



THE DRIVE YOU DEMAND

# UBP - ACTIVE IN SMALL & MIDCAPS

Opportunities through selected regional exposures

For Qualified Investors in Switzerland, Professional Investors  
or Eligible Counterparties as defined by the relevant laws



## Key points

- ◆ *The small- and mid-cap segment tends to be less well covered by analysts, and dedicated active portfolio managers can add value by detecting hidden gems throughout the investment universe.*
- ◆ *We believe a long-term allocation to this asset class makes sense, as small- and mid-cap companies often demonstrate strong growth potential, notably where they can sustain high levels of innovation.*
- ◆ *Historically, small- and mid-cap equities generate higher returns due to the base effect, the growth supported by industry dynamics and the compression of liquidity risk premiums as companies grow, while being only marginally more volatile with better risk-adjusted returns than large caps.*
- ◆ *UBP is dedicated to offering investment solutions with an active-management approach for different asset classes, positioned to outperform when compared with passive strategies.*

## Why Swiss and European SMids?

We see compelling reasons to invest in small- and mid-cap equities as part of a well-balanced investment strategy.

- ◆ Even with higher valuations in the Swiss and European equity markets due to higher earnings growth, small- and mid-cap companies can demonstrate strong growth potential. When taking this potential into consideration, we believe that such valuations are currently justified.
- ◆ Additionally, many small- and mid-cap companies focus on higher levels of innovation and offer smaller base effects relative to large caps, thus ensuring a future foundation for maintaining these higher growth rates.
- ◆ The market segment currently offers higher earnings potential than large-cap equities, partly as a reflection of its higher weighting to the more cyclical segments of the Swiss market.
- ◆ The smaller European companies' universe offers a wide range of investment opportunities with a wealth of niche, idiosyncratic, innovative and growing companies.
- ◆ Small- and mid-cap companies in Europe are generally less well covered by investors and, as such, inefficiencies arise which dedicated, active investors can take advantage of.

- ◆ Historically small- and mid-cap equities generate higher returns due to the base effect, the growth supported by industry dynamics and the compression of liquidity risk premiums as companies grow, while being only marginally more volatile with better risk-adjusted returns than large caps.
- ◆ In recent years, the Swiss small- and mid-cap segment regained its traditional premium to the large-cap sector. This reflects expectations that this segment of the market will continue to grow earnings faster than large caps.
- ◆ Both the Swiss small- and mid-cap index (SPIEX) and the MSCI Europe small-cap index have outperformed large-cap indices for a long time, as shown in the Charts 1 and 2 below.

**Chart 1 | Historical performance: small and mid caps vs. large caps**



Sources: UBP, Bloomberg Finance L.P. as at September 2017

**Chart 2 | Historical Performance Swiss Small & Mid-Caps vs. SPI Index & SMI Index**



Sources: UBP, Bloomberg Finance L.P. as at September 2017

Past performance is not a guide to current or future results

- ◆ The Swiss and European strategies share a common approach when it comes to their investment process. Indeed, both strategies apply a disciplined screening process to identify quality names within their investment universe. They focus on companies with high, sustainable cash flow returns on investment (CFROIs), as well as on companies improving their CFROIs, which can benefit from positive dynamics in their end markets.

**Benjamin Soussan**  
Investment Specialist  
Swiss & Global – Emerging Equities  
benjamin.soussan@ubp.ch

---

## Outlook

- ◆ Smaller European companies are currently benefiting from improving earnings and exposure to a region which is benefiting from positive macroeconomic tailwinds. Together with attractive valuations, we believe this makes for a compelling investment proposition.
- ◆ Fundamental earnings improvements in 2017 for Swiss small- and mid-cap equities are fuelling the market, and any reduction in equity risk premiums could contribute to a higher annual performance.

---

## Disclaimer

**This is a marketing document and is intended for informational and/or marketing purposes only. This document is confidential and is intended only for the use of the person(s) to whom it was delivered.** This document may not be reproduced (in whole or in part) or delivered, given, sent or in any other way made accessible, to any other person without the prior written approval of Union Bancaire Privée, UBP SA or any entity of the UBP Group ("UBP"). This document reflects the opinion of UBP as of the date of issue.

This document is for distribution only to persons who are Qualified Investors in Switzerland or Professional Clients, Eligible Counterparties or equivalent category of investors as defined by the relevant laws (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. It is not intended for distribution, publication, or use, in whole or in part, in any jurisdiction where such distribution, publication, or use would be unlawful, nor is it directed to any person or entity to which it would be unlawful to direct such a document. In particular, this document may not be distributed in the United States of America and/or to US Persons (including US citizens residing outside the United States of America).

This document has not been produced by UBP's financial analysts and is not to be considered as financial research. It is not subject to any guidelines on financial research and independence of financial analysis.

Reasonable efforts have been made to ensure that the content of this document is based on information and data obtained from reliable sources. However, UBP has not verified the information from third sources in this document and does not guarantee its accuracy or completeness. UBP accepts no liability whatsoever and makes no representation, warranty or undertaking, express or implied, for any information, projections or any of the opinions contained herein or for any errors, omissions or misstatements. The information contained herein is subject to change without prior notice. UBP gives no undertaking to update this document or to correct any inaccuracies in it which may become apparent.

This document may refer to the past performance of investment interests. **Past performance is not a guide to current or future results.** The value of investment interests can fall as well as rise. Any capital invested may be at risk and you may not get back some or all of your original capital. In addition, any performance data included in this document does not take into account fees and expenses charged on issuance and redemption of securities nor any taxes that may be levied. Changes in exchange rates may cause increases or decreases in your return. **Small and Midcap markets may occasionally be affected by a temporary lack of liquidity. They may be subject to greater fluctuations than large cap markets.**

All statements other than statements of historical fact in this document are "forward-looking statements". Forward-looking statements are not guarantees of future performance. The financial projections included in this document do not represent forecasts or budgets, but are purely illustrative examples based on a series of current expectations and assumptions which may not eventuate. The actual performance, results, financial condition and prospects of an investment interest may differ materially from those expressed or implied by the forward-looking statements in this document as the projected or targeted returns are inherently subject to significant economic, market and other uncertainties that may adversely affect performance. UBP disclaims any obligation to update any forward-looking statement, as a result of new information, future events or otherwise.

It should not be construed as advice or any form of recommendation to purchase or sell any security or funds. It does not replace a prospectus or any other legal documents that can be obtained free of charge from the registered office of a fund or from UBP. The opinions herein do not take into account individual investors' circumstances, objectives, or needs. Each investor must make their own independent decision regarding any securities or financial instruments mentioned herein and should independently determine the merits or suitability of any investment. In addition, the tax treatment of any investment in the fund(s) mentioned herein depends on each individual investor's circumstances. Investors are invited to read carefully the risk warnings and the regulations set out in the prospectus or other legal documents and are advised to seek professional advice from their financial, legal and tax advisors.

The tax treatment of any investment in the Fund depends on your individual circumstances and may be subject to change in the future.

The document neither constitutes an offer nor a solicitation to buy, subscribe for or sell any currency, funds, product or financial instrument, make any investment, or participate in any particular trading strategy in any jurisdiction where such an offer or solicitation would not be authorised, or to any person to whom it would be unlawful to make such an offer or invitation.

Telephone calls to the telephone number stated in this presentation may be recorded. When calling this number, UBP will assume that you consent to this recording.

UBP is authorised and regulated in Switzerland by the Swiss Financial Market Supervisory Authority and is authorised in the United Kingdom by the Prudential Regulation Authority. UBP is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority.