

Schweizer Aktienmarkt - Ausblick 2021

Swiss Equity Market - Outlook 2021

Marché des Actions Suisses - Perspectives 2021

December, 2020

Integrating ESG in Vontobel's Equity Research

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Wealth Management

What is ESG?

ESG is about

- **Environmental:** a company's impact on the environment;
- **Social:** a company's relationships with its stakeholders;
- **Governance:** a company's approach to leadership, compensation, audits, and internal controls.

Why look at ESG **now**:

1. It's a "hot topic"
2. Client demand
3. Regulation

Why look at ESG now?

World Economic Forum: The Global Risk Report 2020

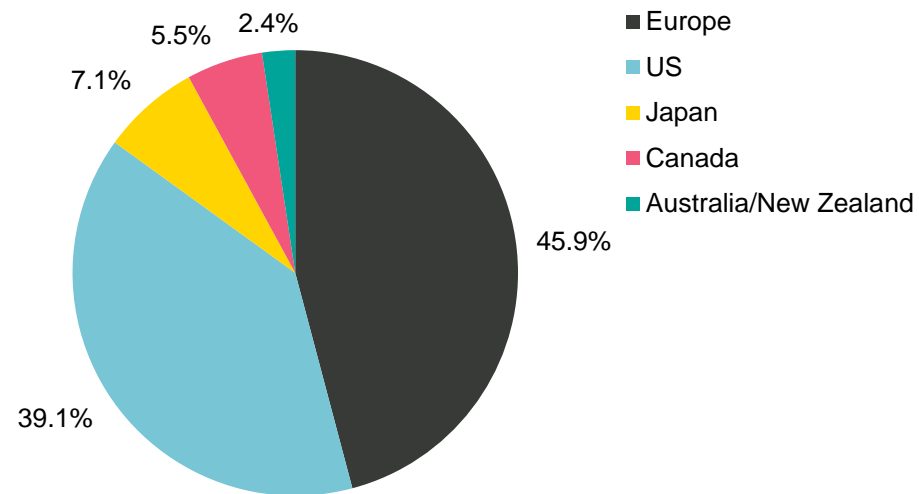
Top 10 risks in terms of Likelihood	Top 10 risks in terms of Impact	
1 Extreme weather	1 Climate action failure	Economic
2 Climate action failure	2 Weapons of mass destruction	Environmental
3 Natural disasters	3 Biodiversity loss	Geopolitical
4 Biodiversity loss	4 Extreme weather	Societal
5 Human-made environmental disasters	5 Water crises	Technological
6 Data fraud or theft	6 Information infrastructure breakdown	
7 Cyberattacks	7 Natural disasters	
8 Water crises	8 Cyberattacks	
9 Global governance failure	9 Human-made environmental disasters	
10 Asset bubbles	10 Infectious diseases	

Source: WEF

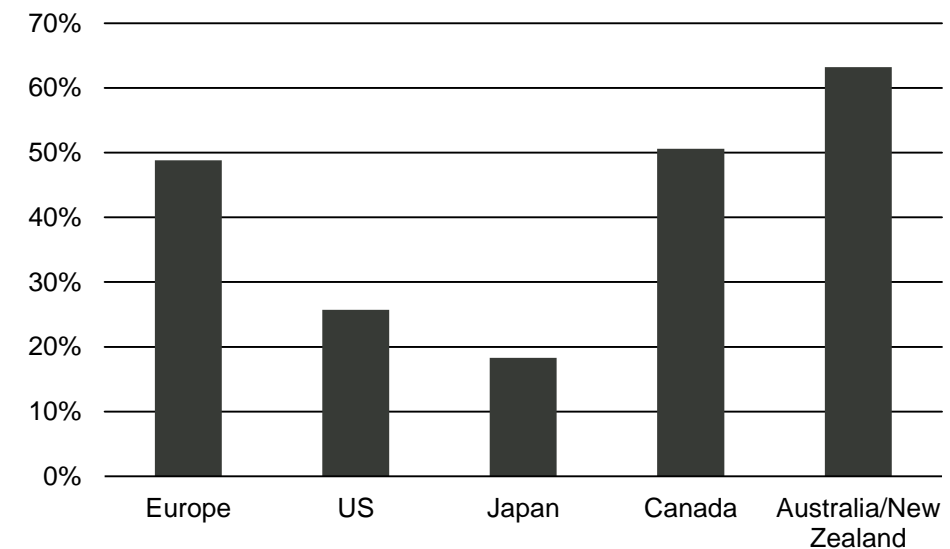
Size of the Global ESG Market

ESG investing grew to more than USD 30 trn in 2018, according to Global Sustainable Investment Alliance (no data yet available, but potentially **+USD 40 trn** year-end 2019, on our estimates). For context, the MSCI World Index was worth around USD 69 trn at year-end 2019.

Breakdown of global ESG assets, YE18



Proportion of sustainable investing relative to total managed assets, YE18

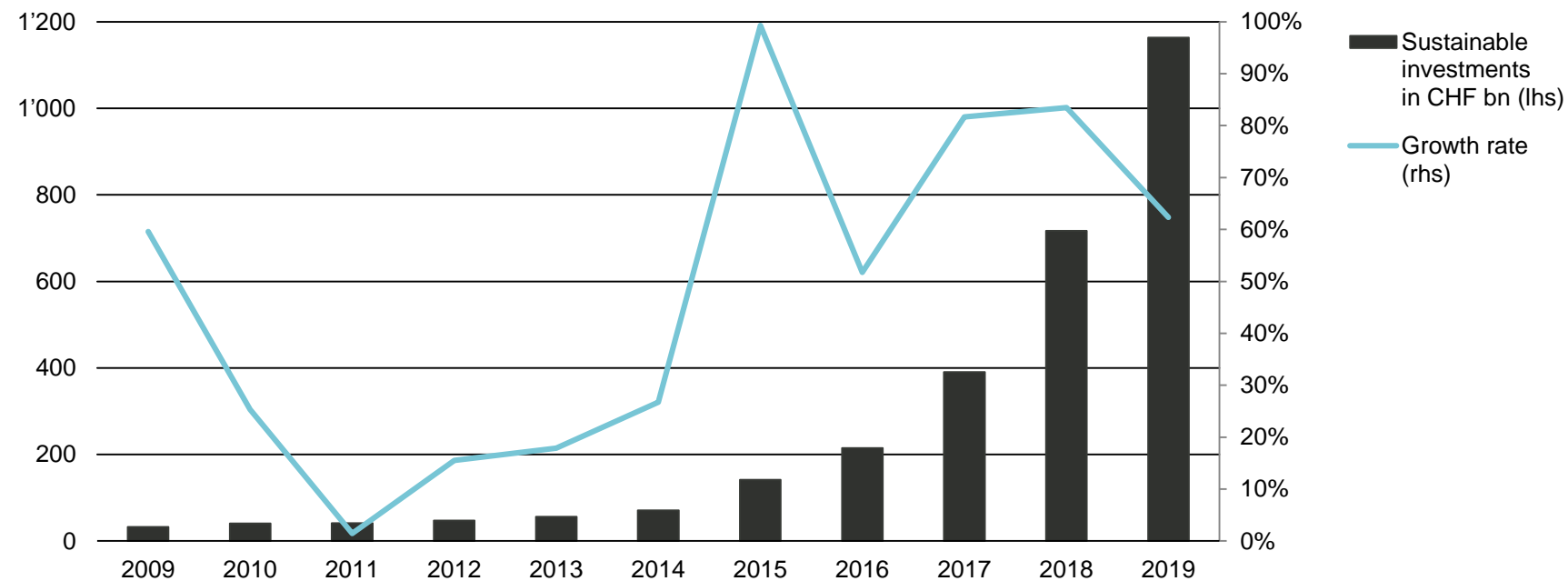


Source: Global Sustainable Investment Alliance:2018 Global Sustainable Investment Review, Vontobel Equity Research

Size of the Swiss ESG Market

Sustainable investments in Switzerland had grown to almost CHF 1.2 trn in 2019. In the past five years, growth rates exceeded 50% each year.

















Development of sustainable investments in Switzerland in CHF bn



Source: Source: Swiss Sustainable Finance/University of Zurich, Center for Sustainable Finance & Private Wealth: Swiss Sustainable Investment Market Study 2020, June 2020

ESG-related Regulation

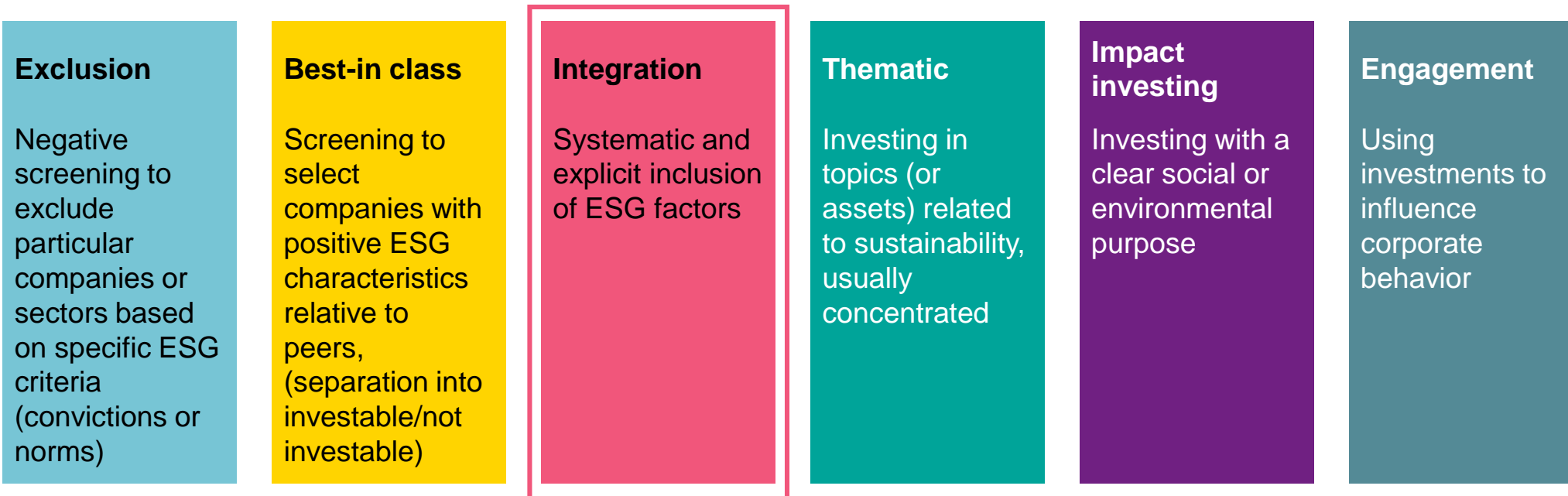
Overview on regulations

Promoting organisation	Focus	Most important initiatives
 United Nations	ESG	   Principles for Responsible Investment    Principles for Sustainable Insurance
 FINANCIAL STABILITY BOARD	Climate	  TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES  Climate Action Peer Exchange
 European Commission	Initially climate & environment, then ESG	  International Platform on Sustainable Finance
	Climate	 CO ₂ Act

Source: SBA

Vontobel's six Approaches to ESG Investing

Vontobel's ESG strategies can be classified in six categories.



Source: Vontobel

Impact of ESG on Investment Returns

The majority of academic literature concludes that **ESG investing improves returns and lowers volatility**. Some research studies disagree; key arguments are research methodology, definition and scope of ESG, as well as causality.

Summary of +2,000 empirical studies: **Roughly 90% of studies find a non-negative relation between ESG criteria and corporate financial performance**. (Friede, Busch, Bassen, 2015)

The least ESG can do: offer **downside protection**: ESG factors seem to materialize mostly on portfolio downside risk.

Lack of governance and its impact on share price performance

Year	Event	1-year share price performance
2001	Energy accounting scandal (Enron)	-99.6%
2002	Telecom accounting scandal (WorldCom)	-98.6%
2004	Accounting irregularities (Adecco)	-29.8%
2010	Deepwater Horizon oil spill (BP)	-28.2%
2014	Automobile airbag recall (Takata)	-53.5%
2015	Automobile emission scandal (VW)	-26.4%

90% of bankruptcies in the S&P 500 between 2005 and 2015 could have been avoided by screening out companies with below-average **Environmental & Social** scores 5 years prior

Source: Bank of America Merrill Lynch, September 2019

Source: Bloomberg, Vontobel Equity Research

Impact of ESG on Investment Returns

ESG Performance: Summary of academic research				
Performance	Volatility	ESG drivers	ESG criteria	ESG strategy
Companies with a higher ESG score appear to have a lower cost of capital , deliver higher shareholder value and seem to surprise markets less often.	Stock selection considering ESG criteria may contribute to a reduction in equity portfolio risk in terms of lower volatility .	Of the three ESG dimensions, governance appears most relevant in the past. Going forward, the “E” might become more important, in particular climate change metrics.	The type of ESG criteria and their materiality differs across sectors and potentially changes over time.	A forward looking ESG momentum strategy, looking at improvements of ESG factors might create more alpha than a strategy looking at the status quo.

Source: Vontobel Equity Research

How we integrate ESG in our Valuation Process

Why don't we just buy ESG ratings?

- ESG information is becoming richer and more extensive. But: There is **no auditing of ESG data**. Another problem: **Data quality and comparability**. There are no standards for “ESG reporting” yet.
- ESG investing is a failure if it does not impact models and target prices. Most ESG approaches simply do not go beyond screening. We believe that, **as long as ESG factors are not reflected in valuation models, they fail to show their relevance** (bottom-up approach).
- There are well over 100 ESG research/scoring frameworks, including well-known providers, such as MSCI, S&P, and many more. In our view, they come with inherent disadvantages.
 1. Factors might not be **material** to have an impact, and a large number of factors dilutes the impact of each factor;
 2. A material negative can be **cancelled** out by high scores on immaterial factors;
 3. Relying only on reported data tends to favor **large** companies, as they tend to publish more data.

“..fund managers resort to using dubious ESG ratings, created by external advisers, that make subprime credit scores look like the gospel truth.”
(The Economist, Green investing has shortcomings, 18 June 2020)

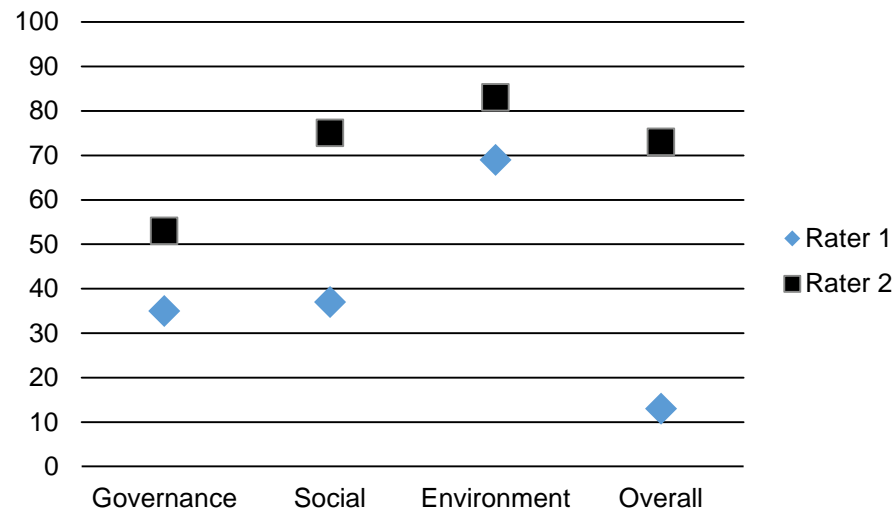
How we integrate ESG in our Valuation Process

How ratings can differ

ESG raters take data from multiple sources and languages and use models to clean, organize, and weight data inputs. This can lead to very different outcomes, depending which rater you ask, as illustrated by the chart.

Source: Vontobel Asset Management, data as of November 15, 2019

2 Raters, 2 Outcomes



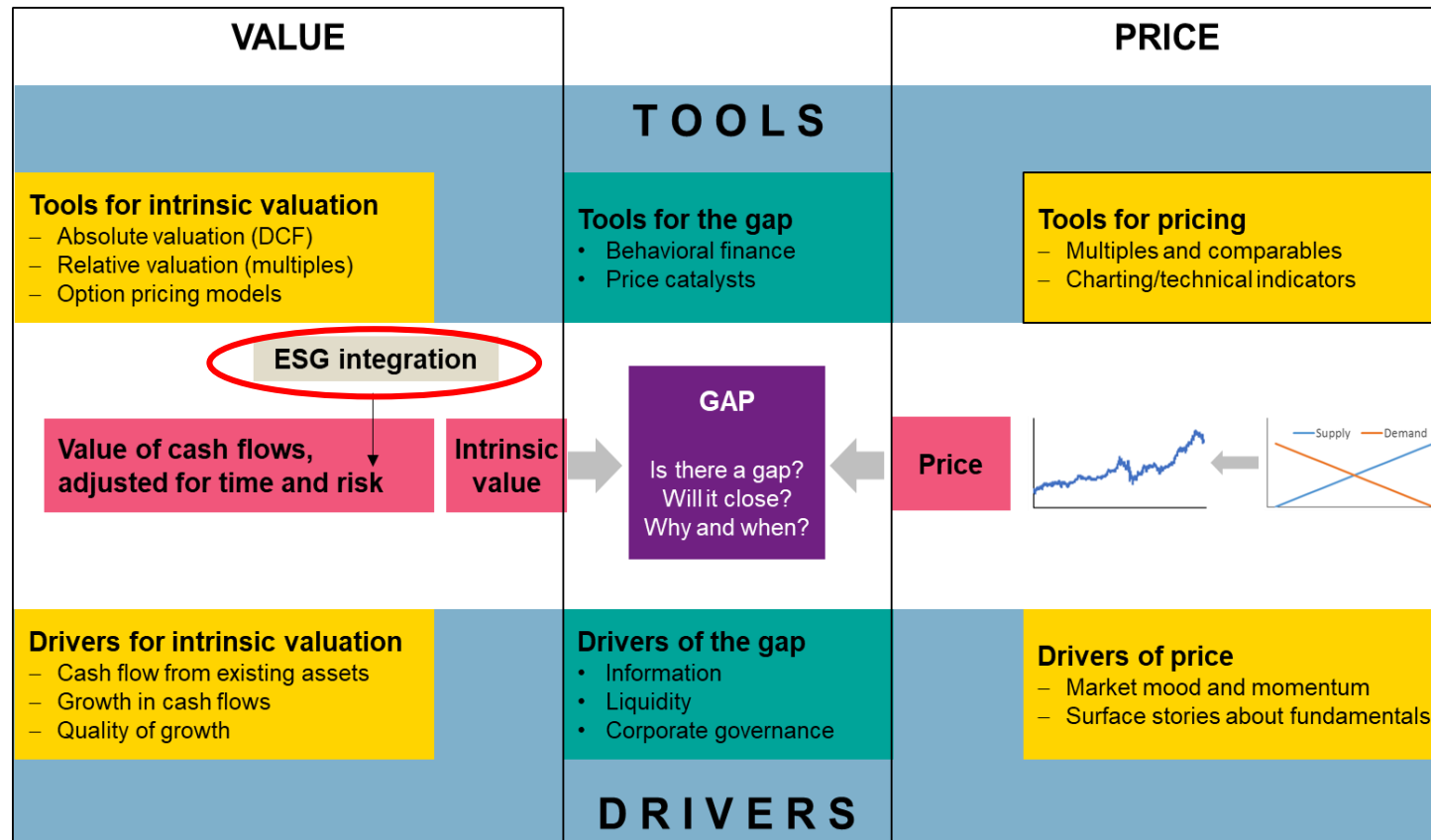
Full ESG integration

*“Full integration means using ESG principles to improve the investment process and seeking to enhance the opportunity set.” ... “Investing with a systematic and explicit inclusion of ESG risks and opportunities in investment analysis.” ... “It is not a strategy for the half-committed. **Systematic and explicit inclusion of ESG principles cannot be layered on top of a conventional fundamental investment strategy.** It requires developing and implementing a framework for incorporating a broader set of data points and perspectives.”*

(Michael Cappucci, Harvard Management Company)

How we integrate ESG in our Valuation Process

Our approach is simple and intuitive: we use **15 equal-weighted factors** to determine how a company scores in terms of ESG. Each factor is **relevant** and **material**. Analysts score each metric on a **five-point scale**. We add up the scores, and add the result from a **company's cost of equity**.



The chart shows where we integrate ESG in the valuation exercise: it is the risk adjustment of cash flows for non-Financials and the respective COE adjustment in the Gordon-growth model for Financials.

Source: Aswath Damodaran: Value Enhancements: Back to Basics, Vontobel Equity Research

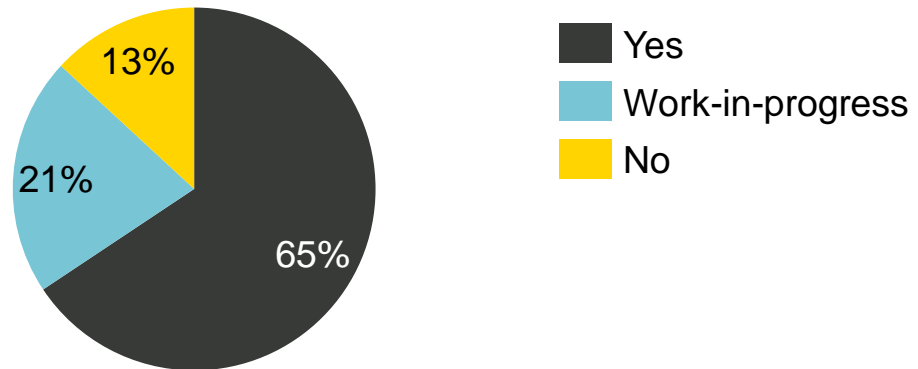
How we integrate ESG in our Valuation Process

ESG Metrics		
No.	Category	Metric
1	General	ESG policy
2		ESG tracking
3		ESG litigation
4	Environmental	Climate change
5		Natural Resources
6		Pollution and waste
7		Environmental opportunities
8	Social	Human capital
9		Diversity
10		Products
11		Social opportunities
12	Governance	Corporate governance internal
13		Corporate governance external
14		Corporate behavior internal
15		Corporate behavior external

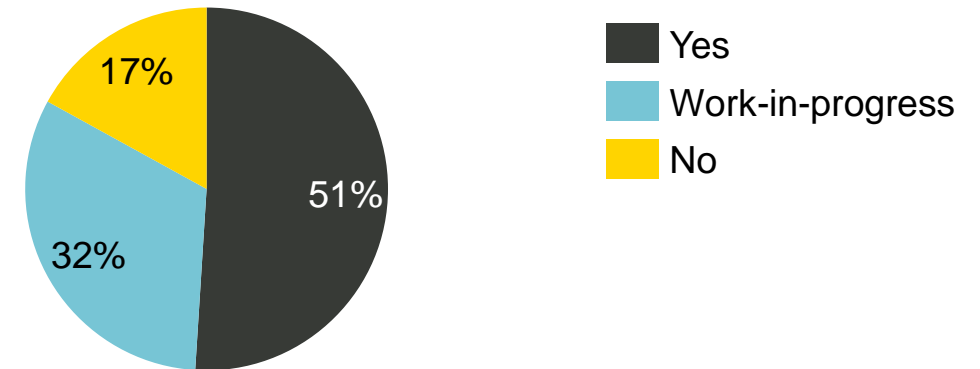
- Each metric is backed by various questions and drivers. The individual assessment of the metrics is summed up and added to **cost of equity**. A positive assessment lowers CoE and increases the price target (ceteris paribus).
- Analysts have a certain degree of **discretion** within each metric. The Diversity metric, for instance, consists of various drivers, such as gender pay equality, inclusion, wage levels, and many other drivers. The analyst is free to judge a company within a metric. But, the analyst cannot change the 15 metrics, assuring consistency.
- Sometimes, this might be insufficient. Take Volkswagen as an example: The company received good ESG scores, but obviously failed in governance – causing a very expensive scandal (aka Dieselgate). The governance failure overshadows everything else. This is why our methodology includes a **“killer” override**: if one criterion is so bad that it matters more than a series of good scores, analysts can override the total score.

General results: importance of ESG

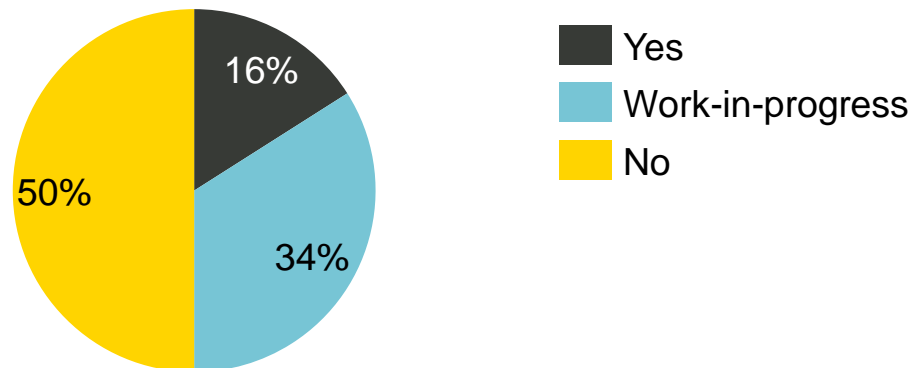
Does the company have a meaningful **ESG Policy** document?



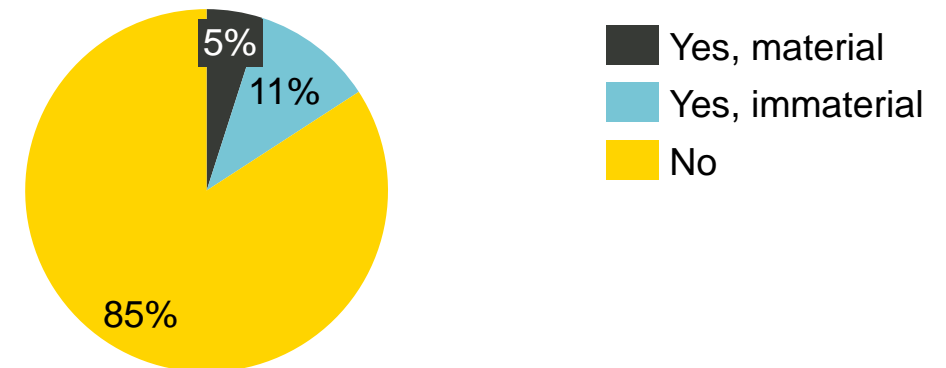
Does the company **track** ESG initiatives with KPIs?



Are KPIs **linked** to management compensation?



Is there currently **litigation** in respect to ESG topics?



Source. Vontobel Equity Research

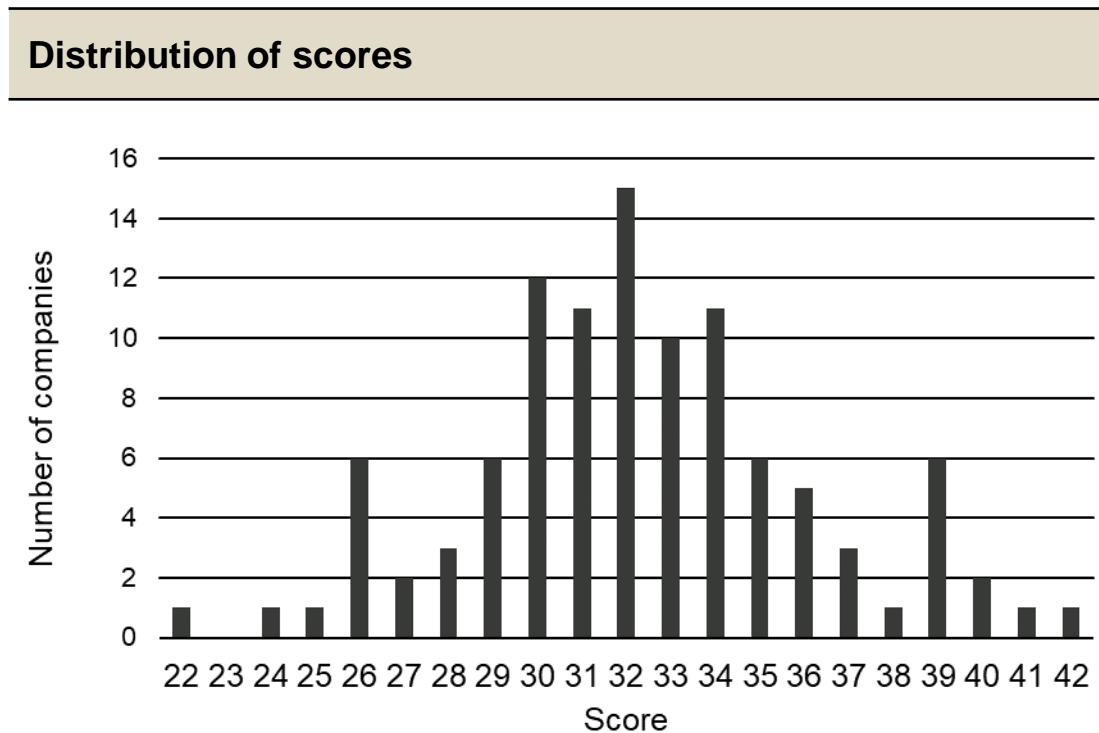
Results

Contrary to expectation, we find

- No correlation between size (market cap) and ESG score
- No correlation between price (P/E 22E) and ESG score.

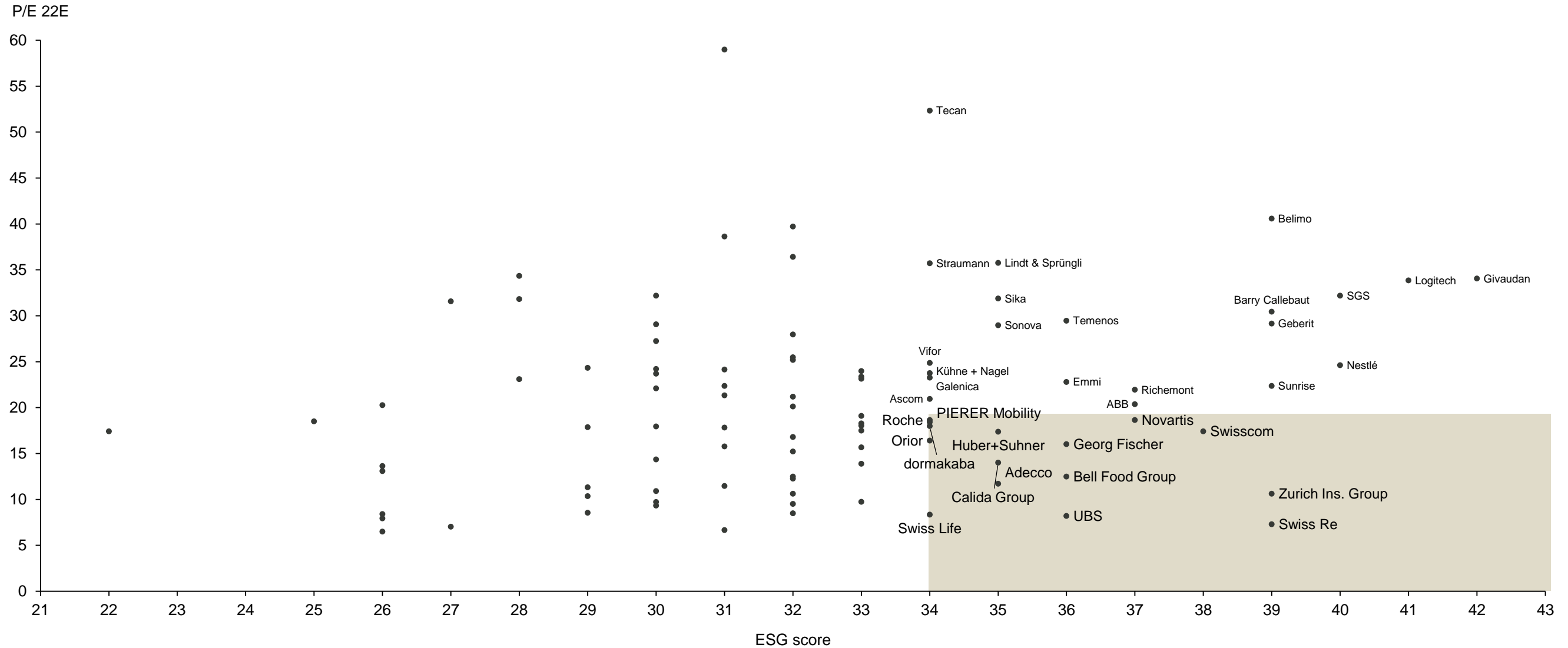
Some literature suggested that companies with good ESG scores tend to be larger and post higher valuation multiples – our work does not confirm this.

Rank	Company	Score
1	Givaudan	42
2	Logitech	41
3	Nestle SGS	40
4	Belimo Barry Callebaut Geberit Sunrise Zurich IG Swiss Re	39
5	Swisscom	38



Source. Vontobel Equity Research

Above average score (>34) and a P/E 22E below 20x: Opportunities exist



Swiss Equity Market Outlook Top Picks 2021

TINA or FOMO 2.0

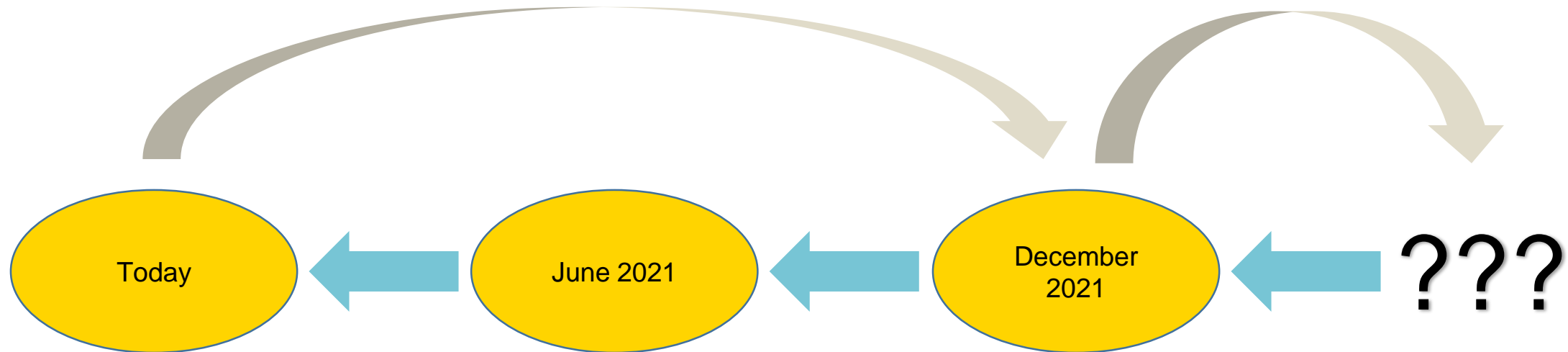
Peter Romanzina CFA, CIIA, FRM
Head of Swiss Equity Research
Wealth Management

Analysts' favorites 2020

Stock	Analyst	Target Price	Index	Closing Price 29/11/2019	Closing Price 30/11/2020	Dividende	Price Performance since inception	Total Shareholder Return (TSR)*
Logitech	Foeth	98	SMIM	43.71	80.38	0.79	83.9%	85.7%
Lonza	Bischofberger	611	SMI	339.6	569.6	2.75	67.7%	68.5%
ALSO	Diethelm	274	SPI	158.4	236	3.25	49.0%	51.0%
Investis	Furger	95	SPI	76.4	89.4	2.35	17.0%	20.1%
Partners Group	Venditti	1,090	SMIM	843.2	975	25.50	15.6%	18.7%
Georg Fischer	Pomrehn	1,005	SMIM	979.5	1058	25.00	8.0%	10.6%
Huber + Suhner	Diethelm	85	SPI	68.3	73.9	1.60	8.2%	10.5%
Straumann	Bischofberger	1,085	SMIM	962	1042	5.75	8.3%	8.9%
Cembra	Venditti	130	SPI	104.1	105.4	3.75	1.2%	4.9%
SGS	Bertschy	2,950	SMI	2602	2589	80.00	-0.5%	2.6%
Richemont	Weber	78	SMI	76.16	75.48	1.00	-0.9%	0.4%
Nestle	Bertschy	125	SMI	103.92	101.18	2.70	-2.6%	0.0%
Roche	Schneider	418	SMI	308.2	299.05	9.00	-3.0%	0.0%
Lafarge Holcim	Pomrehn	48	SMI	51.56	47.66	2.00	-7.6%	-3.7%
Flughafen Zürich	Furger	160	SMIM	177.3	153.8	0.00	-13.3%	-13.3%
Swiss Re	Fössmeier	80	SMI	108.3	83.02	5.90	-23.3%	-17.9%
Temenos	Foeth	178	SMIM	151.7	114.8	0.85	-24.3%	-23.8%
Average							10.8%	13.1%
SMI				10493.2	10476.4		-0.2%	-0.2%
SPI				12676.1	13003.4		2.6%	2.6%

“The Gretzky Doctrine”

“In hockey, everyone goes where the puck is – I go where it’s going to be next”

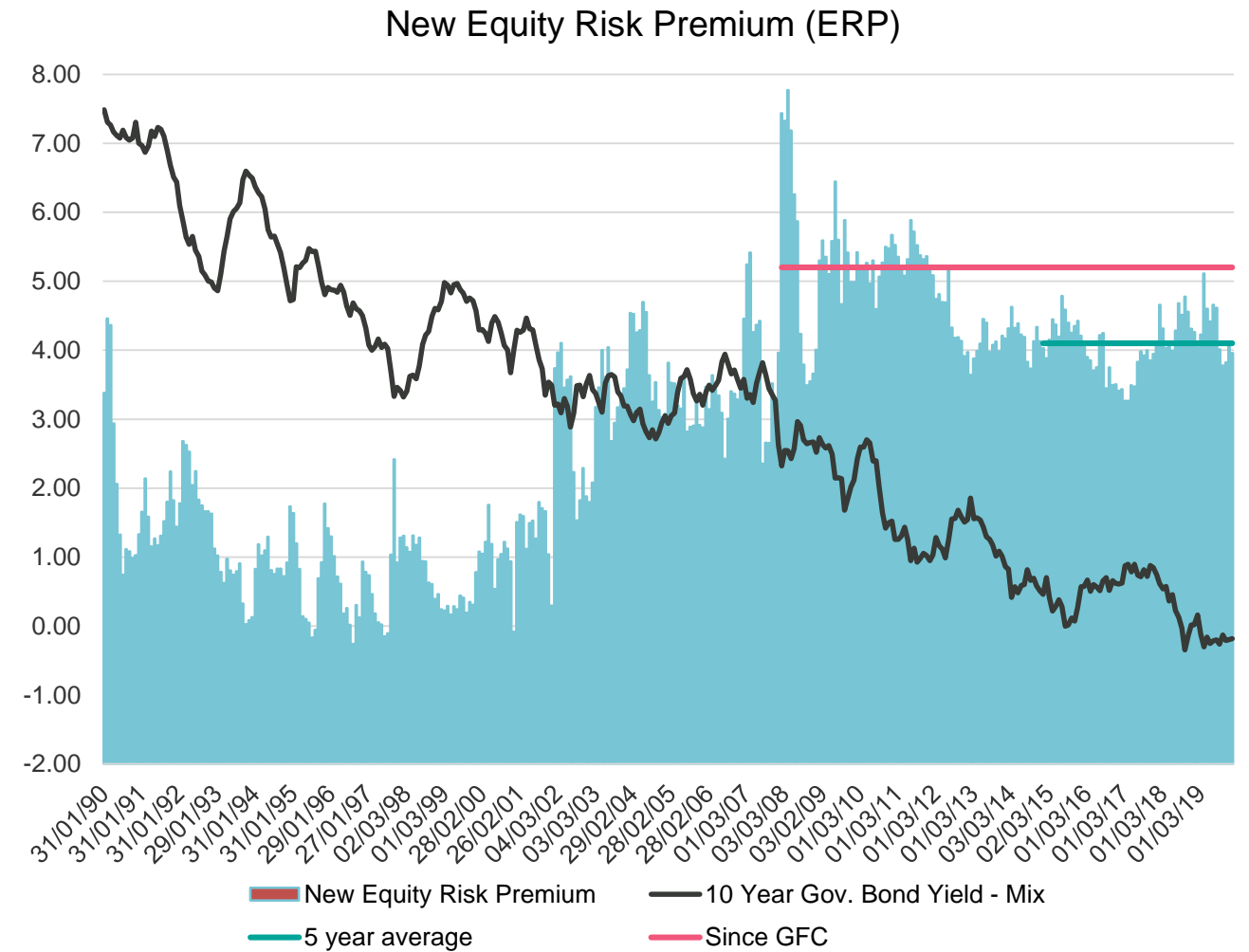
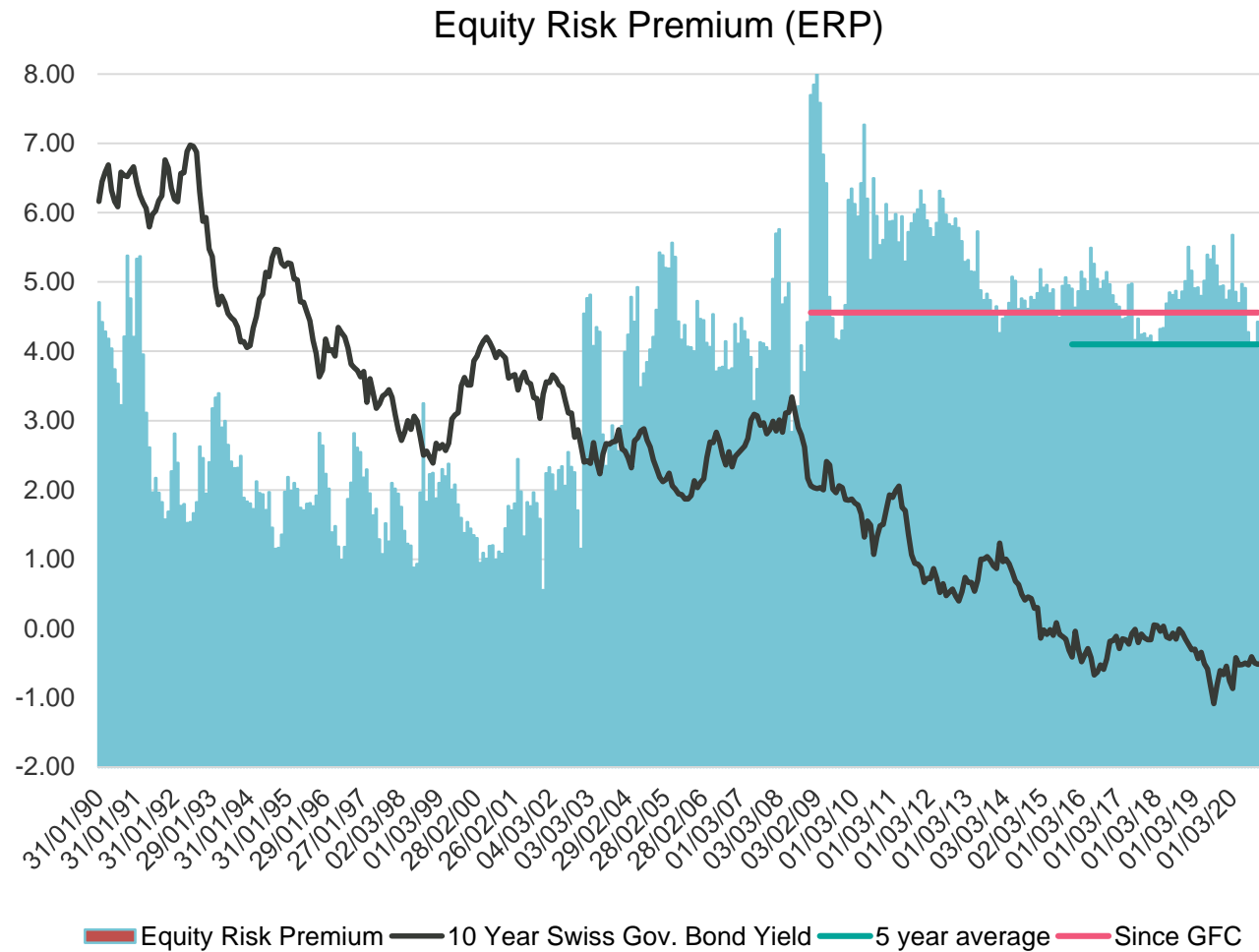


What will we anticipate in December 2021?

- Pandemic might be the fading memory of a nightmare
- Economic growth is likely to have rebounded very strongly, but will probably be slowing down into 2022
- Company profits will rebound – mostly where they had fallen most; growth should be normalizing
- Interest rates might have risen slightly / no longer be falling
- Long-term structural forces should have taken over again
- There will increasingly be questions about how governments and central banks transit to a “new normal”

TINA

Old and new Equity Risk Premium (Earnings Yield minus Gov. Bond Yield)



TINA

Is the Swiss equity market expensive?

- 1-year forward multiples are high in historical terms for the market, but only somewhat higher than a year ago.
- Share prices of “winners” have expanded more than their underlying estimated forward results – thus, they are trading at higher multiples.
- In November, equity markets around the world had one of the best one-month returns in history, triggered by positive headline data from three vaccine trials.
- The Swiss market has lagged other European markets during the rebound since end-March. This is primarily a result of the more cyclical composition of European markets.

It's difficult to talk about “the market”

- The Equity Risk Premium is relatively high, particularly considering the level of interest rates and the outlook for prolonged low rates.
- Earnings growth estimates have started to turn given the expected cyclical recovery that should start taking place during the course of next year.
- Shares of the winners of the “new normal” have increased substantially; however, we believe that duration of the positive impact of structural change could last substantially longer than anticipated.
- Central banks will tend to err on the side of caution before taking any restrictive measures.
- SMI Mid earnings are forecast to increase twice as fast as SMI earnings, given their larger cyclical exposure and bigger rebound potential.

TINA – There is no alternative (to equities)

Strong balance sheet

- We refer to “strong balance sheet” in a holistic, cash flow focused manner.
- Strong balance sheets give managements plenty of flexibility and opportunities in times of disruption. Capital management is key for some companies.
- It reduces the risk of dilution for shareholders.

Companies generating high returns are able to re-invest

- Companies generate a Return on Invested Capital (RoIC) that is higher than their respective Cost of Equity.
- Companies able to achieve this on a consistent, long-term basis have the ability to re-invest a substantial part of the returns in their business.
- These characteristics lead to a compounding effect

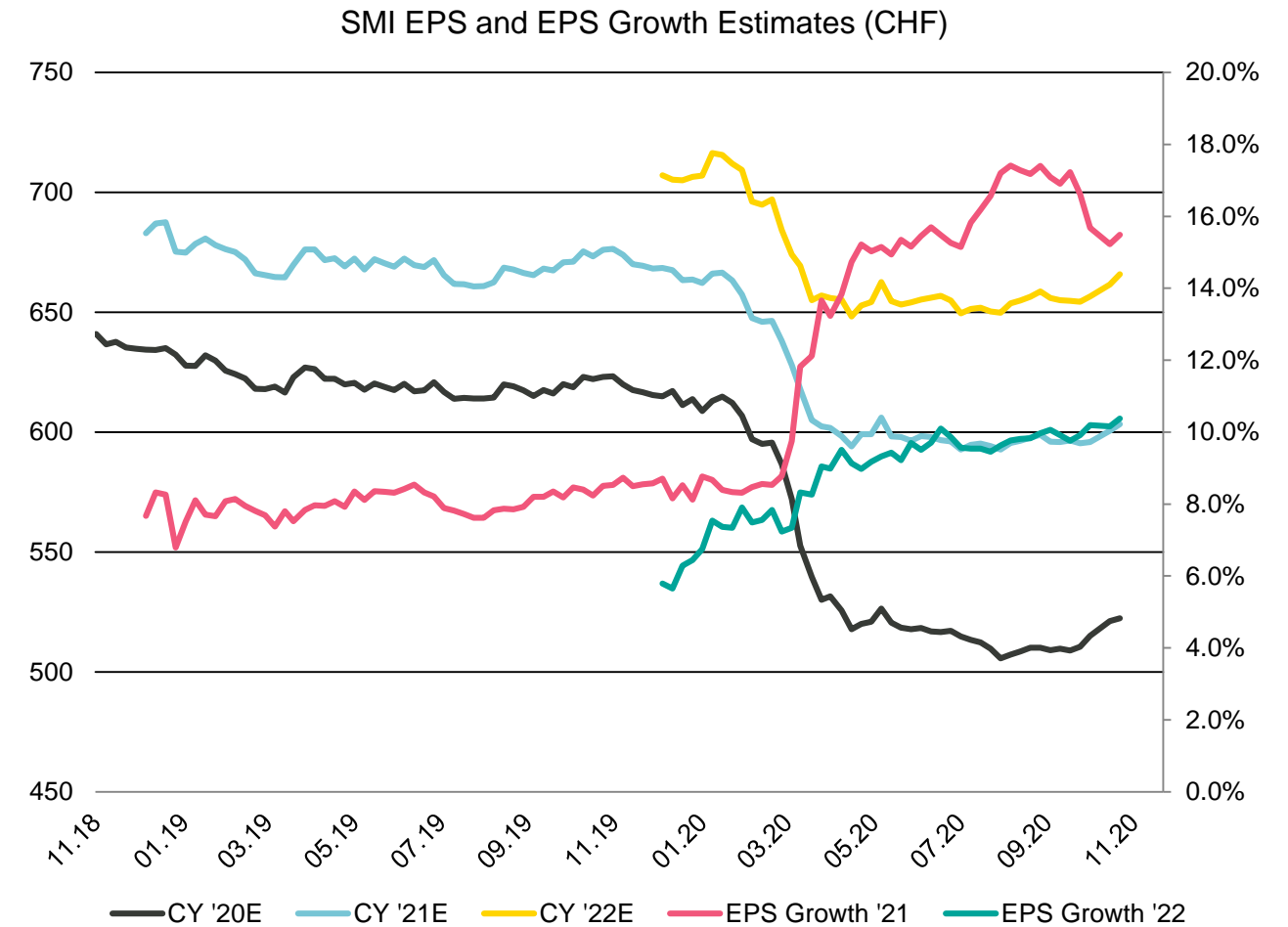
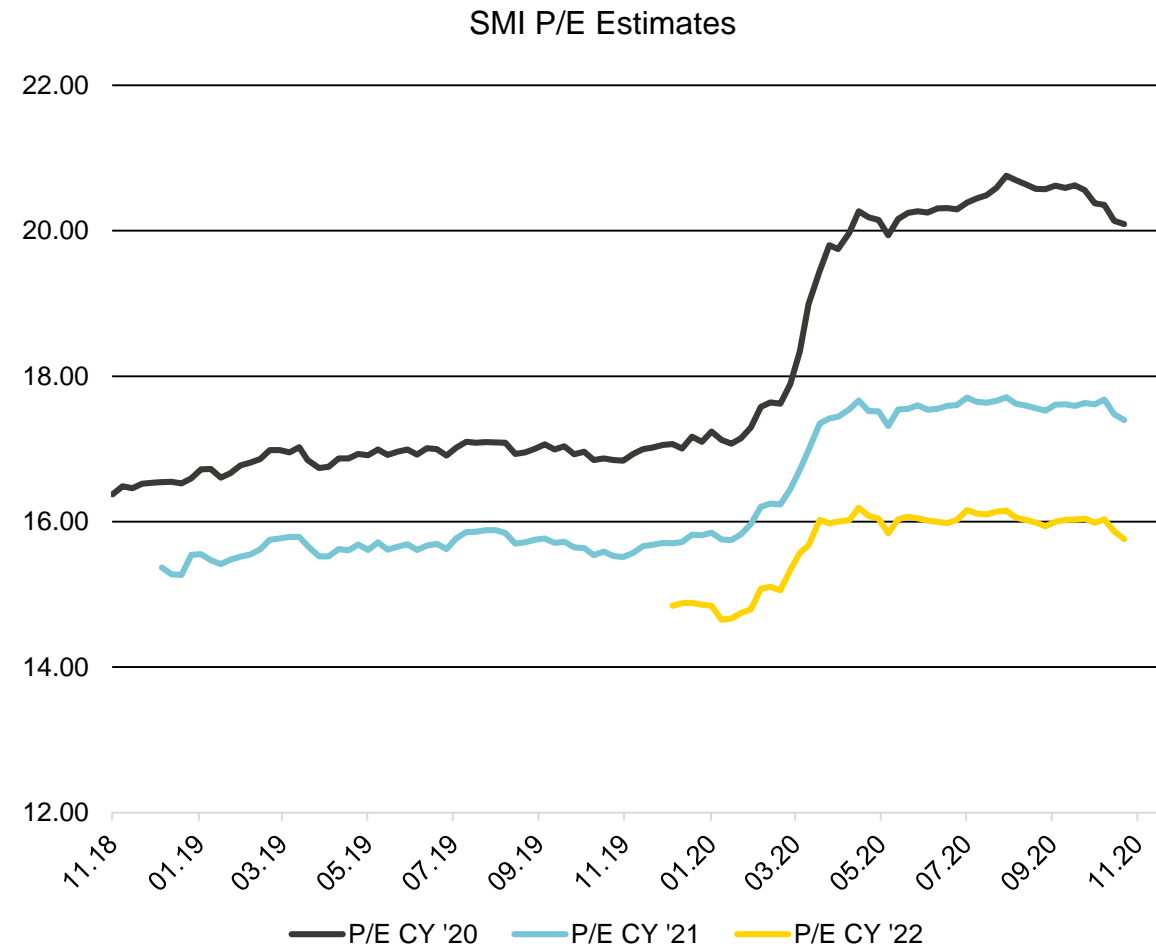
Strong position in an interesting market or niche

- During times of disruption or crisis, strong companies become stronger (weak ones become weaker).
- We define strong as “strong position in an attractive market or niche”, “strong financial position”, “sound long-term strategy”, and “strong execution”

Winners (and losers) of the new normal

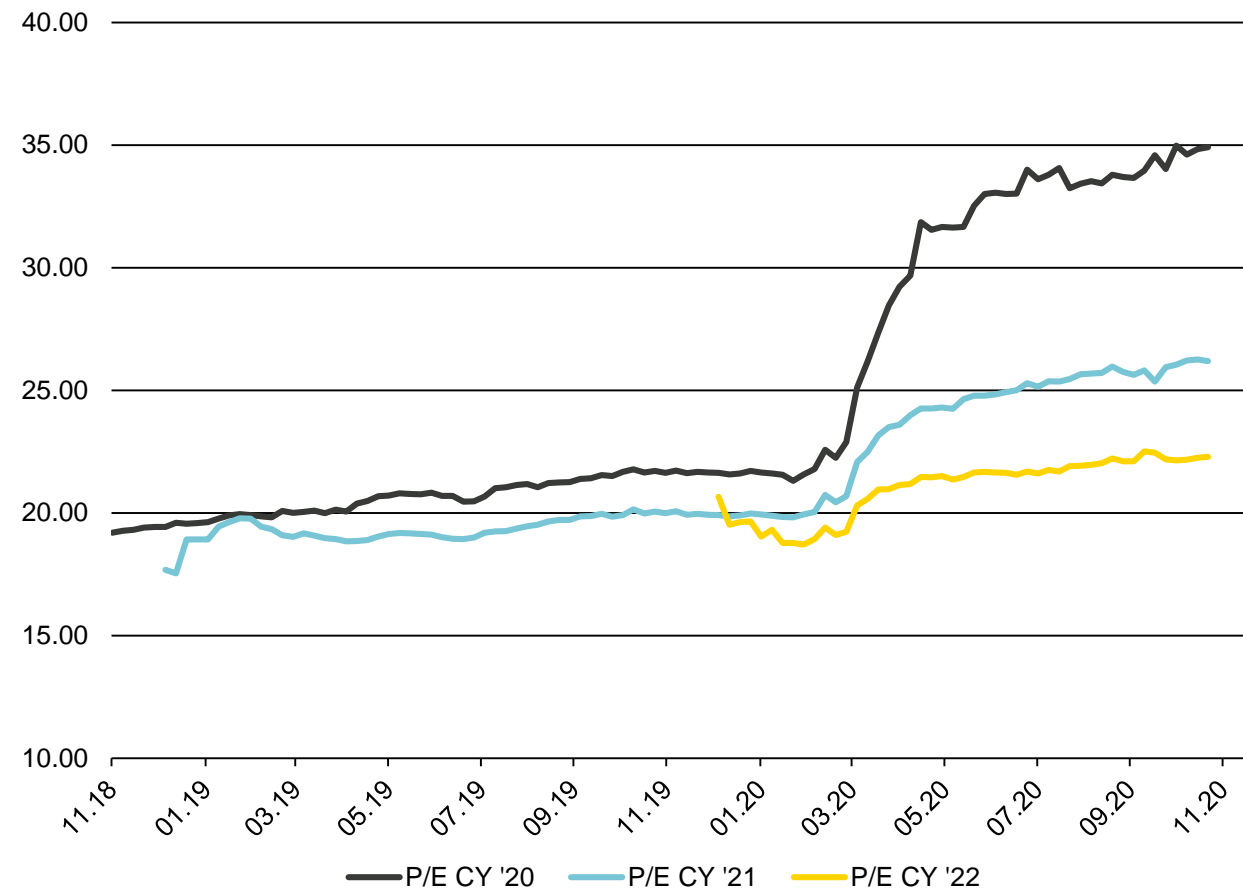
- The new normal will be more virtual, less physical or in-person (xFH); footfall in high frequency locations, particularly in developed economies will remain below previous peaks.
- Companies will improve digital readiness and capabilities for years to come.
- The pandemic will trigger a long-term step-change in investment benefitting energy efficiency.

SMI earnings estimates have turned in Q3...

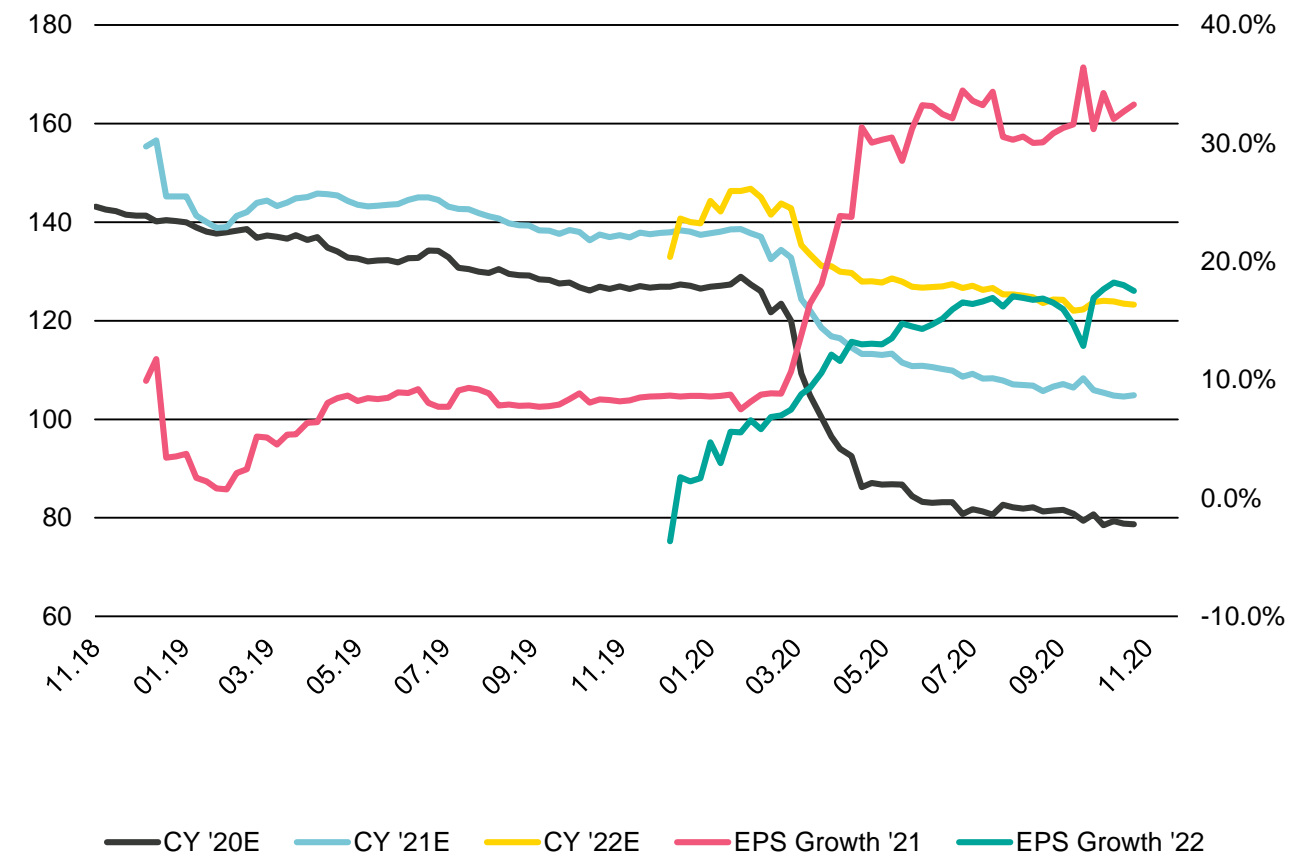


SMIM earnings estimates have not, but earnings at set to grow twice as quickly over the next two years

SMI Mid P/E Estimates

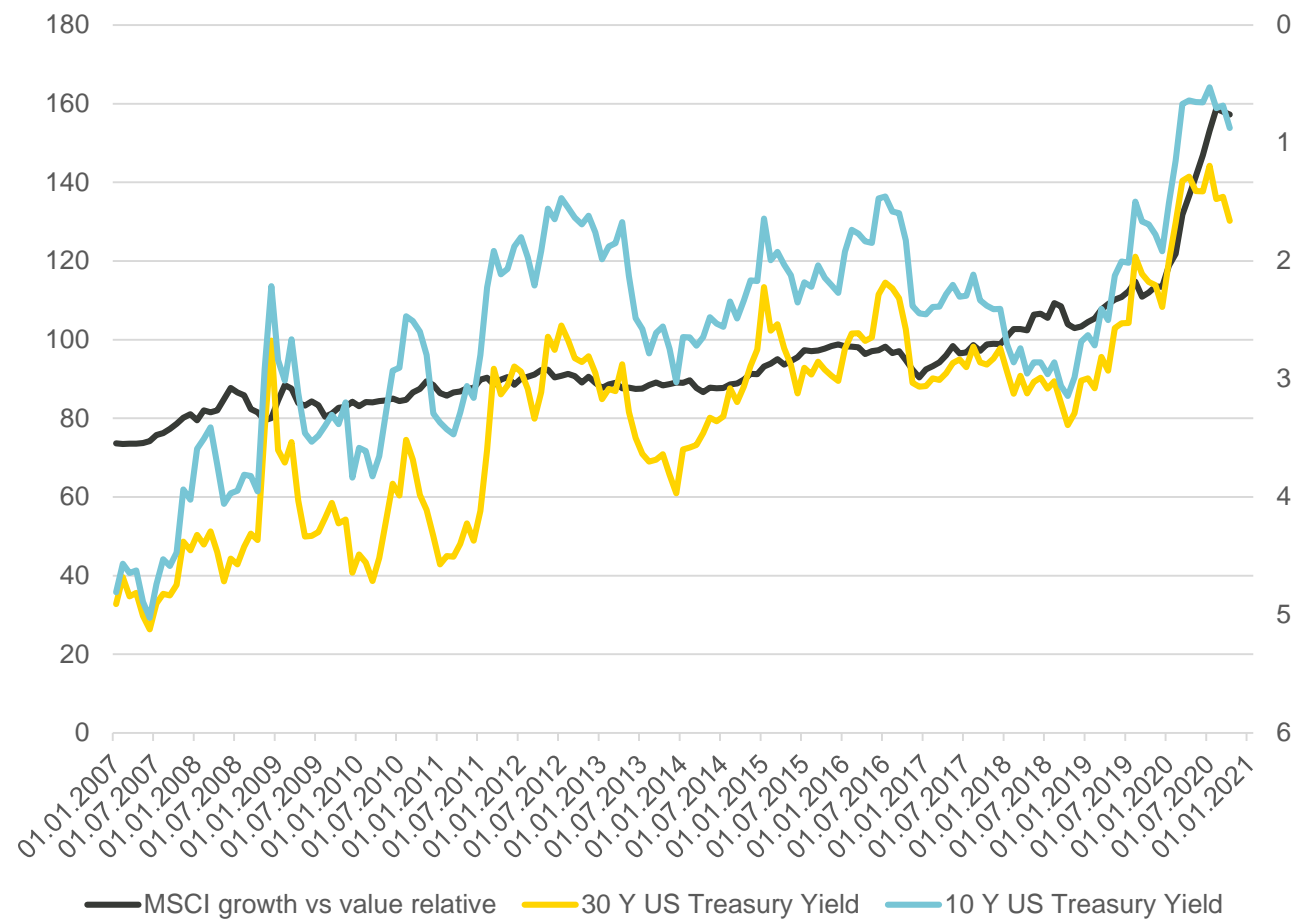


SMI Mid EPS and EPS Growth Estimates (CHF)

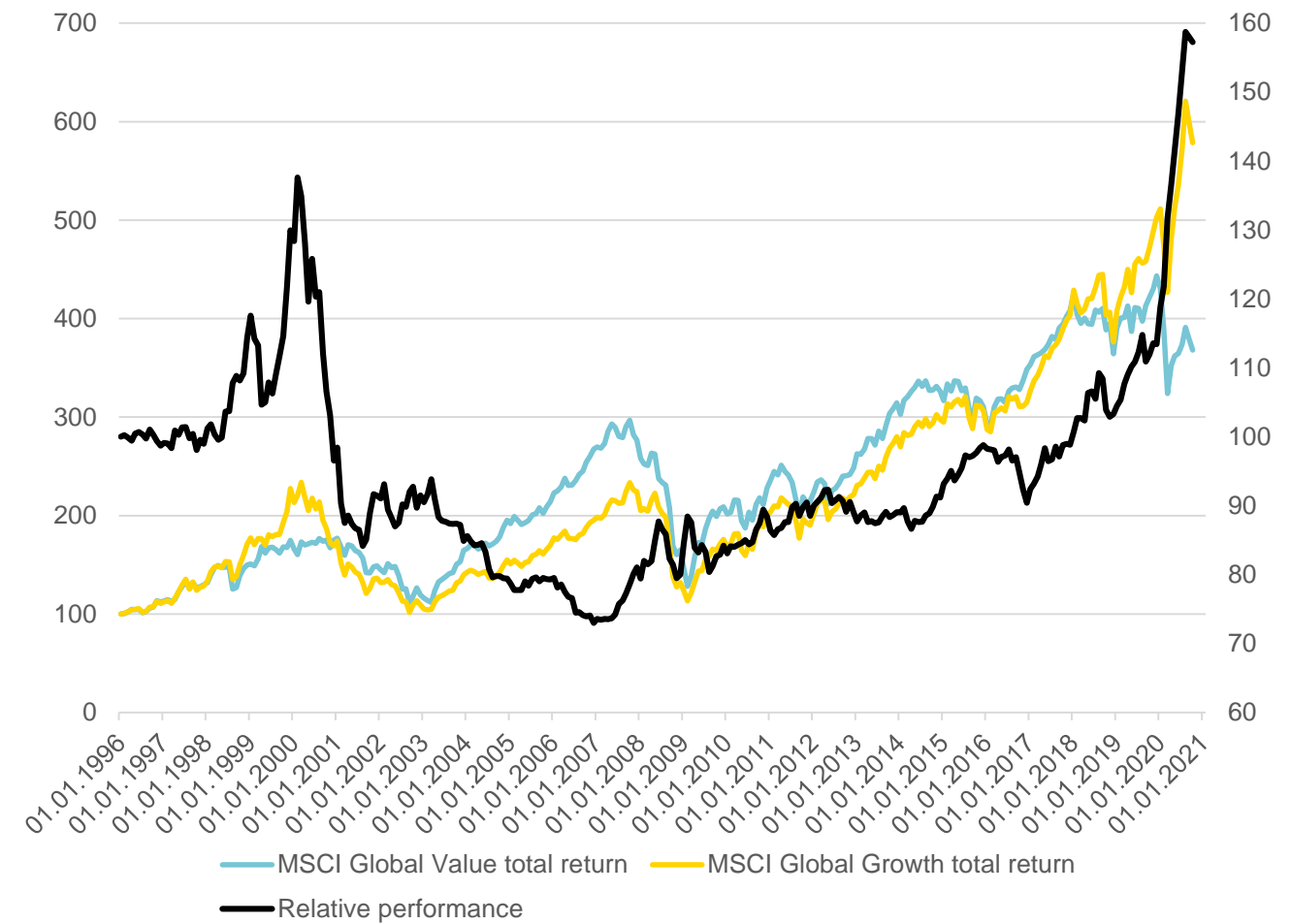


Value versus Growth – FOMO

10Y and 30Y US Treasury vs MSCI growth vs value performance

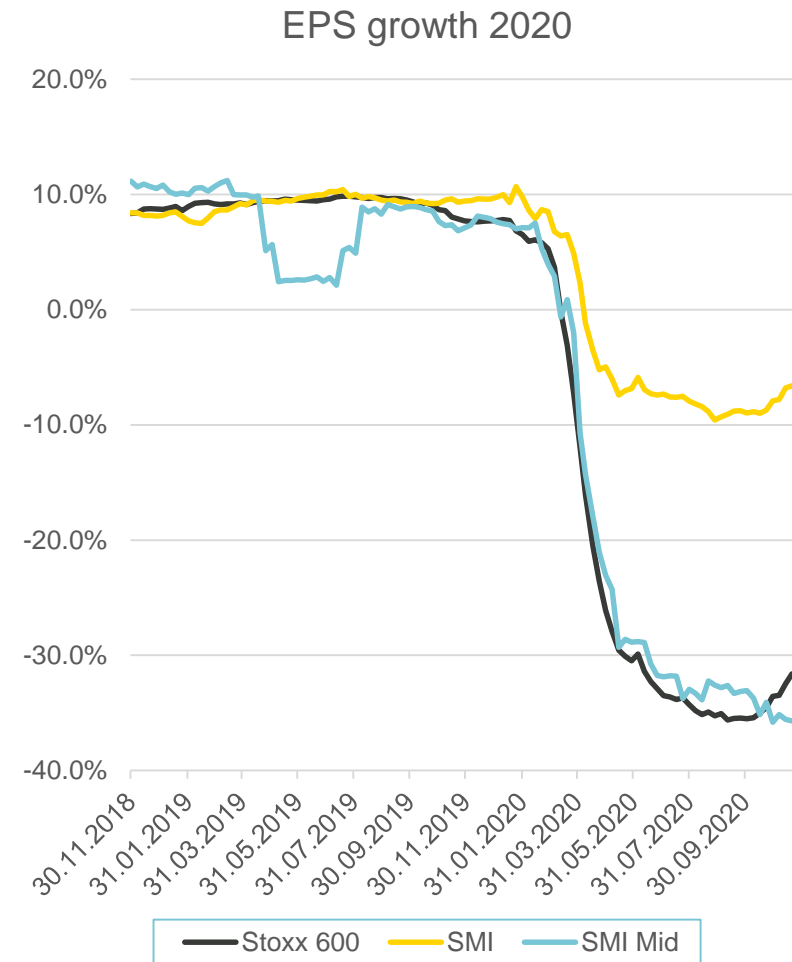


Value vs Growth

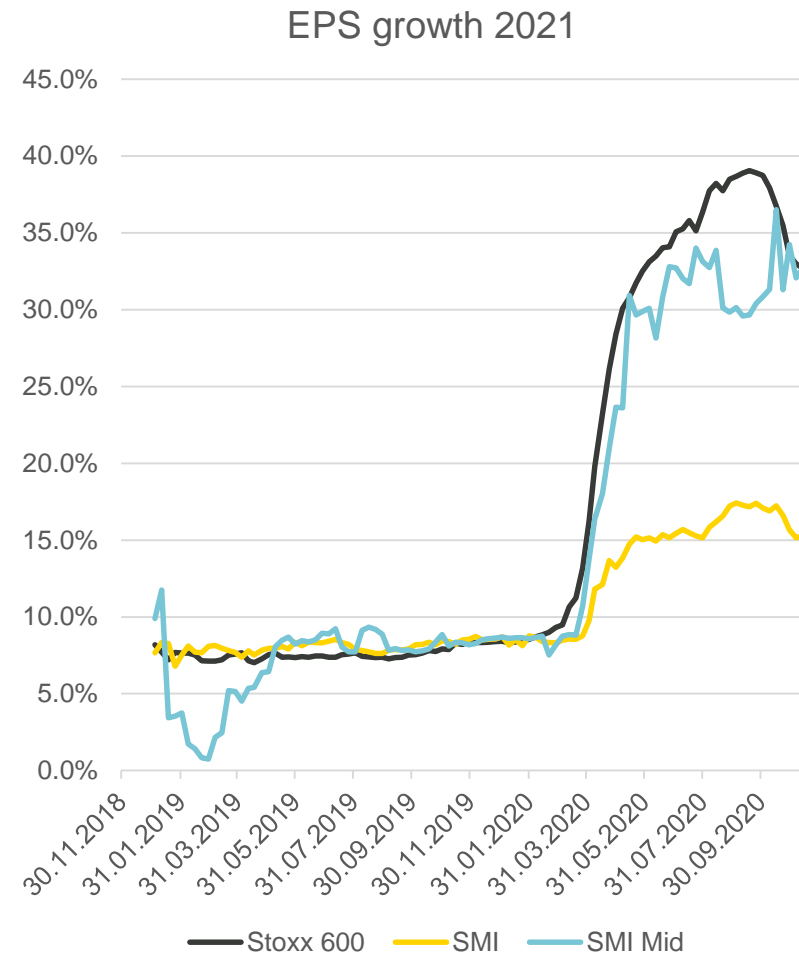


Earnings growth of SMI Mid correlate better with Stoxx 600 than SMI

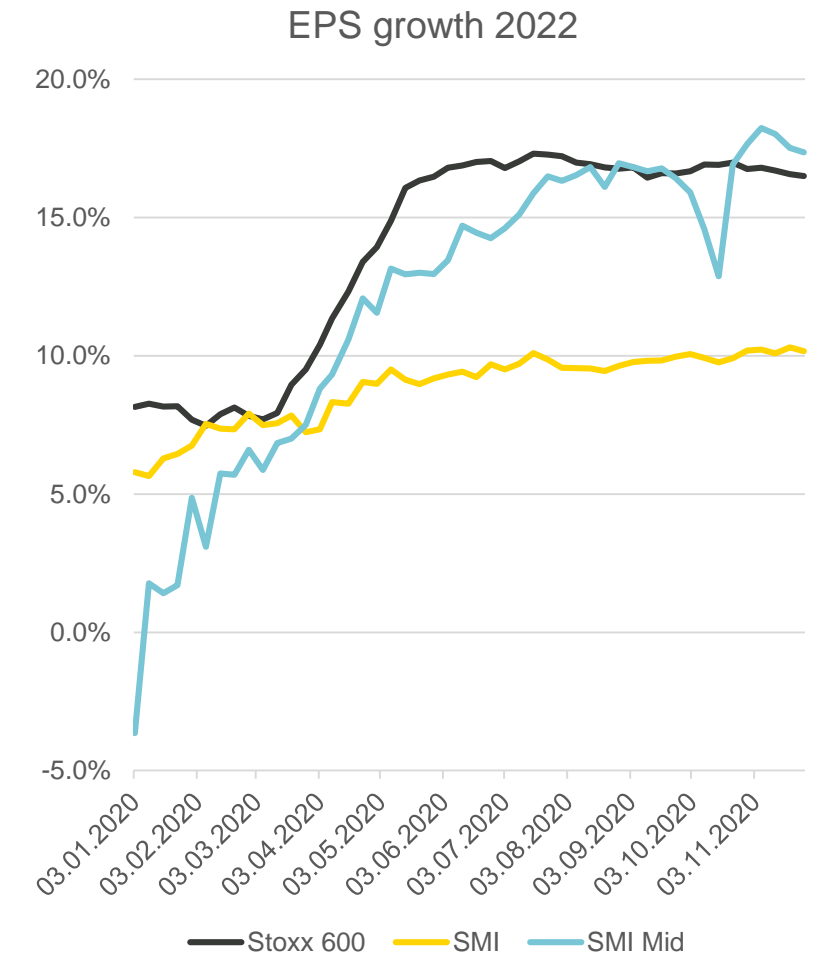
Down....



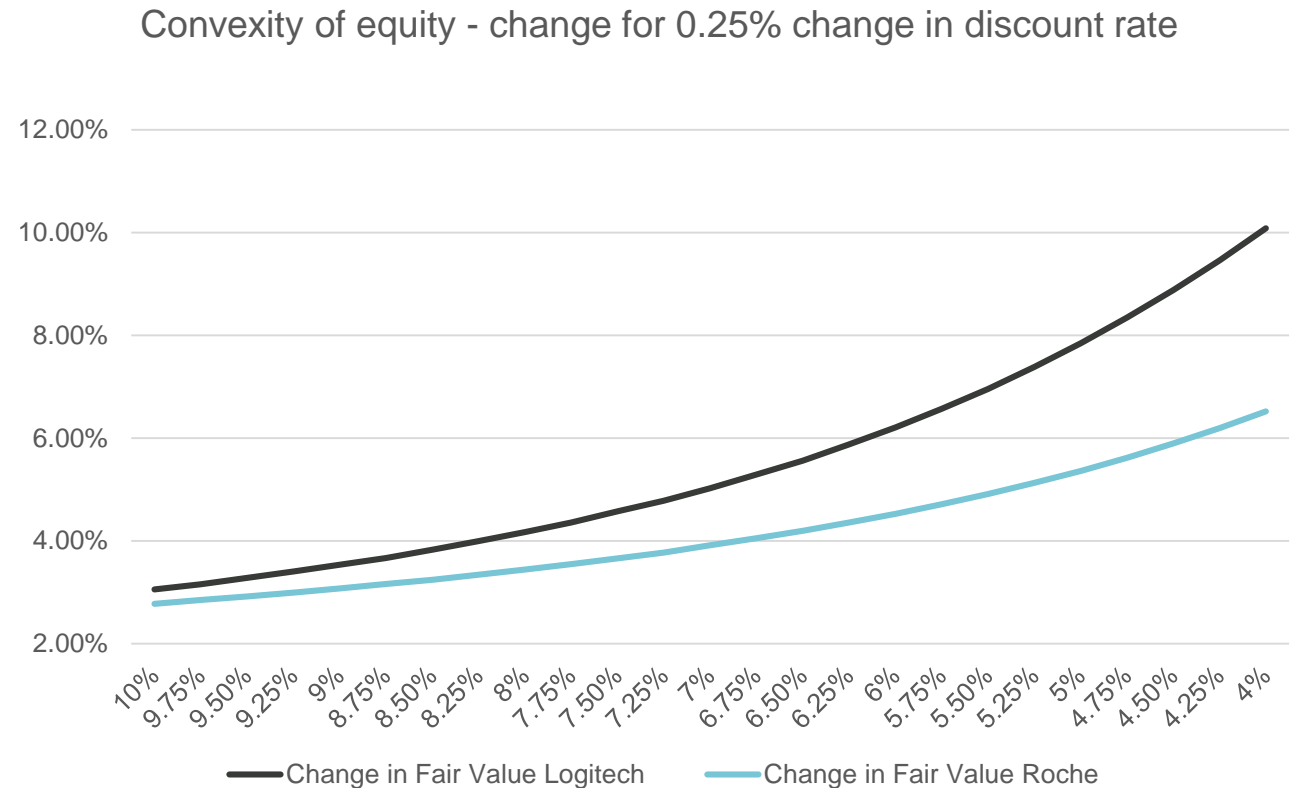
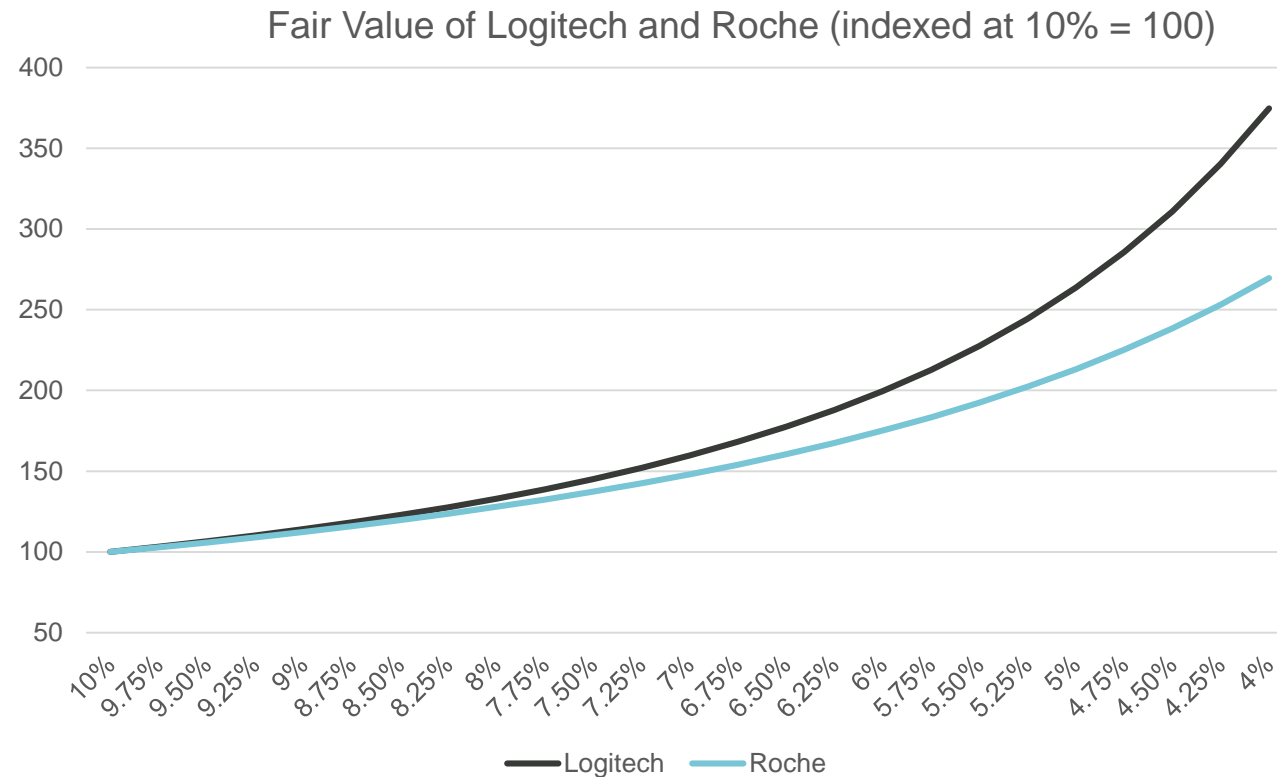
....and up



....and up

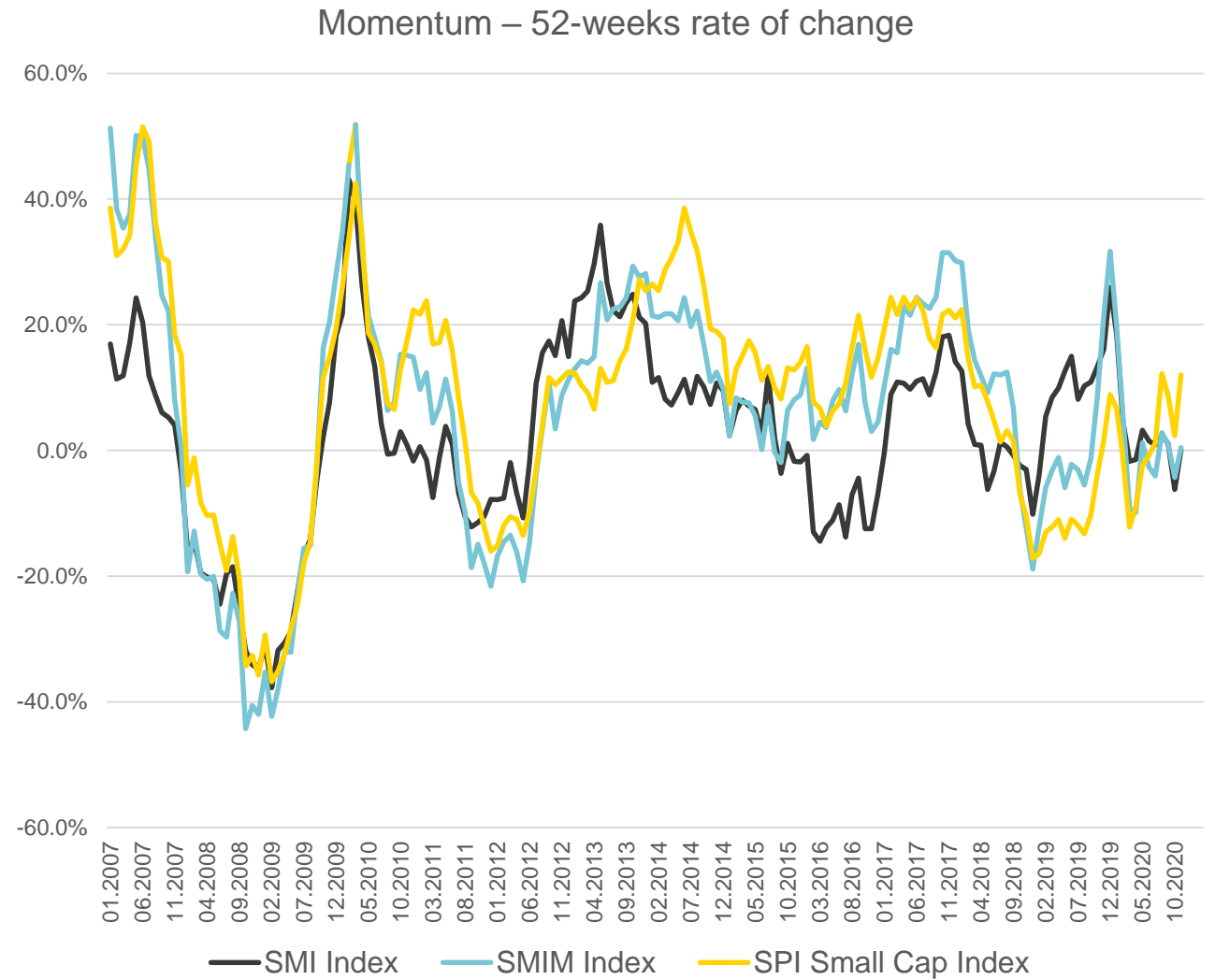
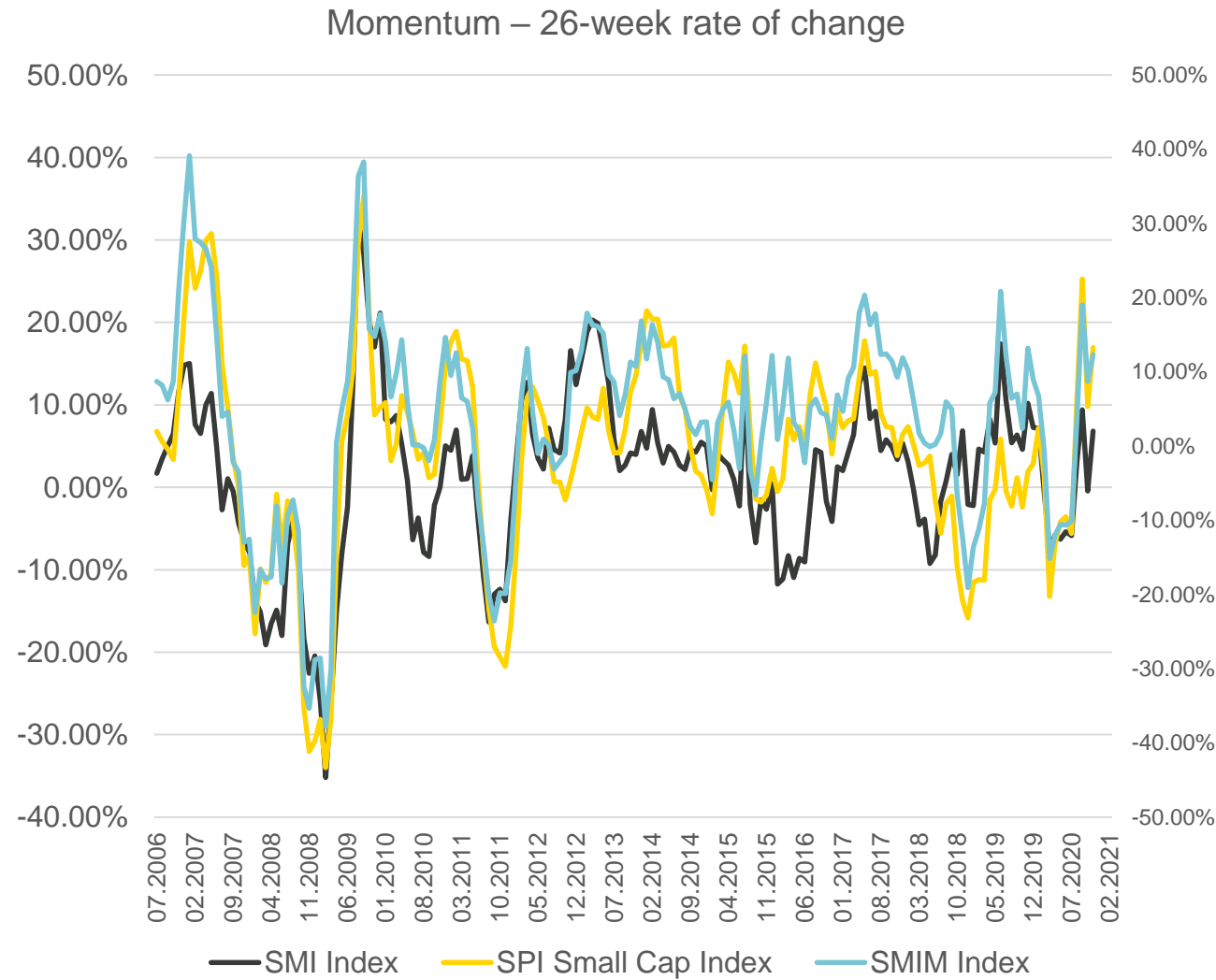


Convexity of share prices



- The impact of changes in the discount rate is convex, i.e. equity fair values increase disproportionately at lower discount rates and vice versa
- Changes in the discount rate has a disproportionate impact on companies with a long-duration profile (growth stocks)
- This results in a more prominent multiple expansion of growth stocks

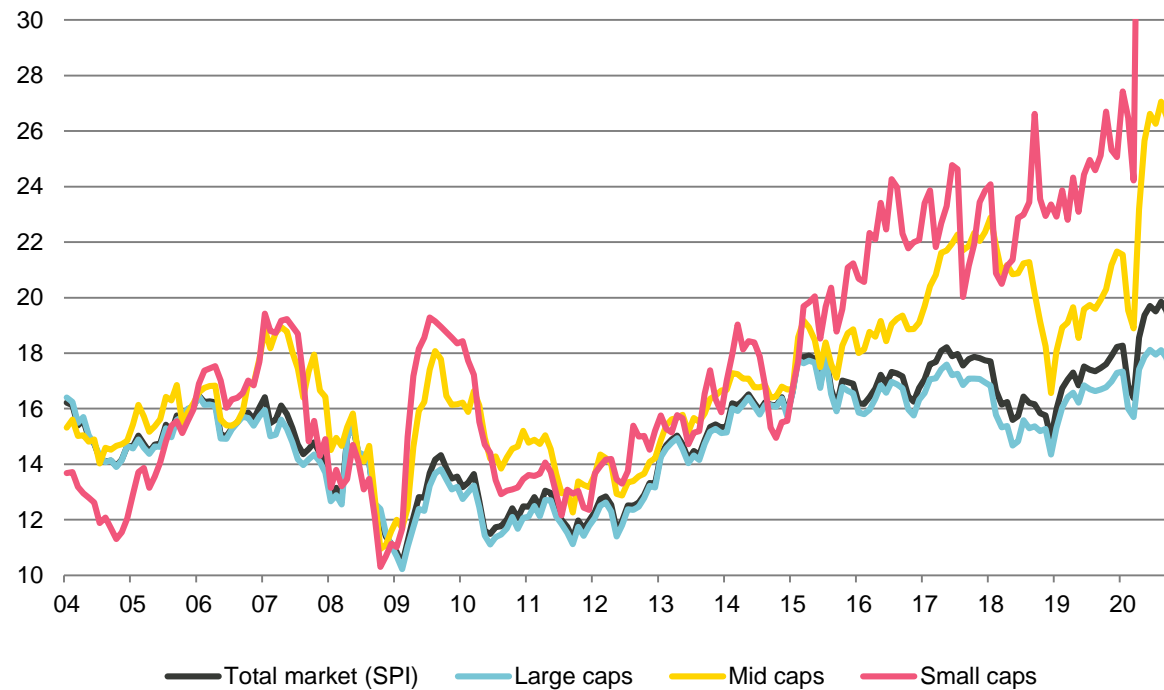
FOMO?



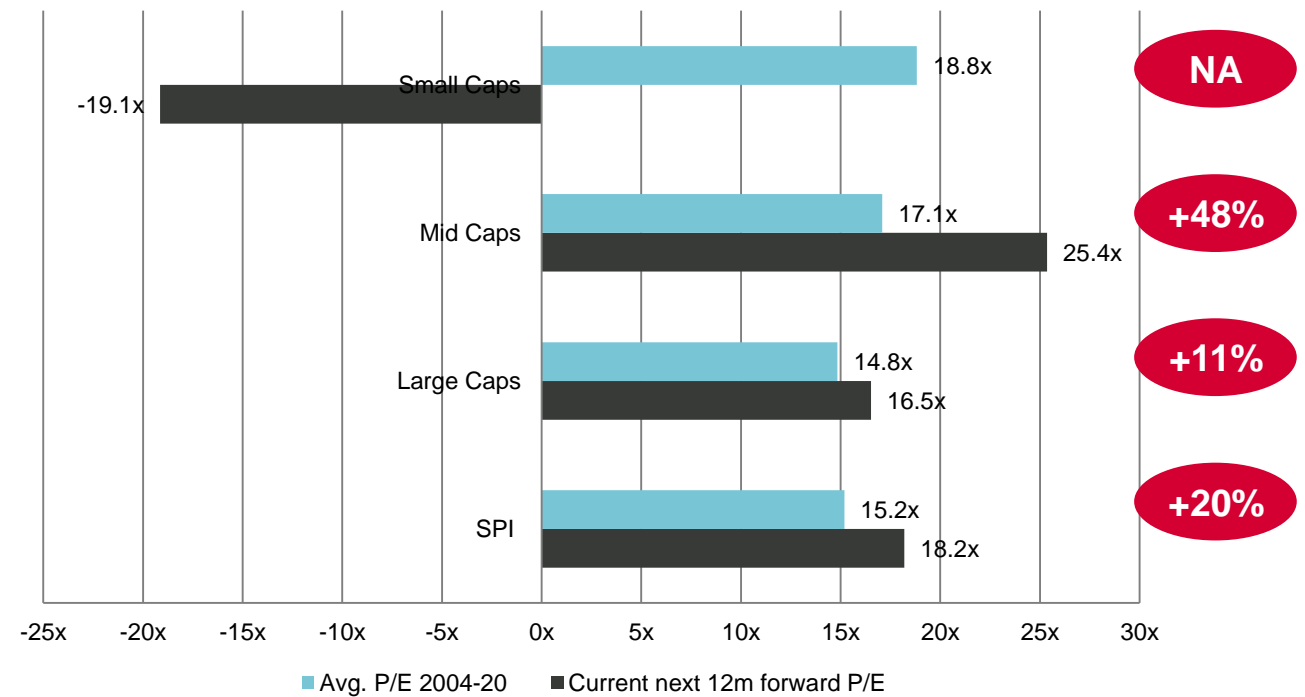
12-month forward P/E for small/mid/large caps

P/E multiples ahead of long-term average – don't count on mean reversion

Historical 12-month forward P/E*



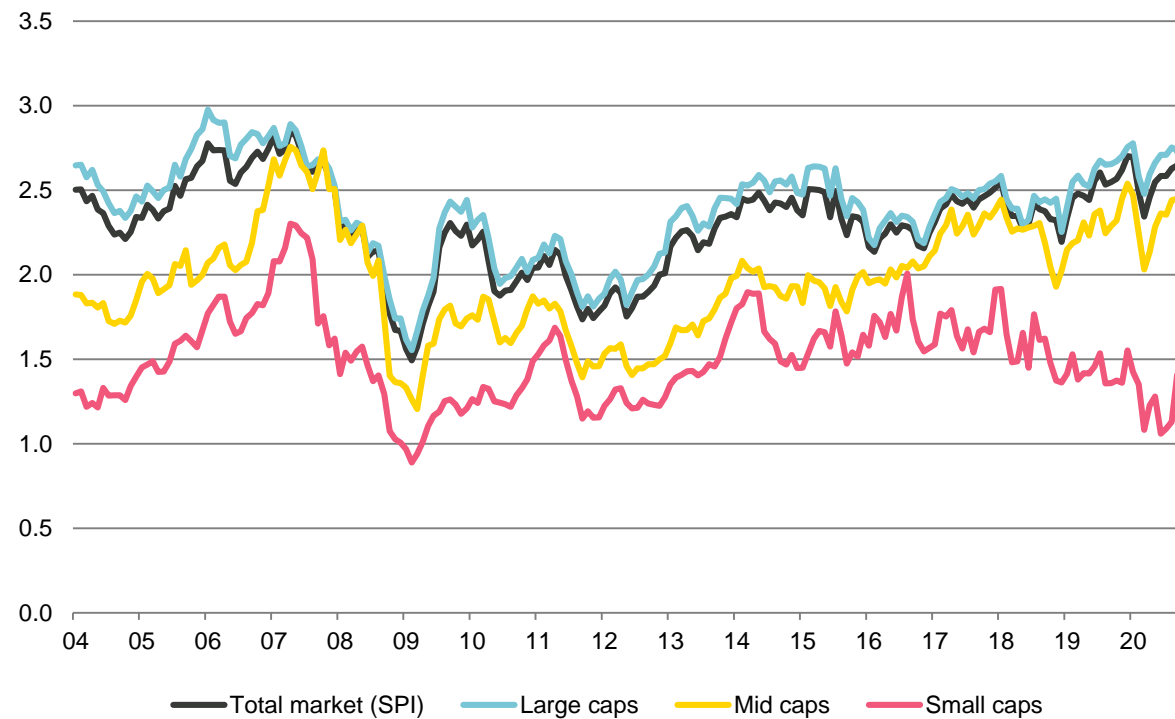
Current 12-month forward P/E vs. historical average*



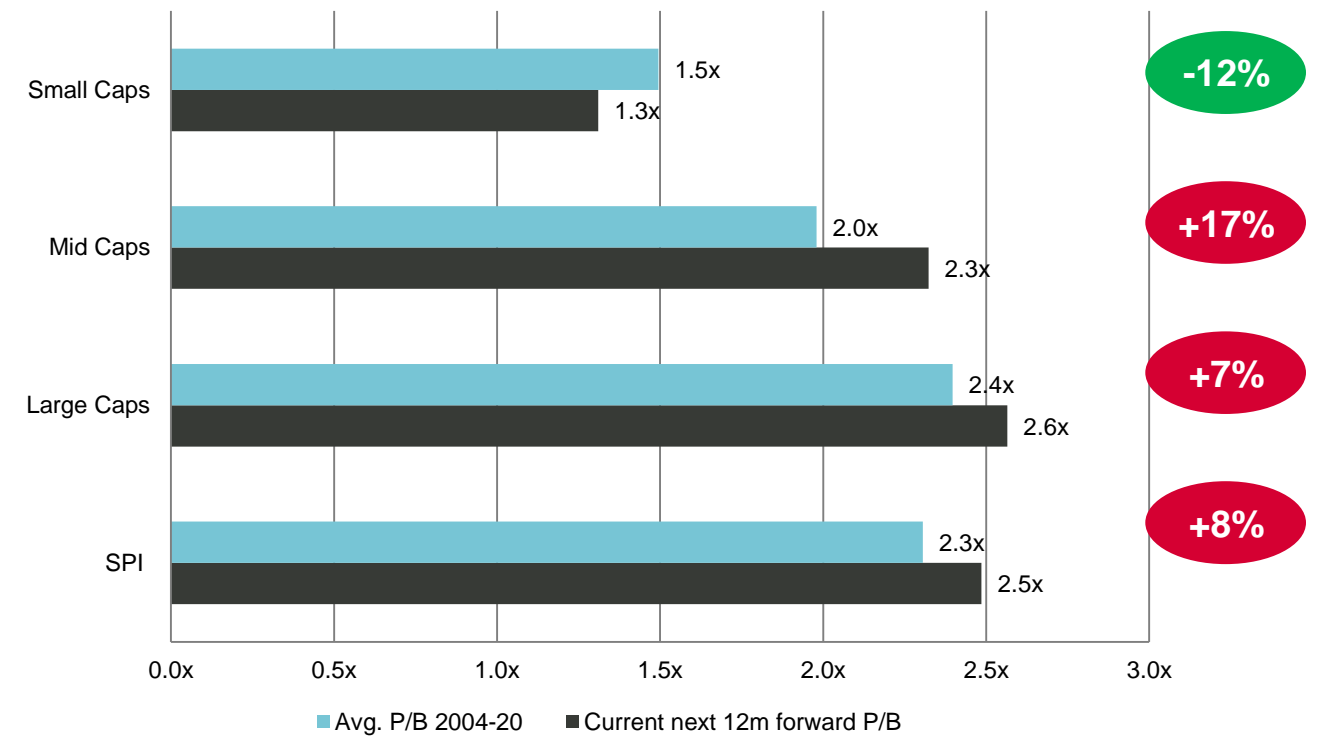
12-month forward P/B for small/mid/large caps

P/B multiples, except for small-caps, somewhat ahead of long-term average – don't count on mean reversion

Historical 12-month forward P/B



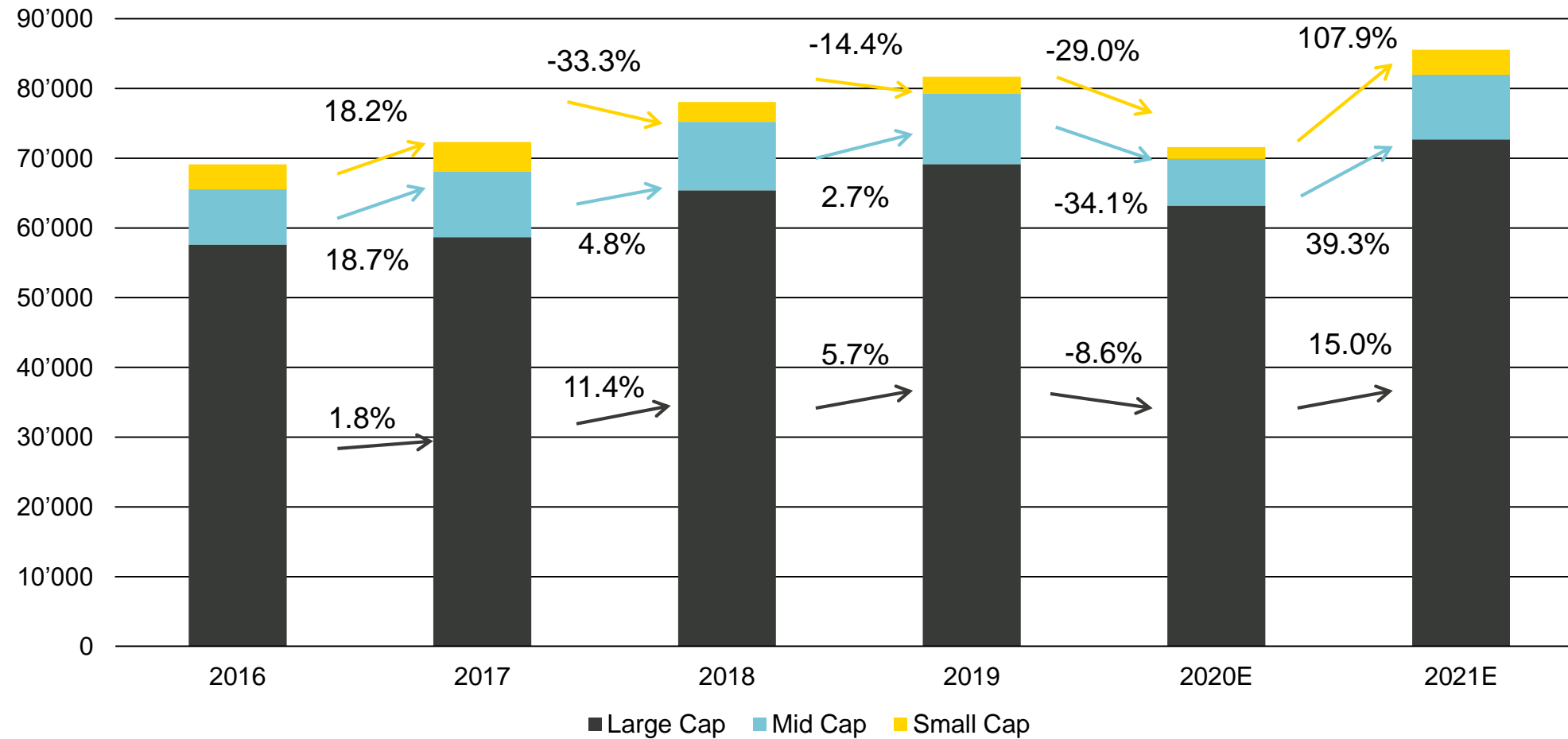
Current 12-month forward P/B vs. historical average



Difference current P/B
vs. average
2005-2020E

Total Vontobel universe (SPI) earnings growth by capitalization segment

Aggregated earnings forecasts excluding one-time effects (CHF mns) and growth rates



Analysts' favorites 2021

Stock	Analyst	Target Price	Index	Closing Price 30/11/2020	Upside
Temenos	Foeth	178	SLI	114.8	55%
ams	Diethelm	33	SLI	23.2	42%
Roche	Schneider	418	SMI	299.05	40%
Nestlé	Bertschy	125	SMI	101.18	24%
Cembra	Venditti	130	SPI	105.4	23%
Idorsia	Schneider	33	SPI	27.04	22%
PSP	Furger	130	SPI	110.7	17%
Sika	Pomrehn	270	SMI	231.9	16%
ALSO	Diethelm	274	SPI	236	16%
LafargeHolcim	Pomrehn	55	SMI	47.66	15%
SGS	Bertschy	2,950	SMI	2589	14%
Richemont	Weber	86	SMI	75.48	14%
VAT	Foeth	215	SPI	190.8	13%
Swiss Life	Fössmeier	456	SMI	405.8	12%
Partners Group	Venditti	1,090	SMI	975	12%
Straumann	Bischofberger	1,085	SLI	1042	4%

Vontobel Equity Research Top Swiss Selection of the Year Basket



Platforms & Services
Pascal Ramseier, MBA

December, 2020

Vontobel Equity Research Top Swiss Selection of the Year Basket

**Focused Investment
Strategy**

Ten stocks specially selected by Vontobel Equity Research.

Favorites for the Year

The focus is always on the year ahead. At the close of every year, the top Research picks for the coming year are chosen and the basket is re-aligned accordingly.

**Bottom-up &
top-down approaches**

Stocks are chosen based on the opinions of analysts and the Head of Research.

The Concept

Vontobel Equity Research Top Swiss Selection of the Year Basket



Initial composition*

Vontobel Equity Research Top Swiss Selection of the Year, 2021

Name	Vontobel Rating	Vontobel Price Target	Index	Sector	Basket Weight (%)
ALSO Holding AG	Buy	274	SPI	Technology	1.72%
ams AG	Buy	33	SLI	Technology	8.62%
Compagnie Financière Richemont SA	Buy	86	SMI	Consumer Goods	15.52%
Cembra Money Bank AG	Buy	130	SPI	Banks	1.72%
LafargeHolcim Ltd	Buy	55	SMI	Industrials	15.52%
Partners Group Holding AG	Buy	1090	SMI	Financial Services	15.52%
Roche Holding AG	Buy	418	SMI	Pharma & Biotech	15.52%
SGS SA	Buy	2950	SMI	Industrials	15.52%
Temenos AG	Buy	178	SLI	Technology	8.62%
VAT Group AG	Buy	215	SPI	Industrials	1.72%

* The final Index composition will be displayed on the information page www.derinet.com.

Product details

Vontobel Equity Research Top Swiss Selection of the Year Basket

PRODUCT DETAILS*	
SSPA product type	Tracker certificate (1300)
Underlying	Vontobel Equity Research Top Swiss Selection of the Year Basket (basket currency CHF)
Initial fixing / payment	January 20, 2020 / January 24, 2020
Duration	Open-ended
Index fee	1% p.a.
Issuer	Bank Vontobel AG, Zurich (Moody's long-term rating Aa3)
Currency	CHF
ISIN /symbol	CH0516336218 / ZRTOPV
Current price	CHF 110.80
Initial reference price of underlying	CHF 100.00

*All information is indicative and may be adjusted.

Vontobel Swiss ESG Research Index

ESG is more important than ever before

Platforms & Services
Pascal Ramseier, MBA

December, 2020

Vontobel Swiss ESG Research Index

**Integration of ESG criteria
in our bottom-up valuations**

**ESG (environmental, social, and governance) is increasingly
gaining importance**

**Academic literature
concludes that ESG
improves returns and
lowers volatility**

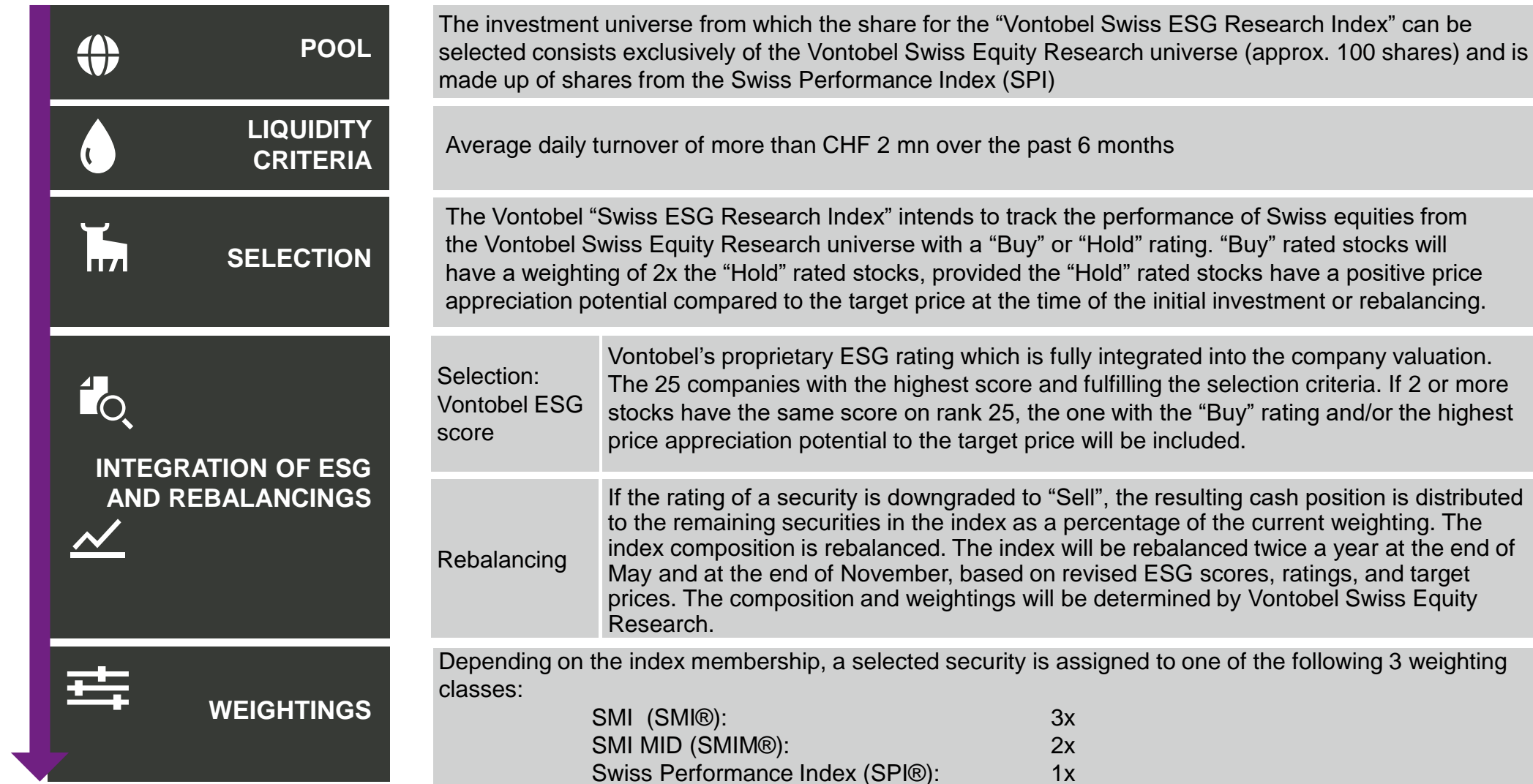
**Roughly 90% of studies find a non-negative long-term
relation between ESG criteria and corporate financial
performance. The least ESG can do is offer downside
protection**

**We include equities of
Swiss companies that score
best in our ESG framework**

**Vontobel has developed a bottom-up framework, which we
fully integrate into our company valuations and price
targets. Our deep-dive into ESG in discussions with the
companies in our universe help us find what lies beneath
the surface**

The Concept

Vontobel Swiss ESG Research Index



Indicative initial composition*

Vontobel Swiss ESG Research Basket

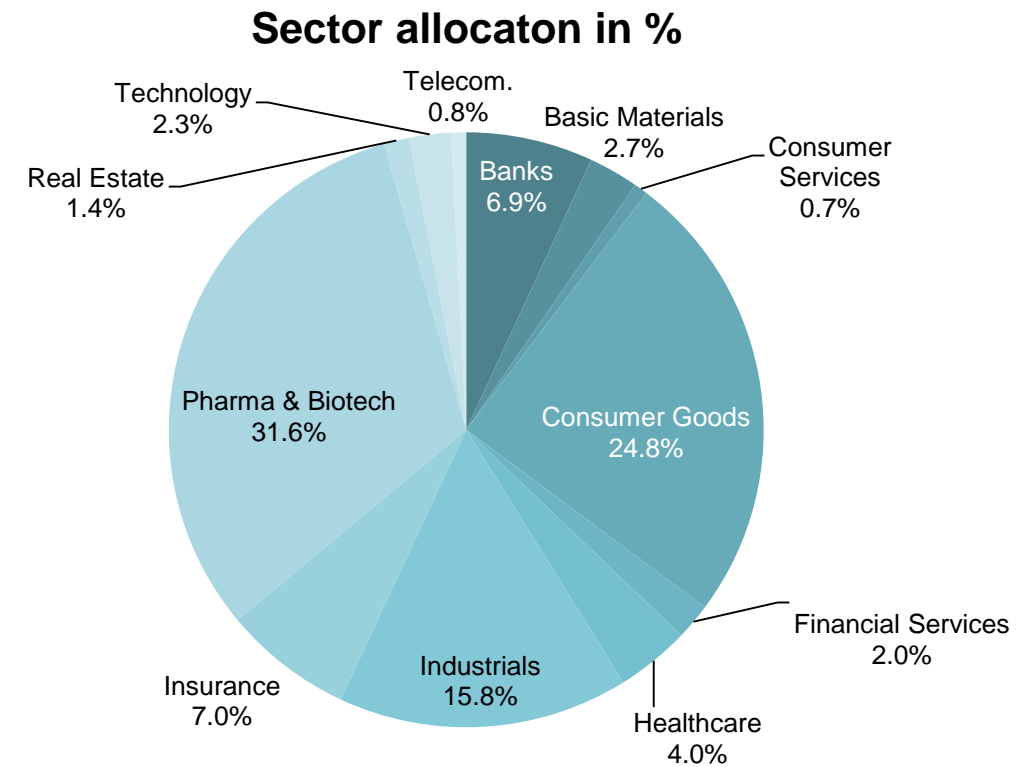
Name	Vontobel Rating	Vontobel Price Target	Index	Sector	Basket Weight (%)
ABB Ltd	Hold	25.5	SMI	Industrials	3.33%
ALSO Holding AG	Buy	274	SPI	Technology	2.22%
Barry Callebaut AG	Hold	2200	SPI	Consumer Goods	1.11%
Belimo Holding AG	Hold	7800	SPI	Industrials	1.11%
Compagnie Financière Richemont SA	Buy	86	SMI	Consumer Goods	6.67%
Cembra Money Bank AG	Buy	130	SPI	Banks	2.22%
dormakaba Holding AG	Hold	520	SPI	Industrials	1.11%
Emmi AG	Hold	960	SPI	Consumer Goods	1.11%
Georg Fischer AG	Buy	1005	SPI	Industrials	2.22%
Galenica AG	Hold	64	SPI	Consumer Services	1.11%
Geberit AG	Hold	590	SMI	Industrials	3.33%
Givaudan SA	Buy	4800	SMI	Basic Materials	6.67%
Logitech International SA	Buy	98	SLI	Technology	4.44%
Nestlé SA	Buy	125	SMI	Consumer Goods	6.67%
Novartis AG	Hold	84	SMI	Pharma & Biotech	3.33%
Partners Group Holding AG	Buy	1090	SMI	Financial Services	6.67%
Roche Holding AG	Buy	418	SMI	Pharma & Biotech	6.67%
Swisscom AG	Hold	540	SMI	Telecommunication	3.33%
SGS SA	Buy	2950	SMI	Industrials	6.67%
Sika AG	Buy	270	SMI	Industrials	6.67%
Swiss Life Holding AG	Buy	456	SMI	Insurance	6.67%
Straumann Holding AG	Buy	1085	SLI	Healthcare	4.44%
Tecan Group AG	Hold	435	SPI	Healthcare	1.11%
Temenos AG	Buy	178	SLI	Technology	4.44%
UBS Group AG	Buy	14.5	SMI	Banks	6.67%

* The final Index composition will be displayed on the information page www.derinet.com.

Indikative initial composition – sector allocation

Vontobel Swiss ESG Research Basket

	SPI	Swiss ESG Basket	Active Weighting
Banks	6.9%	8.9%	2.0%
Basic Materials	2.7%	6.7%	4.0%
Consumer Services	0.7%	1.1%	0.4%
Consumer Goods	24.8%	15.6%	-9.3%
Financial Services	2.0%	6.7%	4.7%
Healthcare	4.0%	5.6%	1.6%
Industrials	15.8%	24.4%	8.7%
Insurance	7.0%	6.7%	-0.3%
Pharma & Biotech	31.6%	10.0%	-21.6%
Real Estate	1.4%	0.0%	-1.4%
Technology	2.3%	11.1%	8.8%
Telecommunication	0.8%	3.3%	2.5%
	100%	100%	0%




Product details

Vontobel Swiss ESG Research Basket

PRODUCT DETAILS*

Subscription period ends at
4:00 p.m. CET on December 16, 2020

SSPA product type	Tracker certificate (1300)
Underlying	Vontobel Swiss ESG Research Index (index currency CHF)
Initial fixing / payment	December 17, 2020 / December 24, 2020
Duration	Open-ended
Index fee	1.2% p.a.
Issuer	Bank Vontobel AG, Zurich (Moody's long-term rating Aa3)

	
Currency	CHF
ISIN	CH0553376176
Issue price	CHF 101.50 (including CHF 1.50 issuing commission)
Initial reference price of underlying	CHF 100.00

[Detail page](#) 

[Term sheet](#) 

*All information is indicative and may be adjusted. Only the term sheets published on www.derinet.com together with the associated notifications and adjustments are legally binding.

Schweizer Aktienmarkt - Ausblick 2021

Swiss Equity Market - Outlook 2021

Marché des Actions Suisses - Perspectives 2021

Q&A

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