence center for fund solutions within the Private Banking & Wealth Management division of Bank Group.
- **Custodian:** Custodian Y (Luxembourg) S.A., 100 rue Centrale, L-2180 Luxembourg, Grand Duchy of Luxembourg
- **Administrative, Registry, Transfer & Paying Agent::** Paying Agent Z (Luxembourg) S.A., 100 rue Centrale, L-2180 Luxembourg.
- **Paying agent in CH:** Bank AG, Bahnhofstrasse, 8001 Zurich,
- **Representative & Distributor in CH:** Fonds Management AG, Bahnhofstrasse, 8001 Zürich.
- **Auditors:** PwC, 2, rue Gerhard Mercator, L-2182 Luxembourg for the fund.
KPMG Luxembourg, 39, avenue J.F. Kennedy, L-1855 Luxembourg for the Management Company.
- **Fund Manager:** Fonds Management AG, Bahnhofstrasse, 8001 Zurich
- **Management fees:** 1.2% for unit class I, and 1.35% for unit class R, plus performance fees 20% (high water mark + hurdle rate)

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Operational Review

- **Investment objective:** To achieve the highest possible long-term capital growth in US dollars by investing in biotech and pharmaceutical shares on the global stock markets. The regional-specific focus of the Fund is on the United States, Europe and Asia, developed or emerging. The investment horizon should be at least five years.
- **Investment guidelines and constraint:** UCITS 10/40 rules. For hedging purposes and to increase growth of the net assets, the fund may use derivative financial instruments.
- **Investment team** (key people, stability over 12 months, CV, etc): *please refer to Investment Team section*
- **Fund Manager quality** (tenure, experience, number of employees, AUMs, etc): *please refer to Fund Manager section*
- **Liquidity profile** (*matching between NAV frequency with underlying investments, portfolio holdings*): Medium liquidity profile, given that around 20% of the portfolio invests into biotech small cap stocks, which may have low daily trading volume. At the current fund's size daily liquidity should not be a critical issue. No gates and no lock-up features
- **AUMs changes** over the last 12 months (highlight market effect and inflows/outflows): Assets under managements have increased by around 35%, to USD 60 mios. However, after deducting for the market effect at around +25%, net inflows are in the +5-+10% range, or +USD 2.5mio to +5mio. To notice that, since launch in 2010, the assets of the fund have been range bound between USD 35mios to USD 50mios, mainly driven by the market effect. (*please refer to Conclusions section*) Maximum capacity has been set at USD 500 mios.
- **Documentation** : prospectus, factsheet, KID / annual / semi-annual

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Fund Manager

- Fonds Management Ltd (FM) with its registered office at Paradeplatz, Zurich, Switzerland, is a fund management company pursuant to the Swiss Collective Investment Schemes Act (CISA) and as such is subject to the supervision of the Swiss Financial Market Supervisory Authority FINMA. FM manages multiple funds under Swiss law and acts as a fund manager for multiple funds under Luxembourg law. The share capital is CHF 1'000'000
- As of 31.12.2020, FM manages CHF 10.1 billion in funds domiciled in Switzerland, Luxembourg, and Cayman. With 80 employees located in Switzerland, and 10 funds managed directly or through delegation, we may consider FM a boutique asset manager. They use an independent Fund Management Company in Luxembourg (Fund Management SA), as they do not have their own. According to the company representative, there have been little staff turnover.
- FM is an independent, owner-managed Swiss fund and asset management boutique. It manages a range of 10 funds in equity (ww% of AUMs), fixed income (xx% of AUMs), alternatives (yy% of AUMs), and mixed asset (zz% of AUMs) strategies investing in developed, as well as emerging markets. There have not been any recent changes and there are no foreseeable changes at the board or executive level of FM.

Investment team

- The fund benefits from a stable and local team based in City Z.. The investment team is composed of xyz co-portfolio managers. The Fund has been overseen by Mr XX since 2010. Ms YY joined the investment team of the fund in January 2015 as the “Head of portfolios”. They are helped by a scientific advisory board made of xx professionals from academic and pharma industry background (Prof. Dr. A, and Dr. B, Pharmaco, NY, Head of Research).
- The investment professionals, demonstrate a respectable background in the healthcare and biotech industry, with an average industry experience of more than 30 years. Mr XX brings the portfolio management skills and financial markets knowledge, while Ms YY has the fund manager and analyst role. She holds a PhD in Biochemistry from the University of and she is part of the Research Foundation. There are supported by the scientific advisory board, with deep network of industry and officials' contacts.
- The fund operations are in Luxembourg. Investment Risk Management is supervised by Mr C, Head of Risk Management.

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Investment Rationale

- The fund is a core offering to gain exposure to the emerging markets (EM) equities with a growth bias. Historically, the strategy exhibits a solid asymmetry of returns, leading to a above average risk-adjusted profile. The fund shows sound defensive characteristics, but capturing the bulk of the upside as well, which suits well long-term investors in the asset class. To be considered as a satellite investment in a well diversified portfolio.

Investment philosophy and process

- The fund has a fundamental bottom-up stock-picking approach with a top-down macro trend for sector allocation. Alpha generation is supposedly consequential from stock selection.
- The strategy wants to center on mid cap companies with define value inflection point and exit strategy. It focuses on companies with clear product development strategy and timeline, a team's execution capability, and with M&A potential.
- The portfolio is made of ~50 stocks, with large-cap, mid-cap and small-cap stocks representing 30%, 40% and 30% respectively. The universe of investment encompasses the major global markets.
- Evaluation-led portfolio with top 10 holdings representing usually more than 50% of AUMs. Historically, 42 holdings on average but an increase since 2018 to 60 currently. A large and mid-cap growth tilt. The portfolio has a beta slightly below 1 at 0.9

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Performances

- Sub-standard performance for an active manager compared to peers and benchmark over the last 5 years. From a quantitative standpoint, the fund ranks below average on a various metrics. It stands in the bottom decile for risk-adjusted performance, measured by Sharpe, and Calmar ratios. Weak performance patterns measured by up/down capture ratios. Overall, the fund has trailed its benchmark index lacking to add value, achieving an ETF like performance, but at higher cost.
- It is a surprising result to have this fund's performance hardly replicating that of its benchmark, while its stated objectives are to invest opportunistically within the universe of small and mid-cap stocks, mainly to play M&As and IPOs. One explanation could be that the portfolio performance is dominated by a high exposure to large cap stocks from the index, maintaining a structurally low active share, hence diluting the impact from the opportunistic stock selection in the small cap universe, if any.

Conclusions

- **Operations (+):** The management company has a sound set-up for a boutique manager, with the appropriate resources, governance and management in place. However, the poor results in terms of assets growth after 10 years since launch, we may question the success of this portfolio and its economic viability.
- **Investment team (=):** The co-managers are well educated and committed persons, they have the appropriate background and skillset to run this fund. Still, they clearly lack the track record, the depth and breadth of research and resources we may find among other serious competitors.
- **Results (-):** In regard to performance, results are rather disappointing. While the fund is supposed to benefit from investment in IPOs and M&A operations with high return potential, the fund has indeed not performed better than a passive investment replicating the NASDAQ Biotech index. Therefore, we may question the appropriateness to pay higher management fees to invest in this fund. The arrival of Ms in 2017 did not bring any improvement to that end.
- **Strengths / Weaknesses:**
- In short, we can find more appealing candidates among the peer group of actively managed biotech funds, able to generate true alpha based on a conviction-led and well-resourced investment process.

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- (ii) was marked as "confidential"; or
- (iii) should have been reasonably understood by the Recipient to be confidential;

"Effective Date" means the date of receipt of the document by the Recipient

"Term" means the term of this Disclaimer, commencing in accordance with Clause 2.1 and ending in accordance with Clause 2.2.

2. Term

2.1 This Disclaimer shall come into force upon the Effective Date.

2.2 This Disclaimer shall continue in force indefinitely.

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- (c) use the same degree of care to protect the confidentiality of the Discloser Confidential Information as the Recipient uses to protect the Recipient's own confidential information of a similar nature, being at least a reasonable degree of care;

(d) act in good faith at all times in relation to the Discloser Confidential Information; and

(e) not use any of the Discloser Confidential Information for any purpose other than the Permitted Purpose.

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- (b) is or becomes publicly known through no act or default of the Recipient; or
- (c) is obtained by the Recipient from a third party in circumstances where the Recipient has no reason to believe that there has been a breach of an obligation of confidentiality.

4.3 The restrictions in this Clause 4 do not apply to the extent that any Discloser Confidential Information is required to be disclosed by any law or regulation, by any judicial or governmental order or request,

4.5 Upon the termination of this Disclaimer, the Recipient must immediately cease to use the Discloser Confidential Information.

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4.7 The provisions of this Clause 4 shall continue in force indefinitely.