MIRABAUD ASSET MANAGEMENT

SWISS EQUITIES

UNLOCKING SWITZERLAND'S UNIQUE SMALL & MID-CAP OPPORTUNITY

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April 2023

As the global economy grapples with stubbornly high inflation, monetary policy has become a key driver of market uncertainty and volatility. For equities, higher interest rates caused increased funding costs and discounted future earnings, creating valuation headwinds and stoking fears of declining economic momentum.

But as we gain greater visibility on the rates trajectory, we expect to see a shift from systemic risk factors dictating market direction to idiosyncratic factors becoming the driving force. For bottom-up stock pickers, this shift creates the opportunity to uncover tactical return opportunities.

While it's easy to assume the bigger the market the better the return potential, when it comes to being tactical, the opposite is often true.

Unlike larger markets, the Swiss small and mid-cap market is relatively less covered by analysts, creating opportunities for active managers to identify potentially mispriced opportunities.

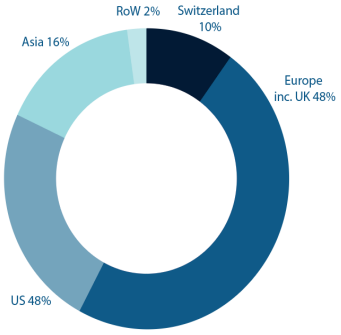
A COUNTRY LIKE NO OTHER

Switzerland is often hailed as the world's most innovative economy due to its highly productive, lean, and agile native businesses, which strive to succeed globally because of the country's limited domestic market. The country has held its position as the leader of the Global Innovation Index for twelve years in a row, solidifying its claim to the title for 2022.

This achievement is partly facilitated by a long history of political stability, which laid the foundations for wealth prosperity and an efficient market economy. Swiss standards of living,

REGIONAL REVENUE SPLIT

Swiss small & mid cap sector



Source/ Mirabaud Asset Management, April 2023

education, healthcare, and industrial productivity are among the highest in Europe. Its skilled, multilingual workforce makes it a top performer in terms of labour productivity[1].

THE SMALL & MID-CAP OPPORTUNITY

Switzerland is home to some 8.7 million residents, so about the same population size as New York City. The limited domestic market means Swiss companies must be highly competitive to succeed internationally against their incumbent peers. Their revenue sources are typically spread across multiple regions and currencies, providing investors with global exposure from a secure homebase. Additionally, the strength of the Swiss franc puts pressure on domestic firms to constantly optimise productivity and lead through innovation.

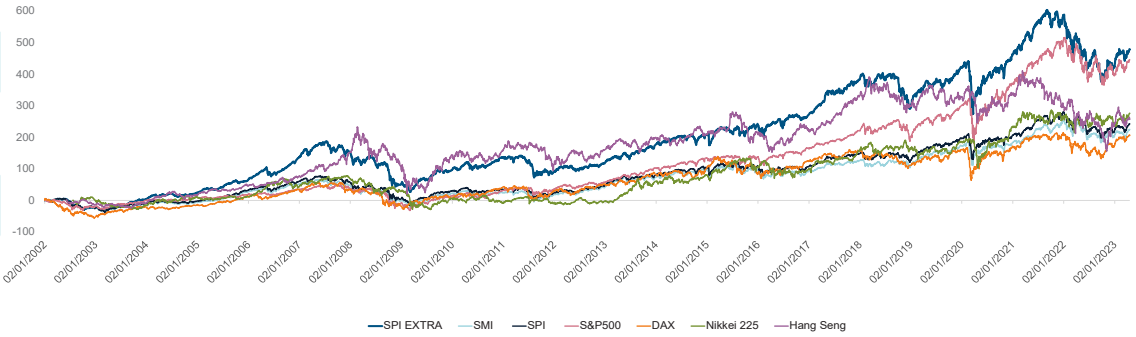
The Swiss small & mid-cap segment offers a particularly rich terrain to unearth great investment opportunities, in our view. The c.190 companies that make up the segment offer varied business models creating a diversified investment case, while at the same time exhibiting a commonality of operational excellence to cope with cost inflation through productivity gains and innovation.

After the underperformance in 2022, Swiss small and mid-caps are valued at par with their large-cap peers (P/E ratio) as the valuation parameters declined to 10-year averages, despite offering significantly more growth opportunities. Many Swiss small and medium-sized businesses are benefitting from China's re-opening from Covid-19 restrictions.

If active managers know the space, do the research, and make disciplined stock selections, they can identify and capture attractive business models at an early stage of their journey.

The track record of the asset class speaks for itself. Since 2002, the Swiss small & mid-cap index, the SPI Extra, has yielded a total of 479% (8.6% p.a.), compared to 225% (5.7% p.a.) for the Swiss large cap index, the SMI, and 243% (6.0% p.a.) for Switzerland`s overall stock market index, the SPI[2]. The SPI Extra has also outperformed other well-known indices such as the US S&P 500, the German DAX, the Japanese Nikkei 225, and the Chinese Hang Seng, mostly by a notable margin.

OUTPERFORMANCE OF SWISS SMALL & MID-CAPS



Source/ Bloomberg, Mirabaud Asset Management, data to 20 April 2023

FOR PROFESSIONAL INVESTORS ONLY

[1] OECD Economic Survey, 2022

[2] Data to 20 April 2023

TO CAPTURE THE BEST OPPORTUNITIES IN THE SMALL & MID-CAP MARKET, WE FOCUS ON IDENTIFYING STOCKS WITH THE POTENTIAL TO DELIVER RESILIENT COMPOUND GROWTH

We firmly believe the asset class offers a wide range of addressable opportunities that provide tactical flexibility with reduced index tracking.

THE QUEST FOR COMPOUNDERS

To capture the best opportunities in the small & mid-cap market, we focus on identifying stocks with the potential to deliver resilient compound growth.

These 'compounder' names are companies that have the potential to deliver long-term growth and generate exponential returns through the reinvestment of their profits. They are characterised by their high return on capital employed (ROCE), smart capital allocation and defendable "moats", which are competitive advantages that enable a company to maintain its market position and fend off competitors.

Switzerland is home to several compounder companies. One example is VAT Group, a leading global provider of vacuum valves for the semiconductor, display, and solar industries. VAT Group has consistently generated high returns on capital employed, with a five-year average return on invested capital (ROIC) of 30.8%. The company has a significant moat, with a proprietary technology platform and a global distribution network that provides it with a competitive advantage. VAT Group has also demonstrated smart capital allocation, with a focus on investing in R&D and strategic acquisitions to drive growth and expand its product portfolio.

PUTTING INVESTMENT THEORY INTO PRACTICE

Identifying great companies is one thing but buying them at the right price and holding them through periods of market turbulence requires a different level of self-discipline and patience.

We approach our small & mid-cap investments from an owner's perspective, focusing on the business and its operational performance, rather than on the price behaviour of its shares. This requires a long-term view and a deep knowledge and understanding of business and industry drivers.

We believe finding different business models with long-lasting moats that protect their competitive advantage is a major success factor in extracting optimal added value from the global reach of this niche investment universe.

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