THE DRIVE YOU DEMAND

UBAM - SWISS EQUITY

Quarterly Comment | Q2 2019

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

Market Comment

- After a strong start of the second quarter, equity markets faltered over the month of May before rallying again over the month of June. Swiss equities were leading major markets in terms of performance, gaining more than 6.5% over Q2 2019. US equities followed after gaining +4.3%, European equities were also up 3% while Emerging Markets lagged with +0.6% in performance. Swiss Equities also lead the performance pack with more than 21.8% year-to-date performance versus +17% for the MSCI AC World. The SPI Extra performed in line with the larger SPI over the quarter with 6.3%, while slightly lagging since the beginning of the year with 20% return.
- Earnings growth expectations for global equities continued to be revised down to around 4% now, while growth expectations for Swiss equities remain close to 8% for 2019. US equities maintained positive earnings momentum except for the cyclical sectors. Earnings revisions for Europe as well as for Japan and Emerging Markets however were negative. Global equities valuation stood at 15.1x, at the end of June, still below the long term average of 15.7x. Swiss equities traded around their long term average, at 17.3x forward PE ratio at the end of June.
- Volatility returned to the market in May with the VIX index spiking above 20 over the month as trade war fears reignited. Manufacturing PMIs weakened globally while inflation remains very moderate, prompting more accommodative statements from both the Fed and the ECB. The World Bank reduced its global growth forecast for 2019 from 2.9% to 2.6%. Consumers and the service sector are the primary drivers of global growth currently which is why a trade war escalation or prolongation could present a tail risk to global growth, once again requiring more stimulus from Central Banks to protect domestic demand and employment.
- Swiss GDP came in stronger than expected for the first quarter of 2019 at 0.6% driven by domestic demand, a rebound in capex and firmer exports. The KOF index however eased for the third month in a row after rebounding in March, and stood at 93.6 at the end of June. 2019 GDP growth is expected to come in at around 1.3% with stable inflation and unemployment. In line with the downward trend in major markets, the Swiss PMI fell to 48.6 at end of May 2019. The Swiss Franc strengthened slightly trading at 1.11 against the EUR at the end of June, in conjunction with easing language from both the ECB and the Fed.
- All sectors of the SPI returned positive performances over the second quarter of the year with Consumer Staples and Healthcare the biggest contributors. Nestlé alone delivered close to 2% of the benchmark's return, Novartis 83bps while Roche was flat over the quarter.

All performance figures are given net of fees. Past performance is not a guide to current or future returns. See full disclaimer at the end of the document.

Performance Review

- Over the second quarter of 2019, the fund returned 7.3% in gross performance with 0.7% in excess return over the SPI. Year to date, the fund has accumulated close to 23.3% in gross performance with 1.5% in excess return. Both sector allocation and stock selection have contributed positively over the quarter. (+17bps and +55bps respectively). The Materials and Healthcare sectors were the top contributors with 42bps and 33bps respectively. Consumer Staples was the biggest detractor with 35bps mainly due to its forced underweight in the fund.
- In terms of individual names, the best contributors on the portfolio level over Q2 2019 were the underweight in Roche (29bps) and the overweights in Sika and Swiss Life (+29bps and +17bps respectively). Roche was almost flat over the quarter despite positive Q1 results and guidance as investors continue to fear the US biosimilar headwinds and potentially lower growth rates over the next 1-2 years. Sika's share price rose close to 22% over Q2 mainly driven by broker upgrades and positive market sentiment. Swiss Life announced an 11% increase in fee income for Q1 as well as impressive premium growth and third party net new asset inflows which drove the share price up by 14% over Q2 19.
- The biggest relative detractors were the forced underweight in Nestlé, which was up 9% over Q2 (-42bps), the underweight in Richemont (-19bps) and the position in BB Biotech (-10bps). Nestlé's Q1 2019 results showed a clear acceleration of organic growth and the sale of Nestlé Skin Health for CHF 10bn increased the likelihood of further share buybacks. Richemont was up close to 14% over the quarter after FY19 results showed continued double-digit growth for the core jewellery and watches categories and Swiss watch exports for the month of May accelerated markedly. BB Biotech traded slightly down over the quarter in line with the US Biotech names.

Portfolio Activity

- During the month of April, the team participated in the IPO of Stadler Rail, a leading manufacturer of suburban and regional trains. The team decided to keep the Alcon shares that they were allocated via its spinoff from Novartis. The position in Komax was exited in April in an effort of further reducing automotive exposure.
- Swisscom was sold in May as the revenue growth trends no longer justified the high multiple of the stock.
- In June, the positions in Leonteq and OC Oerlikon were sold. Leonteq's revenue growth prospects looked less promising given a slowdown in structured product turnover and the absence of major volatility spikes. The position in Oerlikon was exited after the CEO cautioned that full year margin guidance could be at risk if there was no pick up in automotive demand in H2. ABB and Richemont were sold as well in order to initiate a new position in Lafarge Holcim. The team sees strong operational momentum provided by new management in terms of culling less attractive geographic locations and ensuring that the company is turned towards profitable growth opportunities. As the largest cement operator in the US, Lafarge is notably expected to benefit from decent construction trends there. Further to the market selloff of end 2018, valuation is attractive even if revenue growth and margin improvements fail to meet management expectations.

Outlook

- The second half of the year will test the recovery scenario with FX headwinds and slowing growth signals. Considering China's slowdown along with the faltering PMI momentum in the US, both leading economies are expected to take steps to avoid new tariff headwinds. Global markets seem to have priced in the growth slowdown and a return of accommodative monetary policies while valuations are in line to slightly below their long-time averages.

- With low inflationary pressures and a competitive job market, Switzerland continues to provide a stable and attractive environment for companies, which has been reinforced with the acceptance of the Swiss tax reform vote in May. The Swiss market as a whole offers diversified geographical revenue exposure as well as a structural bias towards defensive sectors like Healthcare and Consumer Staples. Furthermore, Swiss companies are often leaders in their domain and thus should be more immune to global tensions and a growth slowdown. The team maintains a constructive view of the Swiss Equity market for the rest of 2019 with attractive performance perspectives and growth momentum.

Disclaimer

This is a marketing document and is intended for informational and/or marketing purposes only. This document is confidential and is intended only for the use of the person(s) to whom it was delivered. This document 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 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 to any person or entity to 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 as 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 accepts no liability whatsoever and makes no representation, warranty or undertaking, express or implied, for any information, projections or any of the opinions contained herein or 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 you may not get back some or all of your original capital. In addition, any performance data included in this document does not take into account fees 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 your return.

All statements other than statements of historical fact in this document are "forward-looking statements". Forward-looking statements are not guarantees of future performance. 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 disclaims any obligation to update any forward-looking statement, as a result of new information, future events or otherwise.

It should not be construed as advice or any form of recommendation to purchase or sell any security or funds. It does not replace a prospectus or any other legal documents that 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 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. Investors are invited to read carefully the risk warnings and the regulations set out in the prospectus or other legal documents and are advised to seek professional advice from their financial, legal and tax advisors. The tax treatment of any investment in the Fund depends on your individual circumstances and may be subject to change in the future.

The document neither constitutes an offer nor a solicitation to buy, subscribe for or sell any currency, funds, product or financial instrument, make any investment, or 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 invitation.

Telephone calls to the telephone number stated in this presentation may be recorded. When calling this number, UBP will assume that you consent to this 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, KIID, 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. The Funds' Legal Documents may also be obtained free of charge from Union Bancaire Gestion Institutionnelle (France) SAS, 127, avenue des Champs-Elysées, 75008 Paris, France.