September 2022

FAM Swiss Long Only Special Report

Dear Fellow Investors,

The SPI declined 3.1% in August, bringing its year-to-date performance to -14.8%. The prospect of a longer period of restrictive US monetary policy was the pivotal catalyst. In view of the worsening economic outlook and a looming recession in the Eurozone, investors' risk appetite has further fallen significantly. In addition, the energy and raw materials markets remain strained. The uncertain impact of a possible winter energy crisis on companies and consumers is weighing on sentiment too.

Many companies, particularly in the industrials space, experienced significant pressure on their margins in 1H22, as the increased cost of materials could be passed on via price adjustments only with a time lag. The recent stabilization or even decline in raw material prices are signs that an improvement might be imminent going forward. The often double-digit percentage sales price increases by companies are unlikely to leave consumer demand unscathed, however. The increasing uncertainty is keeping many companies from making concrete forecasts on the course of business.

	Benchmark weights	P/E			Earnings growth (%)			Yield (%)	P/B
		2022E	2023E	2024E	2022E	2023E	2024E	2022E	2022E
SPI		**20.8**	**16.8**	**15.2**	**-28.7**	**23.8**	**10.3**	**3.0**	**2.4**
Energy	0.0%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.0	n.a.
Materials	6.8%	18.2	16.8	15.3	22.6	8.6	9.9	2.8	2.3
Industry	12.3%	21.5	17.8	16	-26.8	20.2	11.7	2.9	3.3
Consumer Discretionary	4.4%	59.5	17.8	16.6	-59.6	236	7.2	2.4	2.0
Consumer Staples	22.0%	27	23.4	21.5	-28.1	15.4	8.6	2.4	6.3
Healthcare	34.2%	27.1	22.5	18.6	-59.4	21.1	21.8	2.8	3.0
Financials	16.8%	12.6	10.1	9.6	-5.3	24.7	5.9	4.4	1.1
Information Technology	1.7%	16.9	13.8	11.8	-0.8	22	16.8	2.4	2.9
Telecommunications	1.5%	17.6	17.7	17.9	-19.1	-0.2	-1.4	4.4	2.3
Utilities	0.3%	16	14.9	13.4	-29.8	7.5	10.9	2.4	1.4
Mid and small caps		19.9	17.8	15.9	-1.9	12.2	11.8	2.7	2.1

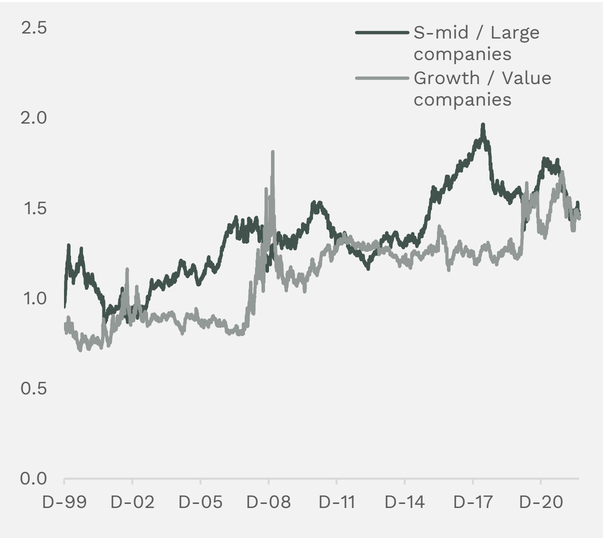
Source: Bloomberg, BGN Consensus, SIX Swiss Exchange, Zürcher Kantonalbank

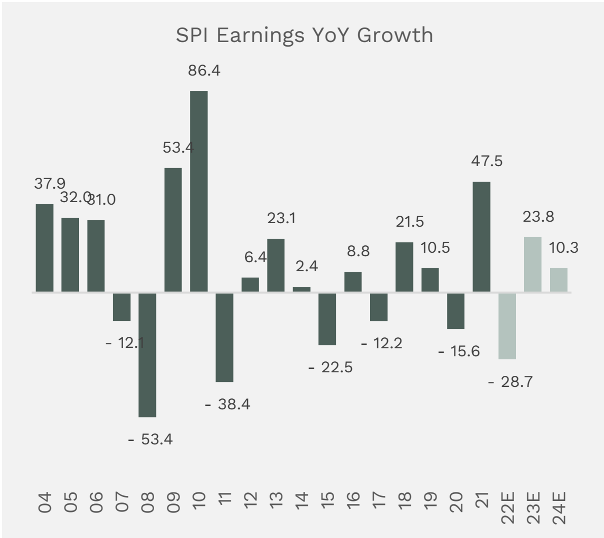
Shareholders' hopes that the central banks might take a less restrictive approach than originally feared were severely dampened in Jackson Hole. The market then went into reverse and ended the month in negative territory. Among the sectors, Cyclicals slightly underperformed Defensives but even the latter could not achieve a gain. Value also entered in negative territory, although it lost significantly less than the Growth and Quality styles, which are highly valued and therefore sensitive to key rate hikes.

Investment style*	YTD performance
Overall market	**-14.8%**
Cyclicals**	-24.1%
Defensive***	-6.2%
Small Caps	-18.0%
Large caps	-11.9%
Value	-4.9%
Growth	-18.5%

*According to MSCI indices
**Materials, industrials, consumer discretionary, information technology, media
***Consumer staples, healthcare, telecom, utilities
Source: Bloomberg

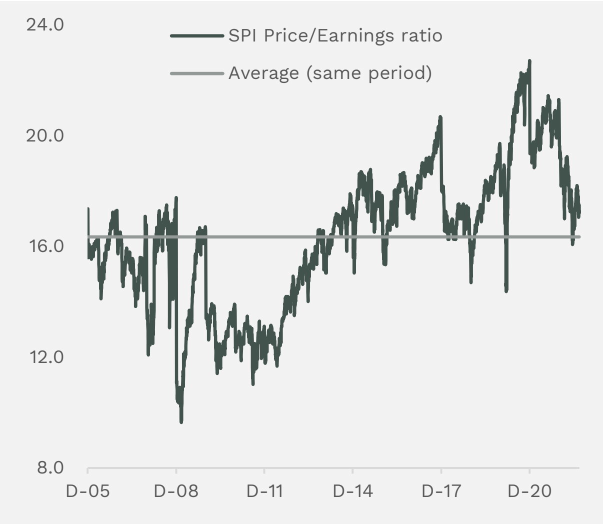
Investment styles. We argue that the current underperformance of the Cyclical and the Growth investment styles has lasted for an unusually long time. The reasons for this include a relatively large number of macroeconomic shocks (coronavirus pandemic, inflation developments, Ukraine war and the respective economic policy responses to them) in a comparatively short period of time. If these shocks continue with the high frequency of the last two and a half years, it is likely to remain difficult for the beta universe. But if their frequency decreases and our expectation of a global economic slowdown without a global recession materialises and inflation rates peak this quarter or next, then more stable trends should also be able to form and shifts in the riskier style universe should become more attractive again.

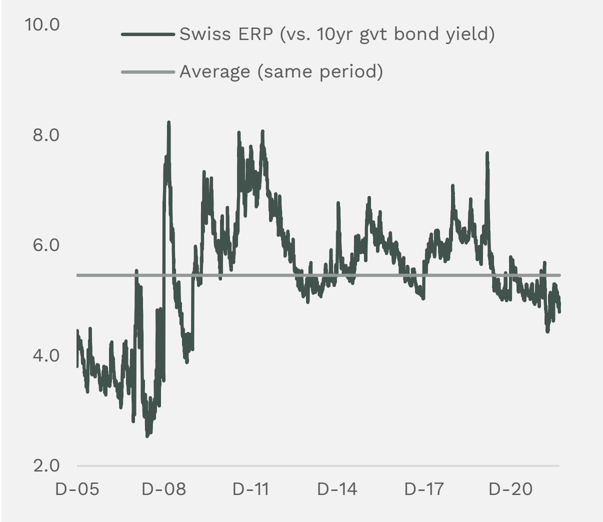




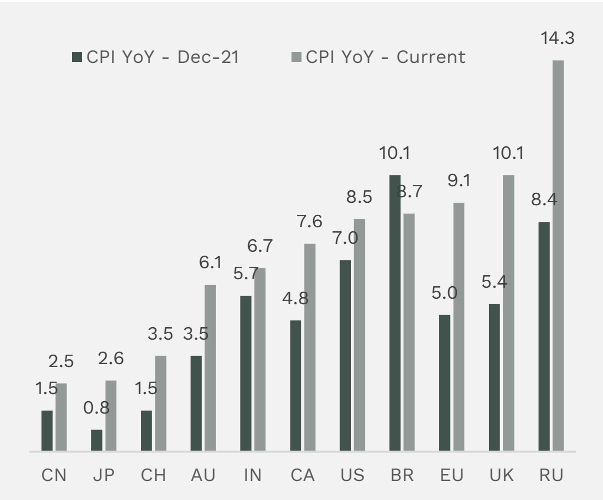
Consensus scaled back earnings estimates for the overall market by 10% for 2022E and by 4% for 2023E due to the expected economic slowdown and the further strengthening of the CHF. In particular, estimates were reduced in the financial and industrial sectors. Earnings numbers probably have further downward revision potential, however, especially for 2023E. The market P/E ratio rose slightly as a consequence. The significant increase in the 10-year bond yield by 40bps to 0.83% led to a decrease in the risk premium, which is therefore again

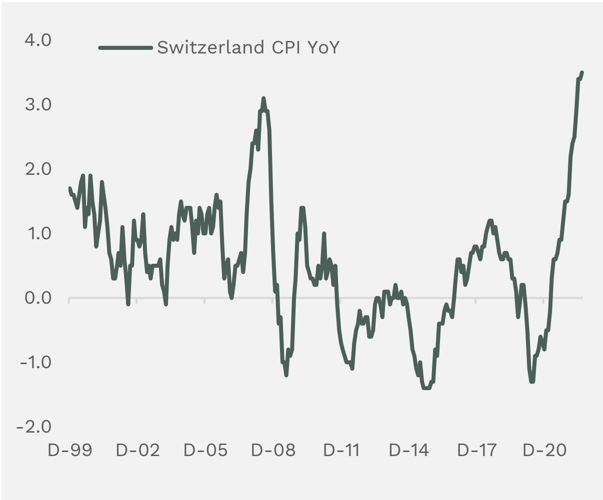
An above-average risk premium indicates that the equity market is undervalued taking interest rates and the anticipated trend for earnings into account.





The decline in oil and commodity prices has led to some easing on the inflation front. In addition, the various regions plagued by supply bottlenecks are experiencing a modest easing of cost and price pressure, according to survey results. The prominent exception is Europe. Here, the unchecked rise in natural gas and electricity prices has provided a further boost to inflation, and the end of the road has not yet been reached. Inflation rates in the UK and the Eurozone will continue to rise in the coming months.





The high inflation rates make the achievement of the central banks' inflation targets a distant prospect. The hopes of the financial markets for a rapid end to the restrictive monetary policy, which made a significant contribution to the recovery in the financial markets in recent weeks, are therefore likely to be disappointed. Central banks want to see substantial improvement on the price front before they consider changing course on monetary policy. We therefore expect a further significant increase in key interest rates by the end of the year.

The economic outlook has deteriorated further in recent weeks. Consumers are meanwhile extremely pessimistic about the economic situation. We now expect the Eurozone and the UK will fall into recession, albeit mildly, towards the end of the year. The economic trend in China has also been disappointing.

Key interest	31.08.2022	30.11.2022 E	31.08.2023 E
CHF	**-0.25**	**0.25**	**1.00**
EUR	0	1.00	1.50
GBP	1.75	2.75	3.25
USD	2.5	3.75	4.00
JPY	-0.1	-0.1	-0.1
Yield on 10yr gvt bonds (%)			
CHF	**0.82**	**0.90**	**0.90**
EUR	2.21	2.20	2.00
GBP	2.70	2.60	2.40
USD	3.11	3.20	3.00
JPY	0.23	0.25	0.20
Yield spread (bp) - vs. Swiss gvt (3-7 yrs.)			
AAA	81	80	60
AA	103	110	80
A	149	160	130
BBB	182	200	190

Source: Bloomberg, BGN Consensus, Zürcher Kantonalbank

The geopolitical uncertainties at first glance have so far had little impact on the Swiss economy. Swiss companies are producing at their capacity limits, and the demand for qualified workers remains high. More and more cracks are appearing in the positive economic picture, however. Industrial companies' purchasing volumes are falling, and inventories are rising significantly. That means production will decline in the coming months. Still, if an outright energy crisis can be averted in the coming winter, a recession seems unlikely to us.

	2010-19	2020	2021	2022E	2023E
GDP growth	2.0	-2.5	3.7	2.7	1.0
State budget	0.5	-2.8	-1.8	-0.5	-0.1
Current account	8.3	2.8	9.3	9.7	8.8
Inflation	-	-0.7	0.6	3.1	2.2
Unemployment rate	3.0	3.2	3.0	2.2	2.5

Source: Bloomberg, BGN Consensus, Zürcher Kantonalbank

Portfolio Review

We remain constructive about our portfolio after having thoroughly reviewed it in relation to valuation, risk and price metrics.

Valuation. Year-to-date, the fund has de-rated less than the market, demonstrating the quality and the resilience of the companies we own. At the time of writing, the P/E multiple of Swiss s-mid companies has fallen by 43% on average, compared to 30% for our portfolio. Net of the price effect, we progressively reduced the average market cap of our book, as we increasingly concentrated the book into our high conviction positions in the s-mid cap space, migrating out of our larger cap positions. Within our valuation models, we adjusted our discount rate 100bps higher than the current Swiss ERP. Price targets were reduced by 12.5% on average, only a few with material downgrade of expected earnings. While we acknowledge the revision of multiples for some of the sectors is irreversible, we continue to find appropriate to blend our valuations with a disciplined DCF approach where possible.

Risk. The fund had so far a compelling downside capture, despite being long beta versus the market. When assessing volatility over the fund's lifetime, the broader market has a standard deviation of 17.3%, more than 100bps higher than that of the portfolio. We believe the best sources of risk mitigation are qualitative and embedded in the companies in our portfolios. We also look at sector/market cap diversification, geography/currency mix of revenues, to account for macro risks. Potential adverse catalysts (pandemic, inflation, energy shortage, fiscal policy, China, domestic events, etc.) are modelled time ahead through scenario analysis, and often-actioned rebalancing sensitivities carefully across the portfolio. More than ever, being close and active to companies adds value. Year-to-date we participated to more than fifty between analyst meetings, company roadshows and investor events. Additionally, we further expanded our research access to better cover companies with more local presence and information proximity. We will also continue to initiate relationships with the top management of companies where we spot idiosyncratic risk requires further mitigation.

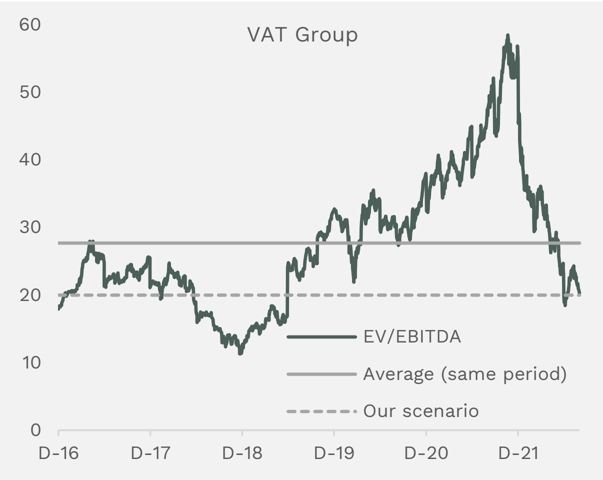
Price. Despite a disappointing absolute performance, we are glad in the relative terms. The fund's maximum monthly drawdown of 8.60% was posted in January, while the current NAV minimum of CHF 868.82 was registered on June 16th. However, as of September 9th, the fund returned -9.79% ITD, and -22.75% YTD. For both periods, it represents a solid outperformance against broader market and our selected peers group, which ranks us #2 and #3 respectively. Amongst the best contributors we find Galenica, SIG Group, Barry Callebaut, Baloise and Lindt & Sprüngli.

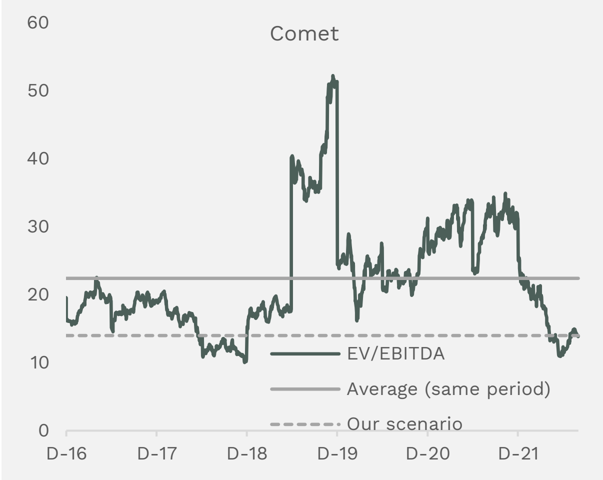
Scenario analysis of selected Swiss semiconductors

We lately invested time in understanding what a potential recession could mean for Swiss semiconductors companies. In particular, we focus on VAT Group and Comet, and extend the scenario analysis to European semis ASML, Infineon and ST for comparison purposes.

VAT Group is a developer, manufacturer and supplier of vacuum valves, multi-valve modules and edge-welded bellows for use in semiconductor, display and solar panel manufacturing. While Comet develops, produces, and distributes components and systems for x-ray tubes, vacuum condensers, and radio frequency, as well as other medical products, serving medical diagnosis and therapy, material testing, and high-frequency power electronic markets. Both companies are in our holdings and respond to our highest convictions in the current Swiss technology space.

Sector has strongly repriced, downside for Swiss is more contained. Over the last semis downturn in 2018, EBITDA declined peak to trough 46% for VAT and 29% for Comet. For the same period decline was 55% for ASML, 31% for Infineon and 38% for ST. We formulate scenarios around the 12-months forward Enterprise Value (EV) multiple to the current EV of the companies, and calculate 12-months forward EBITDA trough the multiple. We then compare to what consensus has in the numbers for 2022, which would represent the peak in case of a recession in 2023. This way we can infer how much share price should downgrade to match the EBITDA decline of previous semis downturn.





Given the structural growth drivers in place now, we expect any potential future recession to be less pronounced than historically, when demand catalysts for the sector were non-existent. For instance, in a base case where Comet would be fairly valued at 15.0-17.0x – the stock's downside from current price is 14-22% to match the EBITDA decline of the previous downturn. Following the same rationale, VAT has an 11-19% downside for a 20.0-22.0x forward EBITDA valuation. In a similar base case scenario, large-caps have higher downside risk when assuming historical mid-cycle recession EV/EBITDA multiples: ASML 47% for 25.0x, Infineon 28% for 8.0x and ST 32% for 6.0x. ASML, as the highest quality name in the sector, and being the monopolist in next generation technology (EUV), carries the highest downside risk should the market price in a longer lasting recession. We present below the extended scenario analysis for the Swiss semis names currently in our portfolio.

	VAT	Comet	VAT	Comet	VAT	Comet
Mid-cycle Peak - EBITDA 2018	216	74	216	74	216	74
Mid-cycle Trough - EBITDA 2019	154	40	154	40	154	40
P/T decline	-29%	-46%	-29%	-46%	-29%	-46%
Current share price	236	174	236	174	236	174
Share outstanding	30	7.8	30	7.8	30	7.8
Mkt cap	7 080	1 357	7 080	1 357	7 080	1 357
Debt & cash & adj.	80	-39	80	-39	80	-39
Current EV	7 160	1 318	7 160	1 318	7 160	1 318
12m fwd EV/EBITDA multiple	20.0x	14.0x	22.0x	16.0x	24.0x	18.0x
Implied current 12m fwd EBITDA	358	88	325	78	298	69
Peak - Actual cons EBITDA (2022)	404	123	404	123	404	123
Implied 12m fwd EBITDA decline	-11%	-29%	-19%	-37%	-26%	-44%
Share price needed to match previous P/T	190	135	210	150	230	170
Downside	**-19%**	**-22%**	**-11%**	**-14%**	**-3%**	**-2%**

Source: Company data, Bloomberg, BGN Consensus

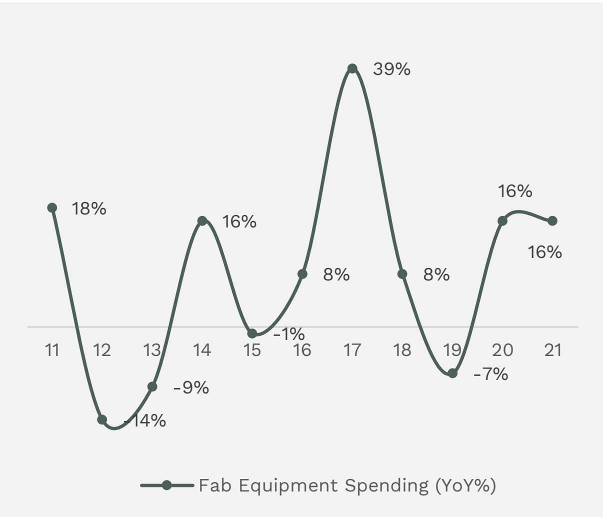
Potential upcoming weakness in demand is an overhang. The current macroeconomic situation offers very little visibility and there is rising uncertainty around a potential global recession. Besides this, there are still supply chain issues at VAT and Comet's clients and more news flow around potential demand weakness for chips in the area of personal computers, as well as mobile phones and general consumer-driven devices. Latest news flow also indicates a potential slowdown in memory chip demand. We highlight that in our discussions with Comet and other Swiss semiconductor companies, we have not heard anything regarding a slowdown. The order books seem to be full and there is still good demand for VAT and Comet's products. However, there is a risk that short-term demand could suffer from the overall macro environment.

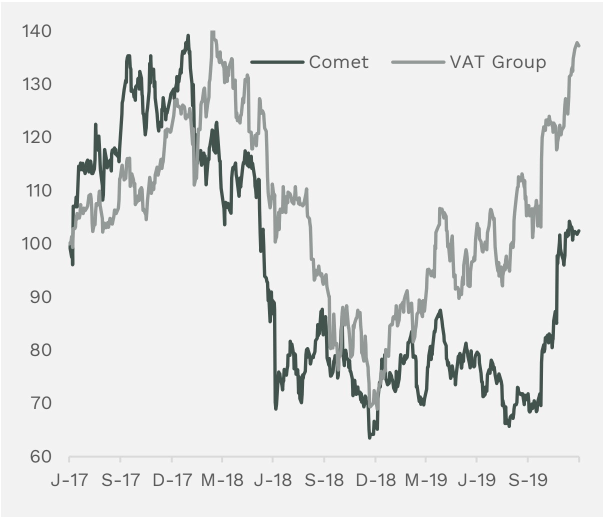
What happened in the last downturn? In our view, a downturn or slowdown in growth in Fab equipment spending will come. The question is about timing and magnitude of such downturn. In the last 11 years, the market has not experienced many strong downturns and usually they did not last very long. In the most recent downturn in 2018, WFE spending decreased by around 7% in one year, to grow 16% again in the following year, followed by years of very strong growth. Current consensus estimates expect the WFE spending to grow towards USD 100bn in 2022 and to be stable or slightly growing in 2024. However, this might change with a weaker economy.

Comet stock has discounted much of the past. We also analyze dynamics and price momentum in the market for Wafer Fab Equipment (WFE) before the last downturn. In detail, we observe a strong WFE growth rate in 2017 with a 39% increase, followed by 2018 with 8% growth and a decrease of 7% in 2019. Therefore, we have seen a slowdown in growth in 2018 and a downturn in 2019. The observation as to how the VAT and Comet share price has moved around the last semiconductor downturn is interesting.

Comet share price started to correct already in winter/spring 2018 and then took a clear dive in June/July 2018. While the last leg down was more due to company specific reasons, the share price already started to move downward at the beginning of 2018. In H1 2018, Plasma Control Technologies (PCT) division was still growing >15% in revenues and for the full year the growth was -0.4% (H2 -28% vs H1 2018). The real hit came in 2019 when PCT in H1 2019 was down 40.9% vs H1 2018 (which was still very strong) and H1 2019 was down 17.6% vs H2 2018 (which was weak already). For the full year 2019, PCT was down 28.5% in total. However, in 2020 the PCT division already saw a strong turnaround with revenue growth of 33% in H1 2020 and 48.1% for the full-year 2020.

However, Comet has actually seen a real downturn in the semiconductor division Plasma Control Technologies (PCT) in 2019. PCT revenues were down by 28.5% and the EBITDA margin fell to 10.1%. The share price, however, already moved down in 2018 and bottomed in June 2018, again in December 2018 and in 2019.





The share price was volatile during the downturn, but it reached its bottom at least 6 months before the downturn really hit. It becomes clear that VAT has moved similarly: it reached its trough later than Comet. While Comet reached its trough in June 2018 for company specific reasons, VAT reached its trough in December 2018 (when Comet hit a new low again). From December 2018 (before WFE spending was actually down), the stock prices all moved up again.

It is clear that short-term uncertainties have taken over sentiment for semiconductor companies. Comet has had one of the weakest performances YTD in the Swiss semiconductor space and the valuation gap versus VAT has opened up again. We see this as unjustified and expect the gap to close in the mid to long-term again as Comet offers a variety of growth opportunities with increasing revenue growth, margin expansion, ROCE expansion and higher cash flow.

Our conservative scenario leaves 30%+ upside. To size our conviction, we work with three scenarios, in addition to our own conservative case, to analyze what could happen to Comet's revenue and EBITDA figures (mainly PCT) in a semiconductor downturn.

	Sector		Comet		
	Fab eq. - spending growth	WFE - spending growth	Revenues growth	EBITDA margin	EV/EBITDA multiple
Scenario 1 (similar to 2014 and 2015)					
2022	+ve high single/+ve low double	unmuted	+10%	~21%	
2023	-ve low single	-2-5%	-3%	~19%	12x
Scenario 2 (similar to 2012 and 2018)					
2022	+ve high single/+ve low double	unmuted	+10%	~21%	
2023	-ve high single/-ve low double	-10%	-15%	~15%	18x
Scenario 3 (current consensus)					
2022	+ve high single/+ve low double	unmuted	+10%	~21%	
2023	+ve high single	+8-10%	+20%	~23%	7x
FAM scenario (conservative case)					
2022	+ve high single/+ve low double	unmuted	+10%	~21%	
2023	none	none	+5%	~22%	14x

Source: VLSI, company data, Bloomberg, BGN Consensus

We thank you for your trust,

John, Alessio, Alessia & the FAM Team

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