SWISS SMALL AND MID-CAP EQUITIES – CONSISTENT VALUE CREATION

White Paper

For professional investors in Switzerland or professional investors as defined by the relevant laws

Asset Management | November 2020

UNION BANCAIRE PRIVÉE

Key points

- *The Swiss economy has once again proven its resilience during the Covid-19 pandemic, as reflected by year-to-date outperformance in the Swiss equity market and also its small and mid-cap segment.*
- *Several Swiss companies across all market-cap segments have benefited from the disruption caused by the pandemic, since they have exposure to underlying long-term trends that have been accelerated by the crisis.*
- *However, the strongest argument for exposure to Swiss equities within a diversified equity portfolio remains the consistent long-term 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 14 years.*

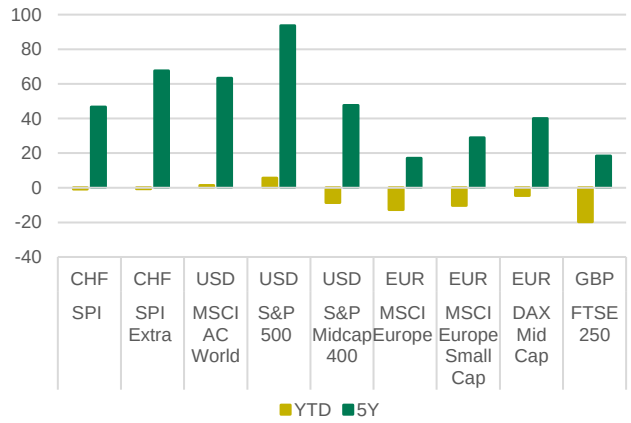
Switzerland and Covid-19

As in previous crises, the safe-haven status of the Swiss franc and an inflation rate of only 0.2% (as of the end of 2019) have helped Switzerland weather the storm in the past few months. The country has an independent central bank that 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 allowed the country's parliament to act quickly and adopt a substantial aid package of CHF 57 billion to support the domestic economy. In addition, the Swiss loan programme, developed through close collaboration between the government and Swiss banks to offer SMEs quick and easy access to loans to cover their immediate liquidity needs, has won international acclaim.

In the first few volatile months of 2020, movements in the Swiss equity market reflected the solid standing of both the country and its companies: Switzerland outperformed most major global equity markets by limiting the downside while at the same time participating in strong rallies. The SPI Extra – Switzerland's 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 of September 2020. Past performance is not a guide to current or future results.

The 2020 EPS growth estimate for global equities has remained steady at around -19% over the past few months, while the 2021 estimate now stands at almost +30%. Expected regional earnings growth rates for 2020 range from +0% for China to -39% for the UK and the eurozone; for Switzerland, analysts expect a comparatively small 10% decline in EPS.

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, as well as a host of privately-owned companies.

In the small- and mid-cap segment, IT specialist Logitech and medical lab supplier Tecan have been among the strongest contributors to the SPI Extra's year-to-date performance. As well as these companies, several others in the Swiss market have benefited from positive newsflow, across various sectors and market-cap categories.

Consistent, long-term value creation

Despite its small size in geographical terms, Switzerland ranks fifth in the MSCI AC World index, with a 3% weighting and a total market capitalisation over CHF 1.3 trillion as of June 2020. Swiss equities offer a lower correlation to global equities and are supported by a strong underlying currency, which can benefit investors seeking 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, boasts strong pricing power as it is less affected by short-term economic fluctuations. Meanwhile, some small- and mid-cap companies are indispensable to their large global customers and have cemented leading market positions in their respective industries.

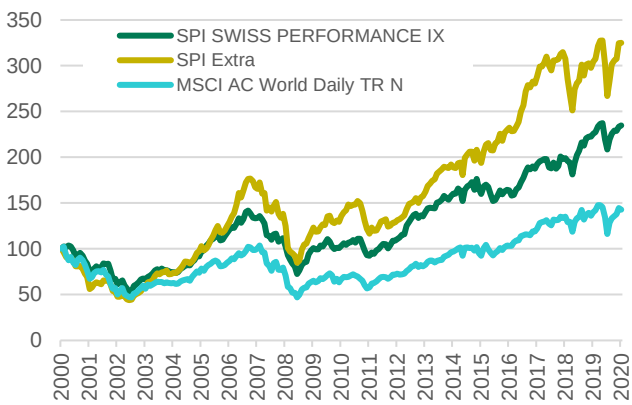
Global industry leaders in the Swiss SMID segment

VAT Group	Bachem	Interroll	Barry Callebaut
Dominant global market share of 41% in valves used in vacuum applications	Global leader in the manufacturing of peptides, which are key ingredients in some of the world's best-selling drugs	Global market leader in drum motors used in internal logistics solutions	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 of June 2020.

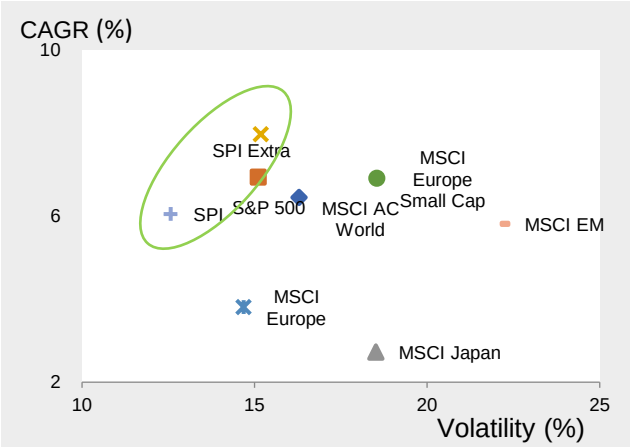
As mentioned previously, Swiss equities, especially in the small- and mid-cap segment, tend to outperform global equities over both short and longer time periods. When we factor in relative volatility, Swiss equities are even more attractive, as they deliver one of the highest risk-adjusted returns of any major equity market.

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



Sources: UBP and Bloomberg Finance LP. Data as of September 2020. Past performance is not a guide to current or future results.

Risk-adjusted return matrix of major equity markets, in local currencies, over 15 years

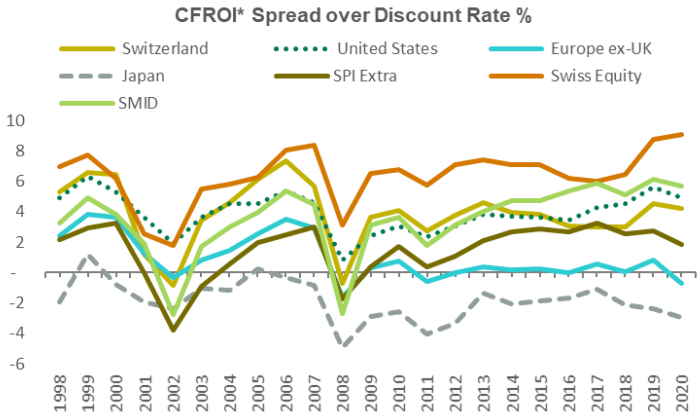


Sources: UBP and Bloomberg Finance LP. Total returns shown in local currencies from 30 September 2005 to 30 September 2020. Past performance is not a guide to current or future results.

This consistent outperformance is linked to high levels of value creation, as measured by the positive differential between cash flow return on investment (CFROI) and cost of capital in the Swiss & Global Equity team's investment framework. Historically, and until recently, Switzerland has consistently delivered CFROI significantly in excess of 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, as 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 small- and mid-cap segment's substantial value-creation potential. As the segment receives much less coverage from sell-side analysts than SMI stocks, there are also ample alpha opportunities that can be exploited by active managers with the experience and expertise of UBP's Swiss equity franchise.

Consistent value creation



Source: Holt, Credit Suisse, UBP, as of 30/06/2020. Past performance is not a guide to current or future results.

As of September 2020, UBP's active Swiss equity strategies – delivered through UCITS and Swiss contractual fund structures and built on the CFROI life-cycle framework – had track records of more than 14 years for the flagship Swiss Equity strategy (since 30 June 2006) and five years for the Swiss Small- and Mid-Cap strategy (since 30 June 2015). Both strategies show sustained, enhanced value creation compared with their respective benchmarks, as well as superior ESG profiles relative to global equities.

The historical sector breakdown of these strategies shows a consistent and balanced sector allocation over time, while stock selection has always been the main driver of returns for both of them. 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 both short-term momentum and underlying long-term drivers, without the need to time markets or themes.

Swiss & Global Equity team
Union Bancaire Privée, UBP SA
Rue du Rhône 96-98 | P.O. Box | CH-1211 Geneva 1
T +41 58 819 21 11

Disclaimer

This is a marketing document and is intended for informational and/or marketing purposes only. **It is confidential and is intended to be used only by the person(s) to whom it was delivered.** It 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 Professional clients in Switzerland or Professional Clients or an equivalent category of investor 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 at any person or entity at 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 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 makes no representations, provides no warranty and gives no undertaking, express or implied, regarding any of the information, projections or opinions contained herein, nor does it accept any liability whatsoever 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 investors may not get back some or all of their original capital. Any performance data included in this document does not take into account fees, commissions, 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 investors' returns. All statements other than statements of historical fact in this document are "forward-looking statements". Forward-looking statements do not guarantee future performances. The financial projections included in this document do not constitute forecasts or budgets; they 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 also disclaims any obligation to update forward-looking statements, as a result of new information, future events or otherwise. The contents of this document should not be construed as any form of advice or recommendation to purchase or sell any security or funds. It does not replace a prospectus or any other legal documents, which 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 carefully read the risk warnings and the regulations set out in the prospectus or other legal documents and are advised to seek professional counsel from their financial, legal and tax advisors. The tax treatment of any investment in a Fund depends on the investor's individual circumstances and may be subject to change in the future. This document should not be deemed an offer nor a solicitation to buy, subscribe to, or sell any currency, funds, products, or financial instruments, to make any investment, or to 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 solicitation. Telephone calls to the telephone number stated in this presentation may be recorded. UBP will assume that, by calling this number, you consent to this recording.

This content is being made available in the following countries:

Switzerland: UBP is authorised and regulated in Switzerland by the Swiss Financial Market Supervisory Authority (FINMA). The head office is Union Bancaire Privée, UBP SA, 96-98 rue du Rhône, P.O. Box 1320, 1211 Geneva 1, Switzerland.

ubp@ubp.com | **www.ubp.com**

United Kingdom: UBP is authorised in the United Kingdom by the Prudential Regulation Authority (PRA) and is subject to regulation by the Financial Conduct Authority (FCA) and limited regulation by the PRA.

France: Sales and distribution are carried out by Union Bancaire Gestion Institutionnelle (France) SAS, a management company licensed with the French Autorité des Marchés Financiers, - licence n° AMF GP98041 ; 116, av. des Champs Elysées l 75008 Paris, France T +33 1 75 77 80 80 Fax +33 1 44 50 16 19 **www.ubpamfrance.com**

Hong Kong: UBP Asset Management Asia Limited (CE No.: AOB278) is licensed with the Securities and Futures Commission to carry on Type 1 – Dealing in Securities, Type 4 – Advising on Securities and Type 9 – Asset Management regulated activities. The document is intended only for Institutional or Corporate Professional Investor and not for public distribution. The contents of this document have not been reviewed by the Securities and Futures Commission in Hong Kong. Investment involves risks. Past performance is not indicative of future performance. Investors should refer to the fund prospectus for further details, including the product features and risk factors. The document is intended only for **Institutional Professional Investor** and not for public distribution. The contents of this document and any attachments/links contained in this document are for general information only and are not advice. The information does not take into account your specific investment objectives, financial situation and investment needs and is not designed as a substitute for professional advice. You should seek independent professional advice regarding the suitability of an investment product, taking into account your specific investment objectives, financial situation and investment needs before making an investment.The contents of this document and any attachments/links contained in this document have been prepared in good faith. UBP Asset Management Asia Limited (UBP AM Asia) and all of its affiliates accept no liability for any errors or omissions. Please note that the information may also have become outdated since its publication. UBP AM Asia makes no representation that such information is accurate, reliable or complete. In particular, any information sourced from third parties is not necessarily endorsed by **UBP AM Asia**, and **UBP AM Asia** has not checked the accuracy or completeness of such third party information.

Singapore: This document is intended only for accredited investors and institutional investors as defined under the Securities and Futures Act (Cap. 289 of Singapore) ("SFA"). Persons other than accredited investors or institutional investors (as defined in the SFA) are not the intended recipients of this document and must not act upon or rely upon any of the information in this document. The financial products or services to which this material relates will only be made available to clients who are accredited investors or institutional investors under the SFA. This document has not been registered as a prospectus with the MAS. Accordingly, this document and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of this product may not be circulated or distributed, nor may the product be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to institutional investors under Section 274 or 304 of the Securities and Futures Act (Cap. 289) of Singapore ("SFA"), (ii) to relevant persons pursuant to Section 275(1) or 305(1), or any person pursuant to Section 275(1A) or 305(2) of the SFA, and in accordance with the conditions specified in Section 275 or 305 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. This advertisement has not been reviewed by the Monetary Authority of Singapore.

MSCI: Although Union Bancaire Privée, UBP SA information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the "ESG Parties"), obtain information from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness of any data herein. None of the ESG Parties makes any express or implied warranties of any kind, and the ESG Parties hereby expressly disclaim all warranties of merchantability and fitness for a particular purpose, with respect to any data herein. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein. Further, without limiting any of the foregoing, in no event shall any of the ESG Parties have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.