UBAM – SWISS SMALL AND MID-CAP 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

- After two consecutive months of relief rallies, global equity markets gave back some gains and ended December in the red. The last quarter of the year was nevertheless positive for major equity markets. The MSCI AC World ended Q4 up +9.8%, with +9.7% gains for Emerging Market equities, +9.6% for European Equities, +7.6% performance for US equities, +4.3% for Swiss equities and +3.3% for Japanese equities. The SPI Extra rose +7.3% over Q4, bringing its YTD losses down to -24.0% vs -16.5% for the SPI and -18.4% for the MSCI AC World.
- US inflation moderated again in November with +0.1% m/m increase versus +0.3% expected and +0.4% increase in the prior month. The yearly headline trend also declined from +7.7% y/y to +7.1%, while core inflation eased more moderately from +6.3% to +6.0%. The Fed remained attentive to inflationary risks and raised rates by 50bps in December. Business confidence declined in December with the US ISM Manufacturing coming in below 50 at 48.4. US GDP figures were nevertheless revised up for Q3 from +2.9% q/q SAAR to +3.2%, supported by firmer private and public consumption. Eurozone Q3 GDP figure also came in better than expected at +2.3% q/q, reflecting resilient post-pandemic household consumption and tourism. The ECB increased key rates by 50bps in December, with a hawkish tone on inflation trends.
- In Switzerland, the SNB raised its key rates by 50bps in December citing inflationary pressures from abroad and price increases spreading across various categories of goods and services that continued to put upward pressure on inflation. While headline inflation declined more than expected, from +3% to +2.8% y/y and from +0% to -0.2% m/m, core inflation increased slightly on a yearly basis, from +2.6% to +2.7% but slowed more than expected in December 2022. The leading KOF indicator increased from 89.2 to 92.2 in December but remained close to March 20’s levels. The Swiss Manufacturing PMI came in at 54.1 for December vs 53.9 in November revealing resilient business confidence. Swiss equities traded slightly below their 10y average forward PE ratio at 16.2x compared to 15x for global equities which were also trading near the long-term average at the end of December. 2022 earnings growth expectations were revised down to +0.3% for Switzerland while 2023 expectations rose to +16.4%, compared to +10.1% and +2.8% for 2022 and 2023 respectively for global equities.
- Most sectors of the SPI Extra recorded positive performances over the quarter, except for Consumer Staples. Industrials and Financials were among the biggest performance contributors on the other hand. Julius Baer, Straumann and VAT Group were top

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individual contributors to the index' Q4 performance, whereas Temenos, Roche bearer shares and Siegfried were the biggest detractors.

Performance Review

- UBAM – Swiss Small and Mid Cap Equity delivered +10.2% in gross performance in Q4 2022 versus +7.3% for the SPI Extra. Over the quarter, stock selection was the major contributor to relative performance whereas sector allocation had a slight negative effect (+3.7% and -0.8% respectively). The selection effect in the IT and Industrials sectors was a strong contributor to performance over the period, while the overweight in Consumer Staples was among the largest detractors.
- Over Q4, the biggest contributors to performance were the overweight in Meyer Burger, the absence of exposure to Temenos as well as the underweight in Roche bearer shares (+56bps, +55ps, +53bps). Meyer Burger gained close to +53% after successfully raising CHF 250mn via a rights offering over the period. The proceeds will be used to accelerate Meyer Burger's capacity expansion plans in the US to respond to the continued strong underlying demand for their solar cells and modules. Temenos dropped -24.8% following a profit warning for Q3 combined with lower guidance for the full year, mainly due to a miss in subscription licenses and weak sales execution. Roche bearer shares lost -7.6% as the company faced R&D setbacks in the Alzheimer's space related to poor clinical data on Gantenerumab, which had already low expectations.
- The main performance detractors over the quarter were the absence of exposure to Julius Baer, as well as the overweights in Lindt & Spruengli and Siegfried (-59bps, -49bps and -29bps respectively). Julius Baer gained +23.8% over the quarter after reporting resilient net new money flows and confirming the full year profitability target despite market conditions. Lindt & Spruengli lost -1.4% on overall sector concerns around weaker consumer demand. Siegfried dropped -16.5% over the quarter on the back of the BioNTech vaccine contract termination. The company nevertheless reported a beat in H1 sales and profits and raised the full year guidance despite a demanding macro environment.

Portfolio Activity and ESG

- Over the fourth quarter of the year, the team sold its position in Leonteq after news the company was involved in an alleged money laundering case. The remaining position in SFS Group was also sold following the expected dilution of the group's CFROI® (Source: Credit Suisse HOLT) profile due to the low profitability of the recently acquired Hoffmann business.
- A position in Komax, the global leader in wire bonding, was initiated on the other hand. The company produces machines for cutting and stripping round and flat wire, crimping and insertion machines for processing single wires, and equipment for processing wire harnesses. The team also introduced Burckhardt Compression to the portfolio, a manufacturer of reciprocating compressors. The company has a strong order book which supports high visibility for revenues and its services business continues to offer a steady income stream regardless of an economic slowdown. The team initiated a new position in Accelleron following its spin-off from ABB and added to the position over the rest of the quarter. Accelleron (formally ABB Turbocharging) is a global leader in high-power turbocharging technologies and optimization solutions.
- Finally, the team reduced its position in Lindt & Spruengli to finance a new position in Roche bearer shares. Roche bearer shares are among the

largest weights in the SPI Extra, and the company is perceived as one of the best quality pharma companies globally with a solid CFROI® profile.

- At the end of December 2022, UBAM – Swiss Small and Mid-Cap Equity had a AAA ESG rating and an ESG Quality Score of 8.80 (based on MSCI ESG Research ratings), compared to a AAA rating and 8.77 score for the SPI Extra. The fund delivers a lower weighted average carbon intensity than its benchmark with 28.9 tons of CO2 emissions /$m sales vs 36.3 for the SPI Extra. The Swiss Small and Mid-Cap Equity portfolio also follows a strict exclusion policy. It does also not hold any position identified as being in violation of international standards by both data providers MSCI ESG Manager and Sustainalytics.

Outlook

- After turbulent markets in 2022 driven by inflation pressures and valuation compression, 2023's expectations are starting to reflect downward earnings revisions that could lead to an extended period of volatility into the new year. The investment team remains constructive on Swiss equities' resilient earnings growth for 2023, despite maintaining a more conservative view than consensus' expectations – which currently see 16.4% earnings growth for the Swiss equity market vs. 2.8% for global equities – as well as the supportive Swiss macro-economic environment and currency.
- An active investment approach should protect investors from the lower quality part of the market with more downside risk for earnings and where performance is generally more dependent on macro-economic tailwinds, such as rising oil prices and interest rates which are expected to be less supportive in 2023. The value creation potential of Swiss small and mid-cap companies is fundamentally still intact and is expected to provide attractive performance opportunities as market conditions normalize over 2023/2024. The defensive positioning of the Swiss Small and Mid-Cap Equity strategy has been reinforced over Q4, favoring companies with stable and less cyclical CFROI® profiles, while remaining exposed to structural growth trends.

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