



# 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](http://ubp.com) or in the latest prospectus.

### Market Comment

- Equity markets continued their rally over the second quarter of 2021, with the MSCI AC World adding 7.4% in performance to reach close to 12.5% since the beginning of the year. This rally was supported by the accelerated global roll-out of Covid-19 vaccines and central banks maintaining their accommodative stance. Swiss equities led in performance over Q2 with 9.5% for the SPI and 8.4% for the SPI Extra. US equities gained 8.2% over the period while European equities were up close to 6.5% and emerging market equities 5%.
- With positive earnings revisions over the first half of the year, global equities valuation stood at 18.7x at the end of June with earnings growth expectations of 39.3% for 2021. All sectors are showing strong earnings growth rate expectations, notably Energy and Industrials. Renewed demand for oil following the re-opening of economies drove oil prices higher, leading the Energy sector to be a top performer over the quarter. The US PMI came in at 60.6 at the end of June, slightly below expectations and lower than the previous print, showing signs of peaking momentum from historically high levels. The global economic recovery could be entering the maturing stage with strong GDP growth but decreasing momentum expected towards the end of the year along with transitory inflation.
- Swiss equities posted the best momentum in earnings revisions over the last month and analysts now expect 10.2% earnings growth for 2021 and 9.9% for 2022. Switzerland's June PMI came in at 66.7, below expectations and lower than the previous print, showing similarly decreasing momentum for business confidence after reaching historic highs. Core inflation was flat at 0.1% month on month for June versus 0.3% for the previous print. The KOF indicator also slightly edged down to 133.4 for June but is still at record levels. GDP for Switzerland is expected to grow 3.5% in 2021 followed by a solid 3% for 2022. The job situation in Switzerland has further improved over the month of June and the unemployment rate fell below 3% for the first time since the start of the pandemic.
- Over Q2 2021, all the SPI Extra sector performances ended in the green except for the Utilities sector which lost close to -1.7%. On the other hand, Healthcare and Industrials were top contributors to the index' performance. The best contributors were Sonova, Straumann and Kuehne + Nagel, while Dufry, Baloise and Vifor Pharma were the biggest detractors over the period. The Swiss equity market saw two successful IPOs in Q2 2021, with the listing of Montana Aerospace and PolyPeptide Group.

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## Performance Review

- UBAM – Swiss Small and Mid Cap Equity delivered 10.8% in gross performance over Q2 versus 8.4% for the SPI Extra, with more than 2.4% in gross excess return. Both stock selection and sector allocation were positive over the period (+1.9% and +0.6% respectively). The Industrials and Healthcare sectors were the top contributors both for the selection and allocation effects while Consumer Staples was the biggest detractor due to the selection effect.
- Over the second quarter of the year, the biggest contributors to performance were the overweights in Bachem and Dottikon as well as the position in Partners Group (+38bps, +26bps and +34bps respectively). Bachem gained 36.3% over the quarter as the IPO of PolyPeptide – one of Bachem’s closest competitors – that happened during the quarter highlighted again the very attractive structural growth trends that both companies benefit from. This is equally valid for Dottikon, whose share price appreciated by 38.8% over the period. This performance was probably further helped by the inclusion in the SPI towards the end of June. Partners Group continued its rally, adding 19% over the quarter to reach close to 38% YTD. The company’s activities have proven to be more resilient in the pandemic slowdown than expected. The company also continues to benefit from an improving outlook and growing investor demand for private assets.
- The main performance detractors over the quarter were the overweights in Gurit, Baloise and Zur Rose (-19bps, -17bps and -14bps respectively). Gurit dropped 14.7% over the quarter after the company lowered its guidance for 2021 due to some wind market weakness in China and lower demand for balsa wood. Baloise continued its downward move that started with the company reporting disappointing life insurance margins with its FY20 results in March and lost more than 6% over Q2. In the longer term, the company is well set up to deliver strong value creation from its innovation strategy. Zur Rose was flat at -0.1% over the period, as concerns over delays for the rollout and mandatory introduction of the German e-receipt held the stock back.

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## Portfolio Activity and ESG

- Over Q2 2021, the position in Feintool was sold as the team believes the company is one of the few Swiss auto suppliers who will find the transition to electric vehicles more difficult, in view of their key components being more clearly used in the ICE setting. The team also sold Hiag, Vontobel and Temenos to finance new positions in the portfolio. The team participated in the IPOs of PolyPeptide – another addition to the attractive global CDMO industry – and Montana Aerospace, which manufactures specialist parts and structures for the aerospace, automotive and energy end markets. The team also initiated a new position in Poenina, a smaller HVAC installation player in the German part of Switzerland.
- In Q2 2021, UBAM – Swiss Small and Mid Cap Equity had an ESG Quality Score of 7.2 vs 6.8 for the SPI Extra, with a lower carbon footprint than its benchmark with 31.6 tons of CO2/\$m sales vs 38.8 for the SPI Extra. 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 above pre-industrial levels, as reported by ISS Climate Impact Assessment.



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## Outlook

- As fears of structurally higher inflation fade away and Treasury yields stop rising, equity markets are expected to again favor longer-term quality growth investments versus more value oriented and shorter duration ones. As we move past the peaks in inflation, GDP and EPS growth, sector rotation will probably continue to reverse.
- This reorientation should benefit the Swiss equity market given better earnings visibility and continued positive earnings revision momentum. In addition, Switzerland is one of very few countries globally, where Q2 2021 GDP expectations already exceed Q2 2019 levels, highlighting the sustainability of structural growth trends that many Swiss companies benefit from.
- The Swiss Small and Mid Cap equity strategy remains focused on companies with good earnings visibility and long-term value creation potential but is also positioned to benefit from shorter-term opportunities from the re-opening trade. Swiss equities, including the small and mid-cap segment, continue to deliver attractive returns based on solid earnings growth along with superior ESG characteristics relative to global and regional equity markets.

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