

GAM Swiss Sustainable Companies

Marketing material for professional / institutional investors

Performance

Measured by the Swiss Performance Index (SPI) Extra, Swiss small and mid caps gained +4.5% in the third quarter. With a return of +2.0%, GAM Swiss Sustainable Companies (C shares) lagged behind the benchmark. Over one year, GAM Sustainable Companies posted a return of +14.9%, -9.2% over three years and +52.1% over five years. This puts it 2.6% and 26.4% ahead of the benchmark index over one and five years respectively, and 1.1% behind the benchmark index over three years.

In a three-year comparison, the basis for comparison is currently very high. In the course of the fourth quarter of 2021, the fund reached its highest level to date in both absolute and relative terms. Since 2022, Swiss small and mid caps have lacked earnings momentum, and this trend continued in the third quarter of 2024. Equity market prices are determined in the short term by immediate buyers and sellers. Money is currently tending to flow to companies with stable cash flows or good dividend yields, a pattern often seen in uncertain times such as the euro crisis. Typically, the portfolio then lacks consistent positive performance contributions. This was also the case in the third quarter of 2024, leading to underperformance. Companies perceived as somewhat cyclical underperformed, while defensive ones outperformed. The market became increasingly risk-averse over the course of the year.

Bachem is interesting in this context. Peptide production is actually independent of economic development. The company has built a new factory at its headquarters in Bubendorf and is currently in the process of putting the first part into operation. When completed, the new production facility will double capacity. Peptides are small proteins that are produced in 40 to 60 chemical synthesis steps. Production is correspondingly complex and a great deal of expertise is required to produce

them cost-effectively. Peptides are currently a fast-growing niche among active pharmaceutical ingredients, and Bachem is the global market leader. For example, the active ingredient in the booming obesity injections is a peptide. Bachem has concluded various major contracts, so a large part of the new factory has already been sold in advance. However, the date of commissioning is not yet clear. Bachem is holding back with concrete statements.

As mentioned, the stock market as a whole has become very risk-averse due to various uncertainty factors. This is also weighing on Bachem's shares as market participants are focussing on short-term risks, such as when the factory will start operations, and giving less weight to growth prospects. Additional land has already been purchased to further expand production. Peptides are appearing in more and more development projects of pharmaceutical companies. For example, in radioligand therapy for various types of cancer or in connection with two new antibiotics at Roche that are now entering clinical development. There is an urgent need for new antibiotics, as resistance is developing and no new antibiotic classes have been developed against so-called gram-negative bacteria since 1968. Bachem has a skilful financing strategy and, despite rapid growth, should be able to provide the necessary funds without having to increase its share capital.

There are various other signs that the market is currently risk averse. For example, insurance stocks with good dividend yields have performed well this year.

Outlook for the third quarter

Corporate figures for the third quarter are likely to be subdued overall. The purchasing managers' indices have cooled even further. The manufacturing industry is experiencing economic headwinds. The Swiss National Bank (SNB) conducts quarterly surveys of Swiss companies on



Thomas Funk
Manager of GAM
Swiss Sustainable
Companies

business trends. In the industrial sector, “the recovery that had begun in the previous quarter has stalled”.¹ The third-quarter figures are likely to show corresponding signs of a slowdown. Companies that supply parts for the production of computer chips are developing more dynamically. The upturn appears to be solidifying and should gain further momentum in 2025.

Positive impetus from the pharmaceutical sector

Pharmaceutical products developed favourably overall. Together with the chemical sector, pharmaceuticals have become by far Switzerland’s largest export industry, accounting for almost 50% of exports.² Pharmaceuticals, including medical technology (MedTech), are the second-largest sector in the fund, accounting for a quarter of the portfolio. The strong added value of the sector, which also includes Bachem, is reflected in these companies. Switzerland offers an excellent environment for this. With Galderma, a new company found its way onto the Swiss stock exchange at the beginning of the year. The company has already made a positive contribution to the fund’s performance. Sandoz, spun off from Novartis in October 2023, is a smaller position in the fund and has also performed well. Of particular interest, however, is the development of a smaller MedTech company from Ticino, Medacta.

Medacta was founded by the father of the current CEO and Chief Operating Officer. Just under 70% of the share capital is still owned by the family. The company pursues an innovative approach to product development, aiming to provide positive patient benefits while remaining affordable. With surprisingly few financial resources but a great deal of patience, the company is constantly developing products that set new standards in the market. This was achieved, for example, with a new surgical technique for hip implants. Hip implants are currently the company’s largest area, but are soon likely to be overtaken by knee implants. Medacta is in the process of establishing a market standard for knee implants. The big difference to conventional knee implants is that the natural axis in the body is retained and not changed, which brings noticeably better results for patients. In addition, the stability of the operated knee is clearly better.

Medacta has already shown in various submarkets that the company can capture significant market shares. The company is still young, but is already achieving good profitability. The funds generated are not paid out, but are fully invested in growth. Medacta has succeeded in increasing sales organically by more than 10% in recent years. Interestingly, the Italian Siccardi family did not found the company in Italy, but across the border in Switzerland. However, it benefits from cross-border commuters from Italy. Unfortunately, the strong Swiss franc has also weighed on Medacta’s profits in recent years. Production is based in Ticino, which has

resulted in a certain negative margin effect on exported products. However, the increase in production figures has resulted in positive economies of scale, with ever larger parts of production and thus added value are being insourced. This helps to compensate for the negative currency effect. Overall, Medacta is still subcritical in terms of size, which means it has corresponding value creation potential and, in our view, should continue to develop dynamically in the coming years.

Strategy

We are not planning any major changes to the portfolio. Economic growth in the US is likely to slow in 2025 compared to 2024. The SNB assumes that it could fall below the potential growth of the US economy. This in turn opens up the possibility of lowering interest rates, meaning that the dampening effect of the tight monetary policy should gradually diminish. In Europe, an upturn is expected on the other side of the Atlantic. The basis for comparison should now become increasingly easier, so that companies should find their way back to growth.

We continue to favour companies that can grow internationally. These companies have had a difficult time in the past three years. The economy has not yet normalised after the massive disruption caused by the Covid-19 pandemic. Although the inflation shock is subsiding, monetary policy remains restrictive and is dampening growth. We expect companies to return to significantly more dynamic earnings growth in a more normal environment.

¹ Source: SNB Quarterly Bulletin 3/2024 September.

² Source: The importance of the pharmaceutical industry for Switzerland, BAK Economics AG, January 2024.

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