



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.*

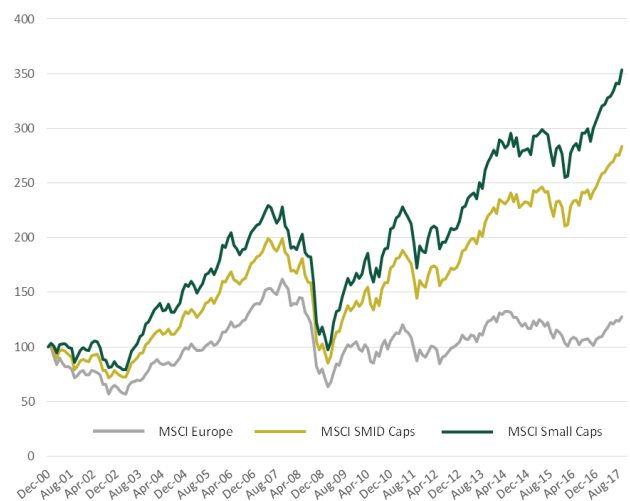
Why Swiss and European SMids?

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.

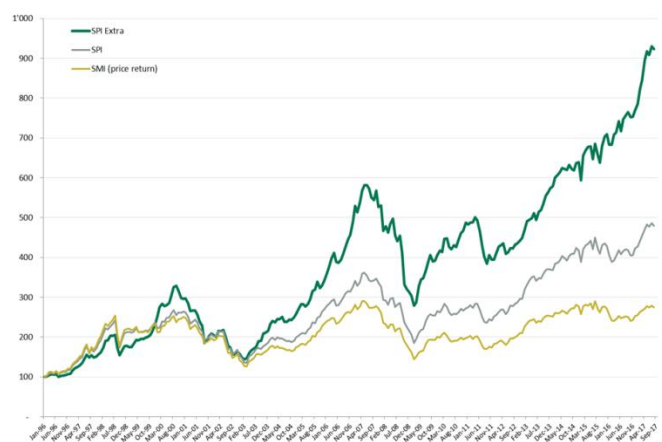
- ◆ Historically small- and mid-cap equities generate higher returns due to the base effect, the growth supported by industry dynamics and the compression of liquidity risk premiums as companies grow, while being only marginally more volatile with better risk-adjusted returns than large caps.
- ◆ In 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

- ◆ 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.

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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.

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