

UBAM - SWISS EQUITY

Quarterly Comment

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

Market Comment

- As Covid-19 was declared a global pandemic by the WHO and governments around the world announced lockdowns or social distancing measures to slow down the spread of the virus, the first quarter of 2020 witnessed new peaks in volatility with the VIX index reaching close to 45. The sell-off across asset classes globally triggered large corrections in less than a month. Equity markets finished the first quarter of the year in the red with the MSCI AC World posting -21% in losses. Emerging markets equities lost close to -24% over the quarter, followed by European equities with -22.6%. US equities were down -19% and Japanese equities more than -17%. YTD, Swiss equities continue to show superior relative performance versus other global markets and this despite a strong Swiss franc. The SPI ended the first quarter of 2020 at -11.8% and the SPI Extra at -18.5% versus -21% for the MSCI AC World.
- Sharp earnings downgrades and negative economic data vs. unprecedented and significant monetary and fiscal stimulus packages created very high levels of volatility globally. Short market relief sessions were recorded as central banks and governments deployed monetary and fiscal measures to help faltering economies and industries facing lockdowns. While the oil price crash caused more than 50% losses in the Energy sector since the beginning of the year, cyclical industries such as banks, consumer services, automobiles and transportation also faced deep corrections. Lockdown policies impacted consumers and SMEs alike, as indicated by the 3.3mn new US jobless claims in the week of April 9th, compared to a pre-crisis level of 200-300k weekly claims.
- Switzerland's KOF indicator for March came in at 92.9 vs 85 expected (close to 2011 lows), and 101.8 in February. In line with the global trend, business sentiment has decreased over the month. The trade balance saw real exports dropping -3% month on month while imports dropped -0.1%. The Swiss National Bank left key rates unchanged at -0.75% while inflation forecasts for 2020 have been lowered to -0.3% y/y. The SNB also expects a recession in H1-20, followed by a recovery in H2-20 and in 2021. The Swiss Federal Council has announced an economic aid package of 42bn CHF, including 20bn CHF guarantees for bank loans for small businesses.
- All sectors of the SPI were in negative territory over Q1 2020, with the biggest performance detractors being the Financials and Industrials sectors, down close to -25% and -23% respectively. In terms of individual names, the best contributors over the quarter were healthcare names Roche and Lonza which were up 3% and 14% respectively, while the biggest detractors were Novartis and Nestlé which lost -10% and -5% respectively.

Performance Review

- Over the first quarter of 2020, UBAM-Swiss Equity delivered -13.44% in gross performance versus -11.82% for the benchmark. The sector allocation effect detracted -2.8% of relative performance, mainly due to the forced underweight in Consumer Staples. Stock selection was nevertheless positive adding +1.2% to relative performance namely in the Materials, Financials and IT sectors.
- In terms of individual names, the best contributors over Q1 2020 were the overweight in Lonza as well as the absence of exposure to Credit Suisse and Richemont (+83bps, +58bps and +49bps respectively). Lonza's share price appreciated by 14% as the company posted FY 2019 results above expectations and confirmed that the process to carve out the Specialty Chemicals segment was on track to conclude by mid-2020. In addition, the company saw a surge in demand for Microbial Control as more than 20 products showed to be effective against Covid-19. Credit Suisse dropped -39% over the quarter on mounting concerns regarding the impact of the pandemic combined with lower interest rates and high-yield debt markets drying up on the bank's profitability and balance sheet. Richemont lost -30.2% over Q1 2020 as Swiss watch exports fell -9% in February and stores had to be temporarily closed in most parts of the world due to the pandemic.
- The biggest relative detractors over Q1 were the forced underweights in Roche and Nestlé as well as the overweight in Swiss Life (-97bps, -85bps and -64bps respectively). Roche was up close to 3% over the quarter as its diagnostics division benefited from increased demand and its drug Actemra saw some anecdotal evidence for use in Covid-19 pneumonia. Nestlé lost -5% over Q1, showing resilience in some parts of the portfolio such as pet food and packaged food, while sales to the hospitality industry are currently damaged. Swiss Life lost -32% over the period in line with other major insurers on concerns of their balance sheet exposure to investment grade debt at risk of being downgraded as well as share buyback programs that were suspended. Swiss Life's fundamentals remain solid with an estimated SST ratio of 175% towards the end of the first quarter.

Portfolio Activity

- Going into 2020 the portfolio did not have any exposure to major China plays such as Swatch, ABB, Richemont, nor to energy or banks. As such, no major changes were done on the portfolio level during the month of January.
- Over the month of February, the team selectively reinforced pure domestic names such as Cembra, Galenica and PSP, to position the portfolio more defensively in view of a global spread of the pandemic.
- In March, the team continued to seek more exposure to names seen as less vulnerable to the Covid-19 disruption by initiating positions in Swisscom, SIG Combibloc, Tecan and Belimo. On the other hand, the team reduced names seen as facing challenges and completely exited Sulzer which has some exposure to the energy sector.

Outlook

- The portfolio continues to allocate a high share to companies that are able to demonstrate long term value creation, as indicated by their ability to maintain high and stable CFROIs. Some exposure to companies with growing or restructuring CFROI profiles has nevertheless been maintained in order to be ready should markets change course.
- Swiss companies are once again demonstrating their ability to create value and outperform global markets in volatile times. Combined with a strong currency an investment into Swiss equity continues to offer a compelling risk/return profile within a global portfolio context. The team expects markets to gradually recover over the next 18 to 24 months but the shape of the recovery remains difficult to forecast and will largely depend on when and how lockdowns and social distancing measures can be lifted and economies go “back to normal”.

Disclaimer

This is a marketing document and is intended for informational and/or marketing purposes only. This document is confidential and intended only for the use of 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 Qualified Investors in Switzerland, or Professional Clients, Eligible Counterparties or an 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 at any person at whom 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 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 also disclaims any obligation to update forward-looking statements, as a result of new information, future events or otherwise. None of the contents of this document should be construed as advice or any form of recommendation to purchase or sell any securities or funds. This document does not replace a prospectus or any other legal documents, which can be obtained free of charge from the registered office of the fund they relate to, or from UBP. The opinions herein do not take into account individual investors' circumstances, objectives, or needs. Each investor must make his/her 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 and may be subject to change in the future. Investors are invited to carefully read the risk warnings and the regulations set out in the prospectus or other legal documents and to seek professional financial, legal and tax advice. 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 document may be recorded. UBP will assume that by calling this number you consent to such 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. Any subscriptions not based on the funds' latest prospectuses, KIIDs, annual or semi-annual reports or other relevant legal document shall not be acceptable. The latest prospectus, articles of association, KIID and annual and semi-annual reports of the funds presented herein (the "Funds' Legal Documents") may be obtained free of charge from Union Bancaire Privée, UBP SA, 96-98 rue du Rhône, P.O. Box 1320, 1211 Geneva 1 ("UBP"). The Funds' Legal Documents may also be obtained free of charge from UBP Asset Management (Europe) S.A., 287-289 route d'Arlon, 1150 Luxembourg, Grand Duchy of Luxembourg, and from Union Bancaire Gestion Institutionnelle (France) SAS, 116 avenue des Champs-Élysées, 75008 Paris, France. The Swiss representative and paying agent of the foreign funds mentioned herein is UBP. The Funds' Legal Documents may be obtained free of charge from UBP, as indicated above.