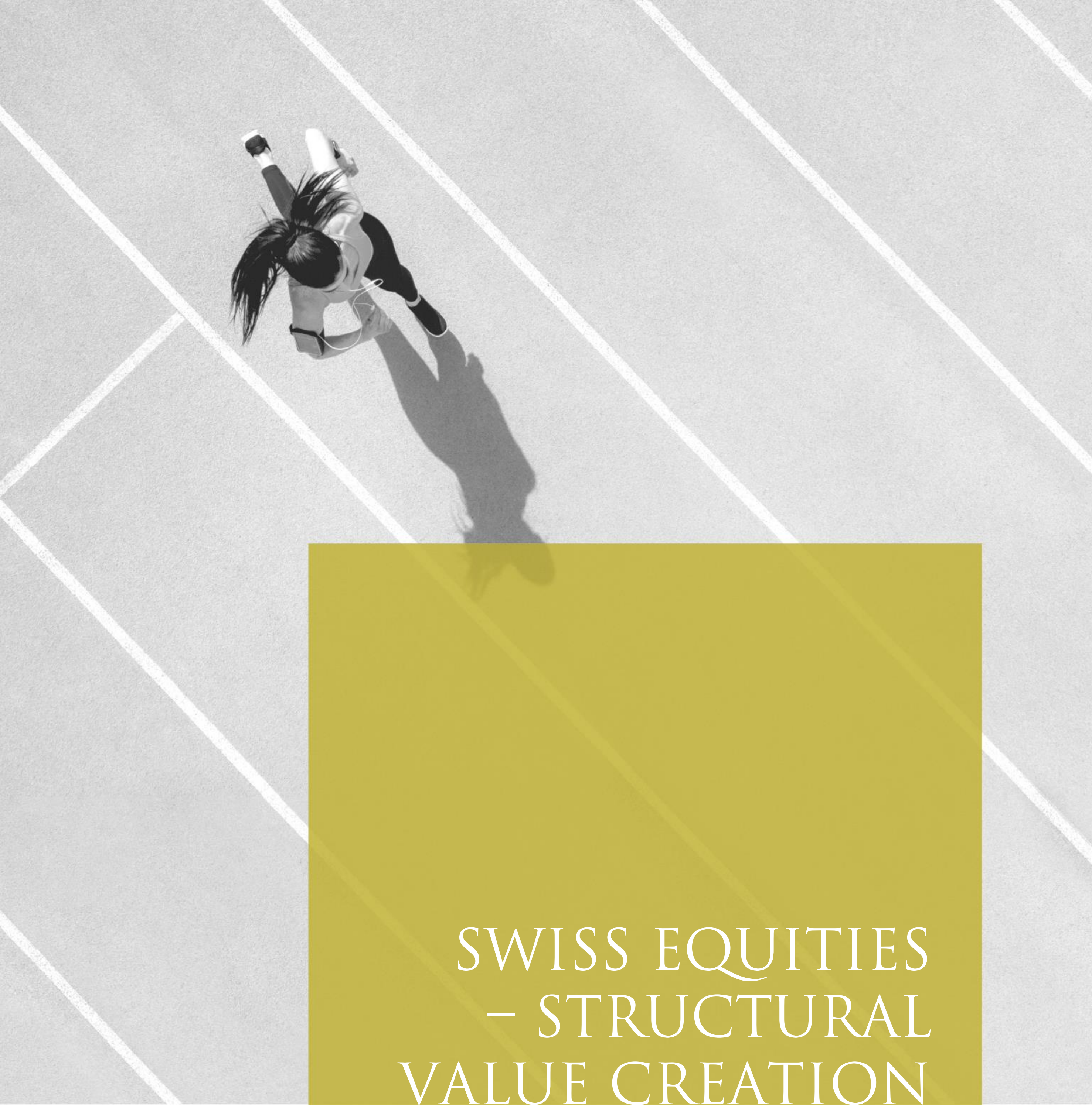


SWISS EQUITIES – STRUCTURAL VALUE CREATION

White Paper

For Professional Investors in Switzerland or Professional Investors as defined by the relevant laws

Asset Management | June 2020

UNION BANCAIRE PRIVÉE

Key points

- *The resilience of the Swiss economy has once again been proved during the COVID-19 pandemic and is reflected by the Swiss equity market's year-to-date outperformance.*
- *Several Swiss companies across all market cap segments have benefited from the disruption caused by the pandemic, as they have exposure to structural long-term trends which were accelerated by the crisis.*
- *However, the strongest argument for a Swiss equity allocation within a diversified equity portfolio remains the long-term structural outperformance of Swiss equities driven by their superior value creation and ESG profiles.*
- *An active investment approach driven by fundamentals and supported by extensive expertise and knowledge of the market, has led to an impressive track record and substantial AUM growth for UBP's Swiss equity franchise over the last fourteen years.*

Switzerland and COVID-19

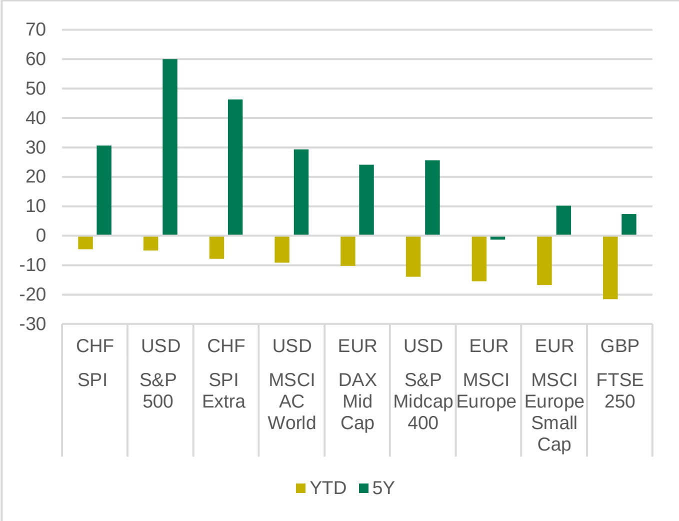
In early June 2020, the Deep Knowledge Group, a consortium of companies and non-profit organisations, issued an update on their COVID-19 Regional Safety Assessment report (https://www.dkv.global/covid-19/full-report**)**, which uses a host of data points to rank the COVID-19 safety and risk assessments of 200 countries. Switzerland received the highest overall score for the effective measures it put in place to stop the spread of the virus, combined with the underlying quality of the nation's medical system and the resilience of the country's economy.

As in previous crises, the safe-haven status of the Swiss franc and an inflation rate of only 0.2% (as at the end of 2019) have contributed to weathering this storm in the past few months. Switzerland has an independent central bank which operates free of political pressure. The Swiss National Bank has been working with negative interest rates since 2015 and has intervened in foreign exchange markets when necessary to absorb external shocks and ease upside pressure on the Swiss franc.

Switzerland's fiscal stability has allowed the country's parliament to swiftly provide a substantial aid package of CHF 57 billion to support the domestic economy. In addition, the Swiss loan programme, which was developed through close collaboration between the government and Swiss banks to offer SMEs quick and simple access to loans to cover their immediate liquidity needs, has won international acclaim.

Over the first few volatile months of 2020, the Swiss equity market reflected the solid standing of the country and its companies, outperforming most major global equity markets by limiting downside while at the same time participating in strong upward moves. The SPI Extra, the Swiss small- and mid-cap index, has shown similar resilience compared with major global and regional indices, both year-to-date and over the longer term.

Performance of major equity markets (%)



Sources: UBP and, Bloomberg Finance LP., Data as at May 2020. Past performance is not a guide for to current or future results.

The 2020 EPS growth estimate for global equities dropped further to -17% over the course of May compared with -10% at the end of April, while the 2021 estimate now stands at +26%. Expected earnings growth rates by region for 2020 range from +2% for China to -26% for the eurozone and -23% for the US; for Switzerland analysts expect a comparatively benign decline in EPS of -8%.

Swiss companies are innovation leaders in various industries, probably most visibly in medical technologies. Close to 700 Swiss companies specialise in this field, ranging from big players, such as Novartis, Roche and Lonza, to listed small- and mid-sized companies, such as Tecan, Vifor Pharma and Straumann, to a host of privately-owned companies.

The healthcare sector in Switzerland has been a strong performer year-to-date, boosted by positive news on companies, such as Lonza and Roche, both of whom are potential beneficiaries of developments in the COVID-19 situation. Lonza (up 34% year-to-date) is the best contributor to the SPI's performance over 2020. While the company has suffered minor supply disruptions linked to COVID-19, a deal with Moderna to become their manufacturing partner in the development of a COVID-19 vaccine has driven the share price in the short term. In the long term, Lonza will remain a key beneficiary of the structural trend towards more outsourcing in the pharmaceutical industry.

In the small- and mid-cap segment, the IT company Logitech and medical lab supplier Tecan have been the strongest contributors to the SPI Extra's year-to-date performance. Apart from these names, several other beneficiaries of positive newsflow can be found in the Swiss market across both sectors and market caps.

Structural, long-term value creation

Despite its small size in terms of geography, Switzerland ranks fifth in the MSCI AC World, with a 3% weighting and a total market capitalisation over CHF 1.3 trillion as at May 2020. Swiss equities offer a lower correlation to global equities and are supported by a strong underlying currency, which can benefit investors who seek real returns. Most sectors and companies have adapted to the currency's strength; for instance, the pharmaceutical industry, which accounts for a significant share of exports, boosts high pricing power, as it is less affected by short-term economic fluctuations. Some small- and mid-cap names are indispensable to their large global customers and have cemented leading market positions in their respective industries.

Global industry leaders in the Swiss SMID segment

VAT Group
Dominant global market share of 41% in valves used in vacuum applications

Bachem
Global leader in the manufacturing of peptides which are key ingredients in some of the world's most sold drugs

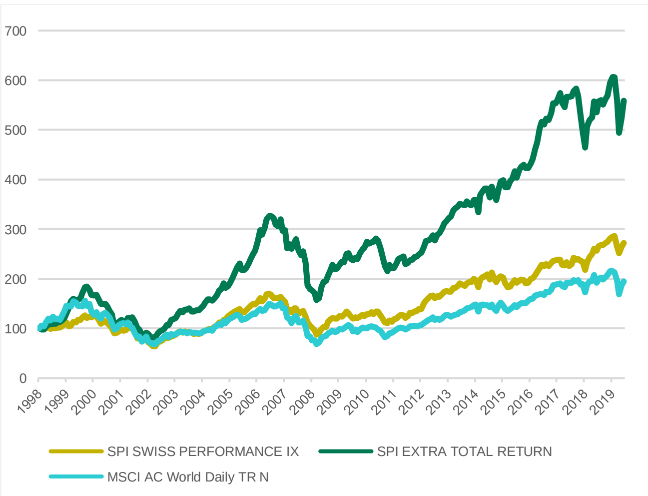
Interoll
Global market leader in drum motors used in internal logistics solutions

Barry Callebaut
World's leading manufacturer of high-quality chocolate and cocoa products

Sources: UBP and company reports. For illustrative purposes only. This is not an indication to buy or sell. Data as at May 2020.

As mentioned previously, Swiss equities, especially in the small- and mid-cap segment, tend to outperform global equities over both short and longer periods of time. Contrasting these superior relative returns with the relative volatility incurred underlines the attractiveness of Swiss equities even more, as they deliver one of the highest risk-adjusted returns among major equity markets.

Long term outperformance, SPI and SPI Extra vs MSCI AC World



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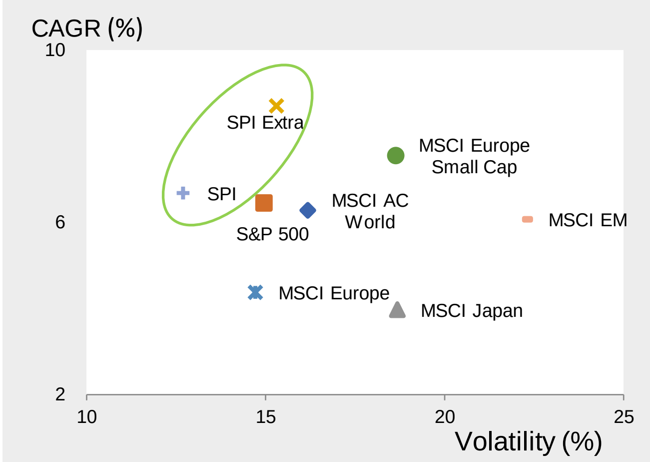
Risk-adjusted return matrix of major equity markets, in local currenciesy, over fifteen15 years

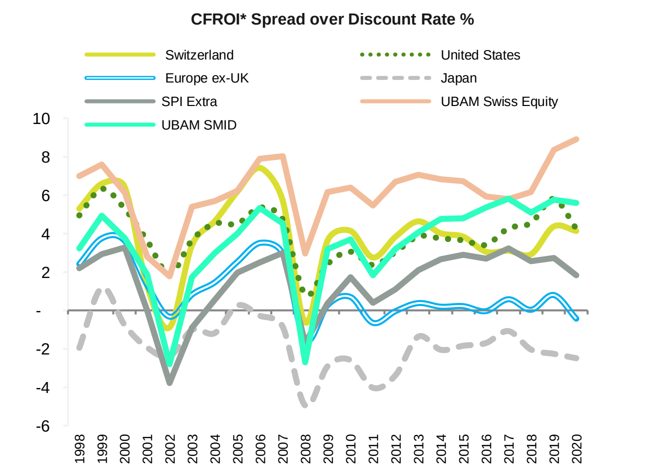


Sources: UBP and Bloomberg Finance LP. Total returns shown in local currencies from 31 May 2005 to 31 May 2020. Past performance is not a guide to current or future results.

This structural outperformance is linked to the high level of value creation, as measured by the spread of the cash flow return on investment (CFROI) over the cost of capital in the Swiss & Global Equity team's investment framework. Switzerland has historically, and until recently, delivered consistently high CFROI spreads compared with other regional markets. It is worth noting that the quality and value creation potential of the small- and mid-cap segment has been improving over recent years, which was reflected by its strong outperformance over the period.

As passive investment options in Swiss equities are somewhat limited and concentrated on large caps, an active investment approach is the best way to gain exposure to the substantial value-creation potential of the small- and mid-cap segment. As the segment is much less covered by sell-side analysts than the companies in the SMI, there are also ample alpha opportunities that can be exploited by active managers with the experience and expertise of UBP's Swiss equity franchise.

Structural value creation profiles



As at June 2020, UBP's range of active Swiss equity strategies (UCITS and Swiss contractual fund structures) built on the CFROI life-cycle framework, has a track record of fourteen years for the flagship Swiss Equity strategy, and five years for the Swiss Small- and Mid-Cap strategy (since 30 June 2006 and 30 June 2015 respectively). Both strategies show sustainable, superior value-creation profiles compared with their respective benchmarks, as well as superior ESG profiles, with AA ratings for both, and an MSCI ESG quality score above 7.5.

The historical sector breakdown of the strategies shows a consistent and balanced allocation to sectors over time, while stock selection has always been the main driver of performance for both funds. A fundamental bottom-up investment process is key to delivering superior value creation over both the short and long term. UBP's Swiss equity strategies remain well positioned for short-term momentum, as well as long-term structural drivers, without the need to time markets or themes.

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Source: Holt, Credit Suisse, UBP, as of 31.05.2020.