

# GAM Swiss Sustainable Companies

Marketing material for professional / institutional investors

## Performance

Swiss companies reported their half-year results in the course of July and August. In these two months, the fund lost relative performance compared to the benchmark. Since the end of June, the GAM Swiss Sustainable Companies (C-shares) has added +1.6%, while the benchmark Swiss Performance Index (SPI) Extra gained +3.9%. The performance analysis over the two months shows that particularly underweighted companies had a negative impact on relative performance. These companies include SGS, Belimo and Sandoz. SGS is the largest underweight in the fund and is undergoing a phase of revitalisation under new management. However, the competitive pressure in the industry is high and it will take a great deal of effort to adapt the complex structures. Belimo posted excellent results and increased both sales and profits in a difficult environment. However, we sold last year due to the high valuation. Sandoz, on the other hand, was relatively cheap after the Novartis spin-off, so we built up a smaller position some time ago to control the underweight. The company is well on course to hold its own in the difficult generics market. The spin-off opens up new scope for the company to increase its efficiency and sharpen its profile in the market.

There are increasing signs of a cyclical upturn in semiconductor suppliers. However, shares such as VAT and INFICON had already performed well and corrected during the reporting period. Although we reduced them at the beginning of the year in order to cushion such a correction phase, the two companies, together with Comet, still made a negative contribution to performance. In the longer term, the outlook remains promising. VAT, INFICON and Comet offer important technologies for the production of new types of semiconductors. High-performance computing (HPC) is currently developing very rapidly and is likely to fundamentally change the computer industry. We expect HPC to enable many new applications,

of which language models such as ChatGPT are just one. However, this will require further ground-breaking innovations in semiconductor technology. Special attention is increasingly being paid to energy efficiency. Continuous evolution is not enough because the energy requirements for computing operations and storage would increase too much. A quantum leap is needed. Applied Materials, the market leader for production systems, is talking about a factor of 10,000 in performance per watt over the next 15 years. Swiss companies are investing heavily in the development of new products in order to support the next innovation steps, increase market share and further expand the business. A special focus is being placed on expanding capacities to be able to deliver when the upturn accelerates.

Since the end of August, the overweighted companies Accelleron, Kardex, DKSH, VZ and Georg Fischer have made a positive contribution to performance. However, these were much lower than the negative performance contributions, which led to negative relative performance overall.

## Headwind from the economy

The market environment for manufacturing companies is currently difficult. In Europe and the USA, surveys of purchasing managers at manufacturing companies have painted a negative picture for over two years. So far, they have not signalled any turnaround. This was also reflected in the half-year results of Swiss companies. Bossard, for example, supplies fastening parts such as screws to a wide range of industrial companies. For the first half of the year, the company speaks of a continued challenging environment. Sales fell by -9.3% in local currencies and by -11.7% in Swiss francs. The higher decline in sales in Swiss francs illustrates that the currency was strong again and weighed on results. In Asia and Europe, however, there were initial signs of stabilisation towards the end of the second quarter. The company's profitability developed



**Thomas Funk**  
Manager of GAM  
Swiss Sustainable  
Companies

robustly. Like many other companies, Bossard has started with cost-cutting measures. With a subsequent more dynamic development, some of these costs will return, but savings from structural measures and improved processes will remain. Bossard's gross profit margin, ie the percentage of sales remaining after the purchase of the fastening parts, rose from 32.0% to 33.3%. This shows that the company was largely able to escape the price pressure. As Bossard continued to invest in new processes to gain market share, operating profit fell by -16.6%, slightly more than sales. Bossard also expects demand to remain moderate in the second half of the year. As the operating profit margin remained at 11.4% despite the challenging environment, the company can well afford to invest in operational processes to accelerate growth as soon as the economy returns to normal. The currently subdued development of sales and earnings is reflected in the share price, which has moved more or less sideways since the beginning of the year.

Interroll is another industrial company that I report on from time to time. The intralogistics provider supplies solutions for moving goods through the manufacturing process and distribution centres or baggage through airports. Interroll's order intake in local currencies declined slightly by -1% and sales were largely unchanged at +0.1%. The base business, which includes drives for conveyor rollers, for example, developed positively. However, there are still no larger project orders. It remains to be seen whether there will be an upturn here in the current year. For the most important region of Europe, the Middle East and Africa, there is cautious optimism that the reluctance to place project orders could give way to a more favourable investment mood. The company also supplies solutions for e-commerce, a market segment that experienced a boom during the Covid-19 pandemic. Here, it appears that capacities created at customers are slowly being filled and new investments are becoming necessary. Even though sales growth in Swiss francs declined by -3.5%, operating profit developed slightly positively, rising by 4.0%. As a result, the earnings before interest and taxes (EBIT) margin also developed positively, rising from 11.2% to 12.1%. Interroll's share price has been similarly flat to Bossard's since the beginning of the year, reflecting the short-term subdued business performance. The half-year figures for Interroll and Bossard illustrate how such companies are currently performing. The economic environment is hampering sales growth and the strong Swiss franc is weighing on results.

### Patience is required

At the moment, I feel like I have been transported back to the years 2011-2015, a period in which performance was also extremely sluggish and the strength of the Swiss franc weighed on results. However, the franc is currently very strong in real terms and the scope for further appreciation appears limited. Inflation is receding and people's real wages are now developing positively. The high interest rate policy of

the European and US central banks is having more and more side effects, for example by inhibiting house building. The demand for houses is basically there, but construction is very restrained. It can even be argued that the high interest rates are fuelling inflationary developments in the housing sector. The European Central Bank has started to cut interest rates and in the US we are also on the verge of a turnaround in interest rates. Personally, I had expected a quicker turnaround in the economic environment, but the next major investment opportunity in the market is likely to remain the acceleration of corporate earnings in our view. The basis for comparison with the previous year is slowly becoming easier and this should help somewhat. However, as always, we are interested in the larger movements in company share prices. To exceed the old highs, a more dynamic development in sales is needed. As the examples of Bossard and Interroll show, costs are well under control. This means that profits should rise disproportionately when sales pick up. We also expect such companies to benefit from gains in market share in a better environment. The longer the weakness in the economy persists, the more likely the turnaround will be. Purchasing managers' surveys have been negative for some time now, making a turnaround increasingly likely. As soon as this happens, we expect broader performance contributions in the portfolio again, for example from the industrial segment. Until then, patience and a steady hand are required.

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