

Flash Notes – Fund update

November 2020



Prosper Stars & Stripes

Dear Partners,

Please find below a summary of recent performance update of the **Prosper Stars & Stripes fund**, its positioning, portfolio activity and outlook. You will also find attached the **full Q3 Investment Letter** with additional information on economy and market, contributors for long and short books.

We hope that you will find this communication insightful, should you have any further questions, related to this fund or any other one in the OpenList, do not hesitate to contact us, we would be delighted to assist you.

WS Partners view

Since we initiated the coverage of the fund mid-2018 and formally selected it in January 2020, **the strategy has always delivered the expected alpha in a consistent manner**. It benefits from the solid track record of Christopher Hillary, the lead Portfolio Manager (PM) and **clear alpha drivers**.

AUMs have been growing steadily in the recent months, benefitting from the **solid outperformance** of the fund compared to very disappointing performance elsewhere for long/short equity peers globally. The fund remains in the top pf the pack among its peer group.

Prosper Stars & Stripes is an interesting diversifier within a US equity portfolio's exposure, whether built with ETFs or through single lines. The fund exploits inefficiencies in smaller stocks where there are **fewer passive investments, less hedge fund competition, lower analyst coverage, higher dispersion of returns**. It thus enables **potential higher alpha generation on both sides** of the portfolio.

WS Partners maintains the **Prosper Stars & Stripes fund** with the "**Selected**" status initiated at the beginning of 2020.

Performance update

- October 2020: the fund posted a strong performance, i.e +2.9% versus +2.1% for the Russell 2000 index and -2.7% for the S&P 500 index
- YTD (as of November 3rd 2020): the fund is up +19.2% versus -2.2% for the Russell 2000 and +5.2% for the S&P 500
- The Russell 2000 has started to outpace the S&P 500 since September 2020 which could be the start of an outperformance cycle of US small & mid-caps, the lates is back to June 2018.
- Important alpha generation on long and short books (in October and YTD)
- Despite a net long exposure, the fund retains a defensive profile. From October 23th to 30th, the Russell 2000 decreased by -6.2%, whilst the fund posted only a -3.7% correction

Covid

- Different contamination / mortality curves in the US and in Europe
- Number of cases of mortality contained, virus less virulent, better treated
- Therapies are making great progress and significant positive impact on mortality
- Authorization of a vaccine expected in November - December (Pfizer / Moderna)
- No large-scale containment in the US

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US Election

- Main risk: that the designation of the winner will take time because it will delay the vote on the new aid plan
- The central question is not who will win but when and what will be the amount of the new aid plan
- Whether the Republicans or the Democrats win, a fiscal stimulus package and accommodating monetary policy will be on the cards.

Economy

- Jackson Hole: new objectives for monetary policy, more accommodating more sustainably to minimize the risk of deflation
- New plan to support the economy about to be voted on.
- Strong recovery in the economy (since Q2), only certain sectors remain severely affected (e.g. travel and leisure)

Consumption and production are recovering very strongly

- Household savings rate falling sharply + consumer sentiment rising sharply: US Growth Bomb!
- Company results: upward trend, March and June have drawn low points, comparisons will be favorable for the coming quarters
- Companies: Improved productivity and profitability thanks to the reduction in office and travel costs, digitization, automation, e-commerce, trends created or accelerated by the pandemic

Positioning

- 50% + net exposure (historical average around 43%)
- Long Book: solid companies whose demand has been delayed, cyclical bias, which suffered during the crisis
- Short Book: companies which have had revenues, exceptional profits due to lockdowns and which will not be able to renew such gains
- As always, many idiosyncratic stories: 56 long holdings, 51 short names

Portfolio risks

- Short-term technical correction as experienced from October 23th to 30th: Russell 2000 decreased by -6.2%, whilst the fund posted only a -3.7% correction.
- Period of uncertainty about the recovery due to the delay of certain catalysts: vaccine, fiscal stimulus