UBAM (CH) – SWISS SMALL & MID CAP EQUITY

Quarterly Comment

For Qualified Investors in Switzerland or Professional Investors or Eligible Counterparties as defined by the relevant laws.

Market Comment

- As Covid-19 was declared a global pandemic by the WHO and governments around the world announced lockdowns or social distancing measures to slow down the spread of the virus, the first quarter of 2020 witnessed new peaks in volatility with the VIX index reaching close to 45. The sell-off across asset classes globally triggered large corrections in less than a month. Equity markets finished the first quarter of the year in the red with the MSCI AC World posting -21% in losses. Emerging markets equities lost close to -24% over the quarter, followed by European equities with -22.6%. US equities were down -19% and Japanese equities more than -17%. YTD, Swiss equities continue to show superior relative performance versus other global markets and this despite a strong Swiss franc. The SPI ended the first quarter of 2020 at -11.8% and the SPI Extra at -18.5% versus -21% for the MSCI AC World.
- Sharp earnings downgrades and negative economic data vs. unprecedented and significant monetary and fiscal stimulus packages created very high levels of volatility globally. Short market relief sessions were recorded as central banks and governments deployed monetary and fiscal measures to help faltering economies and industries facing lockdowns. While the oil price crash caused more than 50% losses in the Energy sector since the beginning of the year, cyclical industries such as banks, consumer services, automobiles and transportation also faced deep corrections. Lockdown policies impacted consumers and SMEs alike, as indicated by the 3.3mn new US jobless claims in the week of April 9th, compared to a pre-crisis level of 200-300k weekly claims.
- Switzerland's KOF indicator for March came in at 92.9 vs 85 expected (close to 2011 lows), and 101.8 in February. In line with the global trend, business sentiment has decreased over the month. The trade balance saw real exports dropping -3% month on month while imports dropped -0.1%. The Swiss National Bank left key rates unchanged at -0.75% while inflation forecasts for 2020 have been lowered to -0.3% y/y. The SNB also expects a recession in H1-20, followed by a recovery in H2-20 and in 2021. The Swiss Federal Council has announced an economic aid package of 42bn CHF, including 20bn CHF guarantees for bank loans for small businesses.
- All sectors of the SPI Extra were in negative territory over Q1 2020 except Utilities. The biggest performance detractors were the Financials and Industrials sectors, down close to -23% and -22% respectively. In terms of individual names, the best contributors over the quarter were names like Lindt & Sprüngli, Galenica and Tecan, while the worst contributors were Partners Group, Julius Baer and Sonova.

All performance figures are given net 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 fund delivered an absolute gross performance of -19.2% over the quarter, versus -18.5% for the SPI Extra. While stock selection had a positive contribution over Q1 of +18bps, namely in IT and Consumer Discretionary, sector allocation had a negative effect of -86bps.
- The main contributors to performance over Q1 were the absence of exposure to Dufry and AMS as well as the overweight in Emmi (+53bps, +52bps and +39bps respectively). Dufry lost close to 68% over the quarter as air and airport traffic came close to a halt as the pandemic spread across the world. AMS dropped by 64% due to the sharp demand slowdown in smartphone/auto markets. The rights issue to finance the Osram deal put further pressure on the shares. Emmi’s share price appreciated by 4.8% over the period as it reported solid 2019 results along with an increase in the dividend payout ratio. Additionally, the company so far experienced little disruption due to the pandemic.
- The main detractors to relative performance over the quarter were the underweight in Lindt & Sprüngli and the overweight in Helvetia (-105 bps and -40bps respectively). Lindt’s share price appreciated by 8% (-1.3% for registered shares, +8% for participation certificates) as the company maintained its guidance for the medium to long term and its planned 2019 dividend payout. Helvetia dropped 39% over the quarter along with other major insurers on concerns that the investment results will see a significant negative impact from the market turmoil in March.

Portfolio Activity

- No major changes were done on the portfolio level during the month of January.
- Over the month of February, the team selectively reinforced pure domestic names such as Cembra and Galenica, to position the portfolio more defensively in view of a global spread of the pandemic. The team exited the position in Julius Baer on weak performance and significant exposure to Asia.
- In March, the team continued to seek more exposure to names seen as less vulnerable to the Covid-19 disruption by initiating a position in SIG Combibloc. On the other hand, the team reduced names seen as facing challenges and completely exited Sulzer which has some exposure to the energy sector.

Outlook

- The portfolio continues to allocate a high share to companies that are able to demonstrate long term value creation, as indicated by their ability to maintain high and stable CFROIs. Some exposure to companies with growing or restructuring CFROI profiles has nevertheless been maintained in order to be ready should markets change course.
- Swiss companies are once again demonstrating their ability to create value and outperform global markets in volatile times. Combined with a strong currency an investment into Swiss equity continues to offer a compelling risk/return profile within a global portfolio context.
- The team expects markets to gradually recover over the next 18 to 24 months but the shape of the recovery remains difficult to forecast and will largely depend on when and how lockdowns and social distancing measures can be lifted and economies go “back to normal”.

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