



UBAM – SWISS EQUITY

Quarterly Comment

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

The classification of the fund(s) as per the Sustainable Finance Disclosure Regulation (SFDR) is available on ubp.com or in the latest prospectus.

Market Comment

- Volatility returned over the third quarter of the year with mixed results for equity markets. The MSCI AC World ended Q3 down -1%, while US equities were up +0.6%, European equities +0.7% and Japanese equities +5.2%. Emerging markets on the other hand lost more than -8% over the period and Swiss equities dropped close to -2%. Year to date, Swiss equities, particularly the small and mid-cap segment, maintained their lead over global equities with +12.9% for the SPI and +17.5% for the SPI Extra vs +11.3% for the MSCI AC World.
- With increased worries coming from the Chinese real estate sector, rising commodity prices and supply disruptions, equity markets came under pressure over the third quarter. The last days of September saw bouts of a sector rotation back into value names with investors moving to end the quarter by booking profits on performing names. The pace of earnings revisions moderated slightly but EPS growth estimates still stand at 49% for global equities in 2021 with 8% expected for 2022. The US PMI unexpectedly came in higher at 61.1 for September vs 59.9 for the previous print, supported by solid consumer demand and business investment. Pressure however was recorded in the other segments with the shortage of materials, rising commodity prices and freight transportation difficulties.
- Earnings growth expectations for Switzerland stand at 12% for 2021 and 9.1% for 2022. The KOF indicator edged lower to 110.6 versus 113.5 in August but remained around historically high levels. The PMI for Switzerland also came in unexpectedly higher at 68.1 in September vs 67.7 for the previous print. The trend in the unemployment rate remained low at 2.9% vs 3% for the previous month. Inflation projection slightly increased to 0.5% yoy for 2021 with supply bottlenecks and higher energy prices. The SNB nevertheless maintained key rates at -0.75% and reinstated its willingness to intervene as necessary on currency strength.
- The Financials, Communication Services and Utilities sectors of the SPI ended the quarter in the green while all other sectors detracted from performance with Healthcare and Consumer Discretionary being the largest negative contributors. In terms of individual names, Alcon, Lonza and UBS were the best contributors to the index' performance, while Novartis, Nestlé and Richemont were the biggest detractors. The Swiss equity market saw one new entrant over the quarter with the listing of Medmix AG, the applicator business that was spun out of Sulzer.

Performance Review

- UBAM – Swiss Equity delivered +2.36% in gross performance over Q3 2021, versus -1.97% for the SPI, with more than +4.3% in gross excess return. Stock selection drove most of the relative performance (+4.97%), particularly in the Healthcare and IT sector, and was slightly offset by the allocation effect (-0.64%) mainly from the overweight in the IT sector.
- Over the third quarter of the year, the biggest contributors to relative performance were the overweight in Comet, the significant underweight in Novartis and the overweight in VAT Group (+54bps, +48bps and +39bps respectively). Comet was up +27% after it reported record H1 2021 results with 36% growth in net sales and an EBITDA margin of 17.8% and substantially increased FY guidance. Novartis lost more than -8% mainly on the back of rotation out of defensive sectors. In addition, the company saw a couple of setbacks in its late-stage drug development pipeline. VAT Group's share price appreciated by more than +20%, as the global market leader in vacuum valves continues to benefit from increasing capex in the semiconductor industry. The company's operating results therefore came in strongly for H121 with positive guidance for the rest of the year.
- The main performance detractors over the period were the overweights in Logitech and Cembra, as well as the absence of exposure to UBS (-40bps, -24bps and -23bps respectively). Logitech lost close to -25% over the quarter despite reporting better than expected quarterly results. However, most investors probably expected another guidance increase which the company wasn't ready to give after having already raised FY guidance once earlier in the year. Cembra dropped more than -39% as it announced the termination of its agreement with Migros for the Cumulus-Mastercard partnership. The position was sold across the franchise over the quarter. UBS was up +5.9% driven by the rally in banks fuelled by the anticipated increase in interest rates and rotation into value stocks towards the end of the quarter. The bank also announced better than expected results for Q2 attributed to favourable market conditions and investor sentiment.

Portfolio Activity and ESG

- Over Q3 2021, the position in Gurit was exited following ongoing share price pressure linked to a profit warning along with announced restructuring and a CEO change. A new position was initiated in Barry Callebaut, previously held in the portfolio, which is expected to continue benefiting from outsourcing trends, while the improving business mix with a recovery of the gourmet business should lead to enhanced profitability for the company. With a pass-through pricing model, the impact from raw material cost inflation is expected to be limited. The position in Cembra was sold across the franchise after the company had to announce that its credit card partnership with Migros will not be renewed. A new position in Vontobel was built as the bank published ambitious goals for 2022. Leonteq was also added to the portfolio on lower earnings volatility due to improving business diversification. The company also announced hitting its capital base target of CHF 800mn six months ahead of its guidance making higher future payouts possible. Towards the end of the quarter, Sensirion was added as a share price correction offered an attractive entry point shortly after a meeting with management increased our confidence in Sensirion's continued long-term growth opportunities in areas such as EV, building efficiency and gas metering. Finally, a position in PSP Swiss Property was bought as the company continues to benefit from attractive revaluation gains as prime site locations are still gaining value in Switzerland.



- At the end of September 2021, the portfolio had an ESG Quality Score of 7.4, with an AA rating versus 7.5 for the SPI with an AA rating (based on MSCI ESG Research ratings). The portfolio shows a 60% lower carbon footprint than its benchmark with 41 tons of CO2/\$m sales vs 105 tons of CO2/\$m sales for the SPI. The portfolio continues to be aligned with the Paris Agreement's long-term temperature goal of keeping the rise in global average temperature to well below 2°C compared to pre-industrial levels, as reported by ISS Climate Impact Assessment.

Outlook

- The team maintains a positive outlook for the Swiss equity market with solid and visible earnings growth, which could lead to positive relative momentum in a more volatile and desynchronised growth environment following the strong recovery seen over 2021.
- Profit taking on and/or rotation out of highly value creative names and markets can constitute attractive buying opportunities in terms of relative valuation levels as those periods are usually short lived. With potentially increased volatility in the last quarter of the year, investors could return to higher quality companies and markets which should again benefit Swiss equities.
- The Swiss equity strategy is well positioned to navigate the final months of 2021 in the face of supply disruptions and inflation worries. The team continues to favor companies with resilient business models, consistent and deliverable earnings trajectory, as well as strong pricing power, that ideally also benefit from long-term structural trends.

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