UBAM (CH) – SWISS SMALL AND MID-CAP EQUITY

Quarterly Comment

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Market Comment

- Despite the relief recorded over the month of March, global equity markets ended the first quarter of the year in the red with the MSCI AC World down -5.4%. US equities lost -4.9% over the quarter, followed by European and Swiss equities with -5.5%, and Emerging Markets equities with -6.3%. Swiss small and mid-cap equities lagged the large cap segment with -10.2% performance YTD. While Swiss equities were in line with global markets over the period, they nevertheless showed better performance since the start of the Russia / Ukraine war with +5.5% for the SPI versus +4.6% for the MSCI AC World, and +4.0% for the SPI Extra since February 24th.
- At the end of the quarter, the global earnings revision ratio fell into negative territory for the first time since June 2020. 2022 earnings growth expectations now stand at around 9% across regions. The 12m forward PE ratio for global equities fell to 16.5x at the end of Q2, slightly above its long term average. While the US labor market data could be seen as an overheating signal coupled with CPI inflation at 7.5%, US GDP is expected to grow a solid 3% for 2022, and ISM is still printing at high levels, 57 for end of March. This still provides a constructive environment for companies which can pass on higher commodity prices and labor costs to customers. In line with expectations, the Fed raised key interest rates by 25bps, for the first time since 2018, with 6 remaining hikes projected for the year.
- Inflation remained sustained in Switzerland at 0.6% m/m increase in March vs 0.7% for the previous print. The yearly trend modestly accelerated from 2.2% to 2.4% at the end of the quarter. The Swiss Franc hovered around parity to the Euro, proving its safe haven status in volatile periods. The Swiss National Bank has decided to maintain its current policy with key rates at -0.75%, reiterating its views on intervening, if necessary, on the currency. The SNB has however revised down its 2022 growth expectations from 3% to 2.5% and revised upwards its inflation forecast from 1% to 2.1% for 2022. Swiss equities are nevertheless still expected to deliver resilient and visible earnings growth with an expectation of 12% for 2022 and 9.9% for 2023. Switzerland benefits from a well-balanced geographic exposure with 90% of corporate revenues generated abroad, along with a low dependency to Russia in its exports / imports as well as its energy mix.
- At the end of Q1, Real Estate and Financials were the top contributing sectors to the SPI Extra's performance. Industrials and Healthcare were the bottom contributing sectors on the other hand. Sonova, Baloise were top performing names over the period, while Straumann and VAT were the worst mainly due to profit taking, having been strong performers in 2021.

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 (CH) – Swiss Small and Mid Cap Equity delivered -14.9% in gross performance in Q1 2022 versus -10.2% for the SPI Extra. Over the quarter, both sector allocation and stock selection made negative contributions to performance (-1.5% and –3.3% respectively). The selection effect in the Healthcare sector, with names like Polypeptide and Bachem also pressured by profit taking, was a major detractor of performance over the period.
- Over Q1, the biggest contributors to performance were the absence of exposure to Temenos as well as Schindler, and the overweight in Leonteq (+42bps, +18bps, +17bps). Temenos lost more than -29% over the period after Q4 revenue and 2022 guidance missed estimates. The results did not alleviate concerns over the software provider's ability to successfully shift to a subscription model, either. Schindler lost -17% over the quarter despite reporting results in line with expectations. However, the company provided negative guidance for 2022 profits, with price increases estimated to be unable to fully offset cost inflation. The surprise exit of the company's long-term CEO did not help either. Leonteq was up more than +5% following a good set of 2021 results including operating income that beat expectations.
- The main performance detractors over the quarter were the overweights in Polypeptide, Montana Aerospace and Partners Group (-43bps, -42bps and -35bps respectively). Polypeptide lost -46% over the quarter despite reporting a 50% surge in profits driven by custom Covid-19 projects. The name suffered under January's market rotation out of strongly performing names over 2021, into more value names and market segments. Similarly, Montana Aerospace was down close to -52% due to a mix of profit taking and concerns over supply chain bottlenecks due to the Russia/Ukraine war. Partners Group lost more than -23% over the period despite reporting results for FY2021 that beat consensus on the back of strong performance fees (46% of total revenues). However, it guided for a normalisation of performance fees after a solid 2021.

Portfolio Activity

- Over the quarter, a new position in Lindt was initiated in the portfolio. The largest premium chocolate company worldwide benefits from a very strong balance sheet and high customer loyalty while being respectful in its strategy of all stakeholders – all of which feeds into a CFROI® which is once again above 10%. Lindt should prove to be a defensive investment in the current environment. On the other hand, the position in Galenica was exited as the Covid-19 tailwinds the company benefited from in 2021 due to its testing services and solutions, are expected to diminish in 2022.

Outlook

- As the global economy braces for accelerated monetary tightening on the back of a higher for longer inflation scenario, the prospects of a growth slowdown, notably in Europe, combined with the Russia/Ukraine war weighed on investor confidence at the end of the first quarter of 2022. Multiple compression in Europe and the US has sent equity markets back to pre-pandemic valuation levels. While corporates on average are still boasting solid balance sheets, the recent strong order intake will be scrutinized for potential demand destruction from high commodity prices and deteriorating confidence.
- Switzerland has proven its resilience in previous periods of economic and geopolitical instability and is expected to continue delivering on superior levels of value creation amidst the challenges ahead. The small and mid-cap segment still

offers resilient growth opportunities that are attractively priced with only 20% premium vs the large cap segment compared to a historical premium of around 40%. The Swiss Small and Mid-Cap equity strategy has been positioned accordingly, by modestly diversifying to short term beneficiaries in the defensive end of the consumer space, and remains focused on value creative companies, with visible earnings trajectory, as well as high pricing power. Such companies are expected to weather better the potential volatility linked to the changing economic backdrop.

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