How Did We Do In 1H?
Fixed Income Monthly Update - June 2021

***Michael Lienhard**: michael.lienhard@capecapital.com*

***Sarah Zhu**: sarah.zhu@capecapital.com*

Curve steepening in 1H has created a sweet spot for our strategy vs. benchmarked strategies

In short, the YTD Fund performance didn't disappoint especially in the context of non-stop headwind coming from rates vol and inflation fear. We finished the first half of the year with a total return of 1.3% in EUR and 1.7% in USD with an average vol below 1% (annualized based on daily return). The curve bear steepening YTD has been more than beneficial to our strategy (given sub 2yr rate exposure) while the opposite is true for more benchmarked strategies, and this trend is likely to persist as long as the rates trajectory remains uncertain.

Relative performance and positioning by sub-book

Looking at our sub-book positioning and reflecting on how we could have done better in 1H, we don't think we could have constructed the portfolio much different than the current one. The big picture remains 'carry centric' with a more defensive style due to elevated valuation across the board.

For the AT1 book, we have gradually switched from high beta to a lower and more geographically diversified beta over the course of 1H, coupled with conviction names. This has led to a YTD excess spread tightening of ~20bps of our sub-book vs. the AT1 universe (Bloomberg Barclays Tier 1 index). We remain constructive in terms of carry for this asset class, but moderately skew our relative value preference to other similarly 'carry generative' alternatives but with much lower drawdown potential like Corporate Hybrids. In the meantime, our core beta has little exposure to any European peripheral names despite their higher carry and recent outperformance, as we still prefer the alternatives for diversified safer carry and conviction names for outperformance.

In the Hybrids book, we have YTD achieved an excess spread performance of 25bps vs. the broader universe and over the course have gradually shifted to the front and medium part of the curve with a current average credit duration of around 3.8yrs. The Hybrid universe has met unfavorable "technicals" due to the above trend YTD supply putting pressure on valuation, but this factor should fade in 2H. Solid relative value vs. both the senior and other capital structure segments speaks for a strong footprint in this asset class.

Contrary to the rest of the portfolio which is constructed from a 'carry' perspective, **our thematic investments**, which constitute mainly the Corporate Senior book, aim for valuation expansion. Given the more selective / conviction style of this book, in spread terms, we have outperformed the universe by 60bps (reminder: EUR senior bonds tightened around 10bps and USD around 15bps). We have over the past months exited some of the peripheral retail REITs and Airport names and we remain invested in the rest of the themes incl. Energy, Basic Metals, Agriculture, REITs, Infotech, etc.

Recent re-entry into CLOs

We have re-entered CLOs (collateralized loan obligations) via IG tranches. As the generic credit market recovers from the pandemic, the loan market has benefitted the most especially the lower quality spectrum where there has been a meaningful amount of upgrades. The rate insensitive nature of the CLO tranches as well as the attractive carry (vs. similarly rated cash bonds) coupled with a rapidly improving quality of the asset pool led us to re-enter the asset class. We have initiated trades across various tranches from AAA to BBB with an average carry of ~150bps to compensate some of our exits in the Corporate Senior book.

Outstanding risks for the market, Fed forward guidance and Delta-variant, not inflation

In terms of outstanding risk factors for 2H, we view the Fed forward guidance and the Delta-variant as the main ones, not inflation. Market based inflation expectations (see US 10yr breakeven or 5y5y inflation swap) experienced some kind of a whiplash. While short-term indicators point to accelerating price pressures, medium-term indicators showed less momentum after the "transitional" phase. Regarding the hawkish tone from the June Fed meeting, credit spreads didn't react much to the surprising shift of the FOMC's attitude towards short term pricing pressure. The dot plot suggested that the FOMC pulled forward rate hikes without upgrading its medium-to long-term inflation expectation, somehow a mixed signal vs. the ‘transitory inflation’ narrative. Furthermore, the flattening of the UST curve indicated that the case of a sustainably higher “non-transitional” inflation doesn’t hold and that the rates market is much less worried about inflation than initially thought, leaving markets in a moderate Goldilocks environment. With rates vol less eminent, 2H is set to present a more accommodative environment for credit premium.

DISCLAIMER

The Fund is a sub-fund of Cape Capital SICAV-UCITS, an umbrella fund regulated pursuant to part I of the Luxembourg law of 17 December 2010 on undertakings for collective investments ("Law of 17 December 2010") transposing Directive 2009/65/EC of the Capital European Parliament and the Capital Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferrable securities and authorized by the Luxembourg Supervisory Commission of the Financial Sector (Commission de Surveillance du Secteur Financier – CSSF). This is an advertising document. Cape Capital SICAV-UCITS (the "Fund") is domiciled in Luxembourg. In Switzerland, the representative of the Fund is ACOLIN Fund Services AG, Leutschenbachstrasse 50, CH-8050 Zurich, whilst the paying agent is Credit Suisse (Switzerland) Ltd., Paradeplatz 8, CH-8001 Zurich. The prospectus, the key information documents or the key investor information documents, the articles of association as well as the annual and semi-annual reports of the Fund may be obtained free of charge from the Swiss representative ACOLIN Fund Services AG. Please note that past performance is no indication of current or future performance. The performance data do not take account of the commissions and costs incurred on the issue and redemption of units of the Fund.

Cape Capital AG is an independent asset management firm based in Zurich, Switzerland, and is regulated by FINMA (www.capecapital.com). For eligible investors only. This fact sheet is no legally mandatory document but for information and promotional purposes only.

IMPORTANT NOTICE AND DISCLAIMER

This confidential presentation and the information set out herein (the «Presentation») is summary in nature only and is qualified in its entirety by the information set out in the offering document or other formal disclosure document (the "Disclosure Document") relating to the potential opportunity described herein. The prospectus, annual financial statements, KIIDs, and legal documents can be obtained from the representative in Switzerland. FOR INVESTORS IN GERMANY: The information agent in Germany is ACOLIN Europe GmbH, with registered office at Reichenaustraße 11a-c, 78467 Konstanz. The basic documents of the Fund, including the prospectus (in English) and the KIID (in German) may be obtained free of charge at the registered office of the German Information Agent. FOR INVESTORS IN THE UNITED KINGDOM: The Fund and certain of its Sub-Funds are recognised in accordance with Section 264 of the Financial Services and Markets Act 2000. UK investors should read the Appendix for UK investors in conjunction with the Fund's Prospectus which are available from the Facilities Agent. The Prospectus of the Fund and the KIIDs can be obtained on www.fundinfo.com. FOR INVESTORS IN SPAIN: The Prospectus of the Fund and the KIIDs can be obtained on www.fundinfo.com.

The information provided is not intended to be used by any person or entity in any country or jurisdiction where the provision of information and subsequent potential commercialisation would be illegal. The Presentation does not constitute an offer for sale in the United States of America. The information provided by this Presentation is not intended for U.S. persons. The fund shares described in this Presentation may not be offered or sold in the United States or to U.S. persons or for the account for the benefit of a U.S. person.

This Presentation has been provided to the recipient by Cape Capital AG as portfolio manager (the "Portfolio Manager") of Cape Capital SICAV-UCITS for informational purposes for the personal use and is only intended to assist eligible investors in deciding whether they wish to consider reviewing the Disclosure Document. This Presentation is meant for use in one-on-one presentations with eligible investors. However, the contents of this Presentation are not to be construed as investment, legal or tax advice or recommendation and do not consider the particular circumstances specific to any individual recipient to whom this presentation has been delivered. The recipient should make its own appraisal and should obtain advice from appropriate qualified experts. This Presentation is furnished on a strictly confidential basis to eligible investors. None of the information contained herein may be reproduced or passed to any person or used for any purpose other than the purpose of considering the potential opportunity described in the Presentation.

Any opinions, forecasts, projects or other statements, other than statements of historical facts that are made in this Presentation are forward-looking statements. Although the Portfolio Manager believes that expectations reflected in such forward-looking statements are reasonable, they do involve a number of assumptions, risks and uncertainties. Accordingly, the Portfolio Manager does not make any express or implied representation or warranty, and no responsibility is accepted with respect to the adequacy, accuracy, completeness or reasonableness of the facts, opinions, estimates, forecasts or other information set out in this Presentation or any further information, written or oral notice, or other document at any time supplied in connection with this Presentation, and nothing contained herein or in the Disclosure Document shall be relied upon as a promise or representation regarding any future events or performance. Past returns are no guarantee for future returns.

The recipient's attention is specifically drawn to the risk factors identified by Cape Capital SICAV-UCITS's investment fund manager and Portfolio Manager as set out in the Disclosure Document. The Portfolio Manager also advises that the potential investments described herein are speculative, involve a degree of risk and there is no guarantee of performance or a return of any capital with respect to any investment. By accepting delivery of this Presentation, the recipient accepts the terms of this notice and agrees, upon request, to return all materials received by the recipient from the Portfolio Manager, including this Presentation without retaining any copies thereof. This Presentation, layout, copyright materials and trademarks featured in the Presentation may not be used or copied or otherwise reproduced by any unauthorized third party.