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

- Q4 was a mixed quarter for equity markets, the MSCI AC World ended 2021 with +6.7% in quarterly performance. US equities led in performance with +11% over the period, followed by Swiss equities with +9.3% and European equities with +7.7%. Emerging Market equities and Japanese equities on the other hand lost -1.3% and -1.7% respectively over the quarter. Swiss equities outperformed +4.6% over the year relative to global equities, with +23.4% absolute performance for the SPI and +22.2% for the SPI Extra.
- Earnings revision ratios remained positive in most regions and sectors over the quarter despite the uncertainty linked to the new Omicron variant spread. 2021's earnings growth expectations for global equities rose to 53% with a stable 7% projected for 2022. Valuation levels were marginally lower, with the MSCI AC World trading at a P/E of 18.2x at the end of December on a 12 month forward basis. The US Manufacturing PMI dropped to 58.7 over the month of November, as new orders and production were under continued pressure from supply disruptions and raw material inflation. The employment component was nevertheless stable. The yearly trend in US inflation accelerated to 6.8% yoy for end of November, mainly driven by energy prices. The Fed announced its plan to accelerate the pace of monthly tapering in January and the market now expects3 rate hikes in 2022.
- Earnings growth expectations for Switzerland remained consistent at 12.3% for 2021 and 10.1% for 2022. The Manufacturing PMI for Switzerland was stable at 62.7 for December versus 62.5 for November. The Swiss National Bank announced no change in its rates policy and signaled its continued readiness to intervene in FX markets when necessary in view of the highly valued Swiss Franc. GDP for 2021 is expected to grow by 3.5%, followed by a solid 3% in 2022, and the inflation forecast for 2022 was revised up to 1% yoy versus 0.6% yoy for 2021.
- Over the last quarter of the year, most SPI sectors returned positive performances except for the Communication Services and Information Technology sectors which were the largest detractors. Healthcare and Consumer Staples on the other hand were the biggest contributors. Nestlé, Roche and Richemont were the best individual contributors over the quarter while Kühne + Nagel, Zur Rose and Logitech were the worst detractors of performance for the index. The Swiss equity market saw two new entrants over the quarter (five over the full year) with the listing of SKAN Group in the Healthcare sector, and VT5 Acquisition Company, the country's first listed special purpose acquisition company (SPAC).

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

Performance Review

- UBAM – Swiss Equity delivered +7.4% in gross performance over Q4 2021, versus +9.3% for the SPI. Over the full year, the fund delivered +28.3% in absolute gross performance and +4.9% in relative outperformance to the index. Over the last quarter of the year, both sector allocation (mainly the underweight in Consumer Discretionary and the overweight in IT) and stock selection contributed negatively to relative performance (-1.6% and -0.29% respectively).
- Over Q4, the biggest contributors to relative performance were the overweight in Sika, the significant underweight in Novartis and the overweight in VAT Group (+40bps, +32bps and +26bps respectively). Sika was up +28% over the period after the company announced its acquisition of a major peer, MBCC, the former BASF Construction Chemicals. This move is expected to strengthen Sika's geographic footprint and its distribution network. Novartis underperformed the index with only +4.5% in performance over the quarter despite announcing a new share buyback, as investors question whether the company's current pipeline of new drugs will eventually be able to replace sales at risk from patent expiries and competitor drugs. VAT Group's share price appreciated by an additional +22% over the quarter, after the company announced its largest capex program to date in order to increase production capacity in response to strong growth prospects.
- The main detractors of relative performance over the period were the absence of exposure to Richemont, the overweight in Zur Rose and the underweight in Nestlé (-95bps, -49bps and -49bps respectively). Richemont appreciated more than +40% over the quarter as the company reported +29% sales growth in its H1 2022 results release, largely beating expectations. The group also confirmed that it is in talks with the online platform Farfetch over a potential deal for its own online platform YNAP. Zur Rose lost -37% in Q4 after the German Ministry of Health delayed the mandatory introduction of e-scripts which was supposed to happen in January 2022, raising concerns over the sales growth trajectory for Europe's largest e-commerce pharmacy. Nestlé ended the quarter up +13% as the company monetised part of its L'Oréal stake to start a new share buy-back program.

Portfolio Activity and ESG

- Over the last quarter of the year, three new positions were initiated in the portfolio. In October, the team decided to participate in the SKAN Group IPO across the franchise. The company was originally founded in 1968 and is a global market and technological leader for isolators, cleanroom devices, and decontamination processes for the aseptic production of biopharmaceutical substances. Over the month of December, Autoneum was added to the portfolio on the back of considerable upside potential from the EV launches to come. The company should benefit from the expected recovery in 2022 for the automotive industry, notably further to recent more positive news flow regarding semiconductor supply. A position in ABB was also built in December, based on long term growth opportunities given the massive investment needs for further electrification of infrastructure and at the same time the continued pressure to reduce carbon emissions. ABB is a global leader in power, automation, and robotic technologies.
- On the other hand, the position in AMS was liquidated over the period, as the company continues to disappoint in terms of performance with a worsening outlook. Idorsia was also exited following disappointments on some of its major later stage drugs in the pipeline. The team decided to sell its position in Forbo after the launch of a new range of products by Sika which could take significant

share from Forbo's flooring business. The position in SoftwareONE was also exited as the company continues to struggle to successfully integrate recent acquisitions and hire the necessary labour force to better address the SME market. Mastercard was also sold on renewed concerns with regards to cross border card payment revenue recovery due to the new Omicron wave.

- At the end of December 2021, the portfolio had an ESG Quality Score of 7.6, with an AA rating versus 7.6 for the SPI with an AA rating (based on MSCI ESG Research ratings). The Swiss Equity portfolio follows a strict exclusion policy, among these exclusions, it does not hold any position identified as being in violation of international standards by both data providers MSCI ESG Manager and Sustainalytics. The portfolio has a close to 60% lower carbon footprint than its benchmark with 41 tons of CO2/$m sales vs 100 tons of CO2/$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 equity markets for 2022, with robust earnings growth expectations along with normalising consumer and manufacturing environments. 2021’s challenges are expected to ease in the second half of 2022, in the form of supply chain de-bottlenecking and inventory rebuild, as production ramps up and inflation peaks are crossed following the adjustments to higher energy and raw material prices. Monetary policy should see gradual adjustments from still accommodative levels in line with the prolonged growth recovery.
- An active management approach firmly anchored in fundamentally driven stock selection has once again proven to be a consistent and reliable relative performance generator over 2021 – a year which was marked by several, sometimes violent, sector and style rotations. The Swiss equity strategy remains well positioned with continued focus on a fundamental bottom-up selection of value creative quality companies, while at the same time offering exposure to more shorter term growth opportunities with holdings that benefit from the current increase in capex for manufacturing and supply chain improvements.

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