

UBAM - SWISS SMALL AND MID-CAP EQUITY

Quarterly Comment

Marketing Communication

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

- Over Q3 2023, most global equity markets ended in the red with the MSCI AC World down -3.4%. Swiss equities lost -3.3%, US equities -3.3%, Emerging Market equities -2.9% and European Equities -2.1% while Japanese equities gained +2.4%. The SPI Extra lost -5.7%, bringing its YTD performance to +3.7%, versus +4.6% for the SPI and +10.1% for the MSCI AC World (performance in local currencies).
- In the US, inflation came in as expected in August with the yearly CPI trend rising to +3.6% y/y due to volatile energy prices and resilience in core inflation. The Fed did not change its key rates, although they suggested that a further increase may happen before year end. In the Eurozone, CPI and core CPI yearly trend slowed to +5.2% y/y and +5.3% y/y respectively. The ECB raised interest rates by +25bps and indicated that while a peak might have been reached, interest rates would probably stay elevated. As for business confidence, the US manufacturing PMI increased from 47.6 to 48.9 in September. In Europe, the manufacturing PMI remained stable at 43.4 compared to 43.5 in August but is still well below the 50 mark.
- The September earnings revision ratios remained in positive territory for developed markets, just above zero in Europe, but higher for Japan and US equities. 2023 EPS growth projections for global equities have remained very close to 0% since February, with current bottom-up forecasts at -2% for Europe (but +3% ex-energy) and at +1% for the US. Over the last month, the global equities' 12m forward PE continued to edge lower to 15.6x, just below its long-term average, still with large differences between regions. For instance, Europe and EM are trading at around 12x while the US stand at nearly 18x. Earnings growth expectations stand at a solid +7.8% for 2023 and +9.6% for 2024 for Swiss equities, trading at 16.9X PE ratio, the lowest level this year.
- In Switzerland, the SNB left interest rates unchanged at 1.75%, indicating that the level should be sufficiently restrictive given the outlook on inflation. The yearly inflation trend remained stable in September at +1.7% y/y, and PPI-import prices were down by -0.2% m/m. The leading KOF indicator slightly dropped from 96.2 to 95.9 at end of September. Business sentiment continued to recover however from depressed levels with the PMI Manufacturing increasing from 39.9 in August to 44.9 in September.
- In Q3, Financials and Real Estate were the best contributors to the SPI Extra's performance, while Industrials and Healthcare were the largest detractors. In terms of individual names, Adecco, Julius Baer and Swiss Prime were the best contributors, whereas Straumann, Georg Fischer and SGS were the largest detractors.

Performance Review

- UBAM - Swiss Small and Mid Cap Equity delivered -6.8% in gross performance in Q3 2023 versus -5.7% for the SPI Extra. Over the quarter, sector allocation was the main detractor from relative performance (-77bps), particularly the underweight in Real Estate. Stock selection detracted as well (-26bps), especially in Materials and Industrials. YTD, the fund is up +3.3% vs +3.7% for its benchmark.
- Over Q3, the biggest contributors to performance were the underweight in Straumann, the overweight in VZ Holding and the absence of exposure to Schindler (+21bps, +21bps, +20bps respectively). Straumann was down -19.3% over the period. Its share price fell after the company flagged 'isolated pockets' of consumer weakness and reported net profit for H1 that missed expectations due to higher hedging costs. VZ Holding was up +16.2% after reporting strong H1 results and guidance for the rest of 2023. Schindler was down -12.7% in Q3, despite Q2 results that beat on order intake, revenues and margins, as the outlook for the new equipment business continued to deteriorate.
- The main performance detractors over the quarter were the absence of exposure to Adecco and Swiss Prime Site as well as the overweight in Meyer Burger (-57bps, -27bps and -37bps respectively). Adecco gained +29.2% in Q3. Despite reporting weaker margins and earnings than expected for Q2, the market reacted positively to the company's market share gains, robust organic growth, and cost control. Swiss Prime Site was up +8.1% after closing the first half of 2023 with strong operating results and confirming its guidance for the rest of the year. Meyer Burger was down -38.6% after the company withdrew its forecast to achieve breakeven on EBITDA level for 2023 due to continued pricing pressure from Chinese suppliers in the European markets.

Portfolio Activity and ESG

- Over the third quarter of the year, the position in Komax was sold on the back of a worsening automotive outlook. The position in Meyer Burger was also sold given the deteriorating outlook for the company and consequently its CFROI® (Cash Flow Return on Investment. Source: Credit Suisse HOLT) profile.
- On the other hand, a position in Aryzta – producer and retailer of specialty bakery products – was initiated given their strong volume and margin progress, together with industry-leading cost control. Several semiconductor related names such as VAT, Comet, Inficon and even Georg Fischer (whose specialized piping solutions are used in fabs) were reduced due to some hesitancy regarding short term performance in view of the delayed turnaround in semiconductor equipment, which affects suppliers to the industry. The position in Barry Callebaut was reduced given poor operational delivery despite decent market demand.
- At the end of September 2023, UBAM - Swiss Small and Mid-Cap Equity had a AA ESG rating and an ESG Quality Score of 7.27 (based on MSCI ESG Research ratings), compared to a A rating and 6.89 score for the SPI Extra. The fund delivers a lower weighted average carbon intensity than its benchmark with 24.6 tons of CO2 emissions /\$m sales vs 32.6 tons for the SPI Extra. The Swiss Small and Mid-Cap Equity portfolio also follows a strict exclusion policy. Finally, it does not hold any position identified as being in violation of international standards by both data providers MSCI ESG Manager and Sustainalytics.

Outlook

- Commodity related sectors as well as healthcare names have dragged global EPS growth expectations into slightly negative territory for the full year 2023. The team sees an attractive opportunity to maintain exposure to Swiss equities given their current valuation levels and resilient and visible earnings picture, combined with Switzerland's advantageous macroeconomic positioning. While the gap between the expected EPS growth of the Swiss market vs. global equity markets has been increasing since the beginning of the year, this has not yet been reflected in the Swiss market's relative performance, which provides some upside potential for the remainder of the year, also supported by structural growth drivers.
- The Swiss Small & Mid Equity Strategy continues to focus on the bottom-up selection of value creative names and is well positioned in the current environment. Firstly, the companies in which it invests have strong fundamentals: low debt levels, solid balance sheets and benefit from strong pricing power. After the deterioration of macroeconomic indicators over the summer, there is a strong argument for investors to return to companies with stronger fundamentals over the last quarter of the year. Moreover, an environment marked by higher interest rates and inflation levels that continue to be much above average levels observed in the past couple of years should be helpful for the companies with strong pricing power (a key component in the creation of value). Secondly, the strategy offers exposure to a selection of leading Swiss small and mid-cap companies that benefit from structural growth drivers and are thus less dependent on the global macroeconomic environment. Oftentimes, these companies have exposure to growth markets and benefit from high entry barriers linked to strongly innovative products and services.

This is a marketing document and is intended for informational and/or marketing purposes only. It 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.

Pursuant to Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (the "Disclosures Regulation" or "SFDR"), funds are required to make certain disclosures. Funds falling under the scope of Article 6 of the SFDR are those which have been deemed not to pursue an investment approach that explicitly promotes environmental or social characteristics or has sustainable investment as their objective. The investments underlying this financial product do not take into account the EU criteria for environmentally sustainable economic activities. Notwithstanding this classification, the Investment Managers may take account of certain sustainability risks as further described in the fund's prospectus. Funds falling under the scope of Articles 8 or 9 of the SFDR are those subject to sustainability risks within the meaning of the SFDR. The sustainability risks and principal adverse impacts as stipulated in the SFDR are described in the prospectus. In addition, unless otherwise specified, all funds apply the UBP Responsible Investment policy, which is available on <https://www.ubp.com/en/investment-expertise/responsible-investment>

UBP relies on information and data collected from ESG third party data providers which may prove to be incorrect or incomplete. Although UBP applies a proven selection process of such third-party providers, its processes and proprietary ESG methodology may not necessarily capture appropriately the ESG risks. Indeed, data related to sustainability risks or PAI are today either not available or not yet systematically and fully disclosed by issuers, may be incomplete and may follow various methodologies. Most of the ESG factors information is based on historical data that they may not reflect the future ESG performance or risks of the investments.

ESG information providers: Although Union Bancaire Privée, UBP SA, ESG information providers (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.

Any subscriptions not based on the funds' latest prospectuses, KID or KIIDs (as appropriate), annual or semi-annual reports or other relevant legal documents (the "Funds' Legal Documents") shall not be acceptable. 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, Switzerland (UBP), 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 English version of the prospectus of the Fund as well as a summary of investor rights associated with an investment in the Fund are available on www.ubp.com. **The fund's management company may decide to terminate or cause to terminate the arrangements made for the marketing of its collective investment undertakings in accordance with Article 93a of Directive 2009/65/EC.**

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.

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 by the French Autorité des Marchés Financiers, - licence n° AMF GP98041; 116, av. des Champs Elysées I 75008 Paris, France T +33 1 75 77 80 80 Fax +33 1 44 50 16 19 www.ubpamfrance.com

Luxembourg: through UBP Asset Management (Europe) S.A., a Management Company authorised under Chapter 15 of the Law of 17 December 2010 relating to undertakings for collective investment (the "2010 Law") and an Alternative Investment Fund Manager authorised under the Law of 12 July 2013 (the "AIFM Law"), which manages undertakings for collective investment subject to Part I of the 2010 law and other types of funds which qualify as alternative investment funds. 287-289, route d'Arlon P.O. Box 79 1150 Luxembourg T +352 228 007-1 F +352 228 007 221.

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.