

Equity analysis and model portfolios

R & A equity portfolios

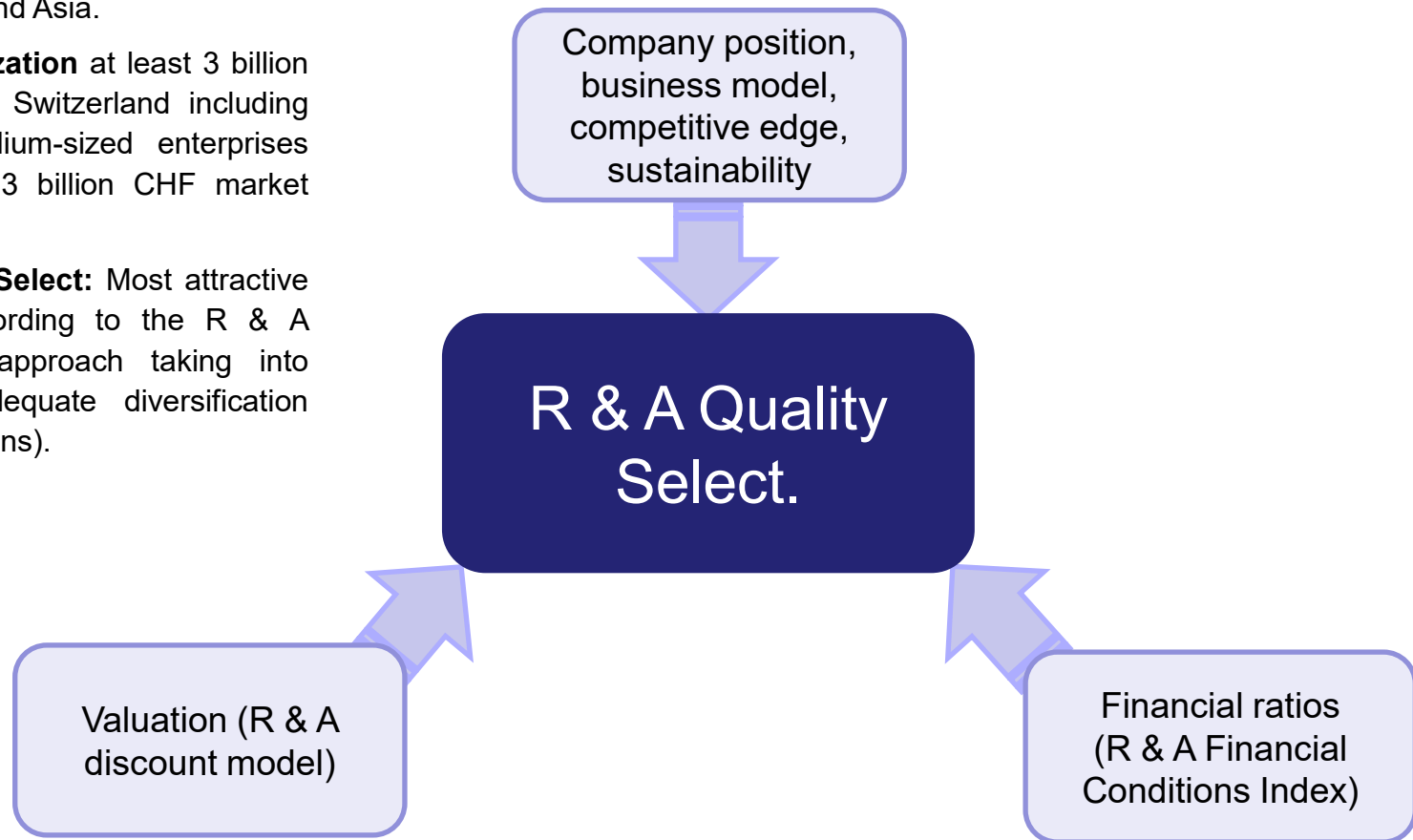
Global portfolios and equity lists	Global Sector Portfolio: 80 - 90 companies globally diversified (majority USA, Europe). Global Portfolio: 25 - 30 companies globally diversified (majority USA, Europe).
Regional portfolios	USA: 20 - 25 large cap quality companies. Europe: 20 - 25 large cap quality companies. Switzerland: 20 - 25 Swiss companies (incl. small- and mid caps). Austria: ca. 15 Austrian companies.
Style portfolios	Value. Growth. Dividend yield.
Tailor-made portfolios	According to client specifications and requirements.

Stock selection: R & A Quality Select

Universe: 1600 enterprises Europe,, United States, and Asia.

Market capitalization at least 3 billion euros (universe Switzerland including small and medium-sized enterprises with at least 0.3 billion CHF market cap).

R & A Quality Select: Most attractive companies according to the R & A quality select approach taking into account an adequate diversification (industries, regions).



Company position, business model, competitive edge

Proven business model.

Good market position, based e.g. on one or several of the following attributes:

- ☐ Unique product offering (branded consumer goods, capital goods, technology).
- ☐ Established long-term client relationships (e.g. long-term contracts, high switching costs).
- ☐ Business model or strategy allowing for systematic market share gains (e.g. retail trade).
- ☐ Exposure to mega trends (e.g. sales in emerging economies, energy, demographics).
- ☐ Above average returns on invested capital.
- ☐ High market share/dominant market position.
- ☐ Low production costs.

Proven management.

At least a sector average medium to longer term **growth outlook**.

Fundamental outperformance: Needs to be reflected in an outperformance of the industry-group (last 3 years, 5 years, 10 years), except for specific value situations or companies with a credible shift in strategy.

Sustainability: R & A sustainability index.

Sustainability indicators (ESG criteria)

The table shows various sustainability indicators of the equity selection.

The R & A Sustainability Index includes companies that are either among the leaders in their category in terms of sustainability (RobecoSAM) or have signed the UN Global Compact. The company must also not be explicitly excluded from the Stoxx ESG-X indices.

Core selection and ESG

The R & A core selections present themselves very well in terms of ESG criteria, especially when compared to the overall market indices.

The core selection Europe list almost completely fulfils the criteria. The core selection USA list is clearly ahead of the S&P 500.

Sustainability indicators R & A equity lists

	Robeco-SAM rank	UN Global Compact sign.**	R & A Sustain- ability Index**
Shares Europe	91	96%	100%
thereof long-term favourites	82	100%	100%
<i>Benchmark (Stoxx 600)</i>	77	46%	81%
Shares USA	80	48%	78%
thereof long-term favourites	80	57%	86%
<i>Benchmark (S&P 500)</i>	68	7%	58%

Note: *Median (Max. = 100). **Share of companies. R & A Sustainability Index: RobecoSAM > 60 or MSCI ESG rating A/AA/AAA or UN Global Compact signatory (and not excluded in the Stoxx-ESG-X). Source: RobecoSAM, UN Global Compact, index providers, own calculations.

Systematic analysis of financial ratios

Companies with a competitive edge have above average financial ratios, notably above average returns on invested capital (EVA, RoE, RoIC). **Quality companies** display above average financial health.

R & A Financial Conditions Index

- ❑ Comprehensive index measuring the financial health of a company.
- ❑ Comprises over 30 financial ratios (weighted according to the importance in the overall financial health of a company).
- ❑ Identical index calculation across countries and industries (except for financials).
- ❑ Sub indices
 - Balance sheet: Liquidity, indebtedness, equity, working capital.
 - Profitability (both earnings and free cash flow based): Return on equity, return on invested capital, return per employee, profit margins. EVA (economic value added).
 - Cash flow generation (absolute and in relation to earnings), cash flow usage, financing structure.



R & A Financial Conditions Index

Financial Conditions Index

Company static data					Financial Conditions Index (FCI)				
Name	Industry	Investment universe	CCY	Market cap. (USD bn)	FCI	Quartile	FCI components vs. average		
							Bal. sheet	Profitab.	Cash flow
Mastercard-Class A	Commercial Serv-Finance	Non-core	USD	97.8	328.8	4	+	+	+
H&R Block	Commercial Serv-Finance	-	USD	9.6	320.3	4	+	+	+
Monster Beverage	Beverages-Non-alcoholic	Non-core	USD	19.4	306.5	4	+	+	+
Brown-Forman	Beverages-Wine/Spirits	Core	USD	18.9	294.5	4		+	+
Societe Bic	Office Supplies&Forms	-	EUR	6.7	289.0	4			+
L'Oréal	Cosmetics&Toiletries	Core	EUR	100.0	280.7	4			+
Green Mountainfee Roaste	Coffee	-	USD	18.9	280.5	4			
SABMiller	Brewery	Core	GBp	87.6	278.6	4			+
Estee Lauder	Cosmetics&Toiletries	Non-core	USD	30.0	275.1	4			+
Reckitt Benckiser	Soap&Cleaning Prepar	Core	GBp	61.0	274.8	4			+
Anheuser-Busch Inbev	Brewery	Core	EUR	195.2	271.8	4			+
Molson	Brewery	Non-core	USD	14.2	269.0	4	+	+	+
Nestle	Food-Misc/Diversified	Core	CHF	248.6	260.9	4	+	+	+
Procter & Gamble	Cosmetics&Toiletries	Core	USD	229.7	250.9	4	+	+	+
Swedish Match	Tobacco	-	SEK	6.3	249.7	4		+	+
Coca-Cola	Beverages-Non-alcoholic	Core	USD	180.6	248.8	4		+	+
Henkel	Soap&Cleaning Prepar	Core	EUR	46.7	242.9	3	+	+	+
Pepsico	Beverages-Non-alcoholic	Core	USD	143.6	240.9	3		+	+
Beiersdorf	Cosmetics&Toiletries	Core	EUR	21.9	232.5	3	+		+
Unilever	Food-Misc/Diversified	Core	GBp	127.0	228.9	3		+	
Diageo	Beverages-Wine/Spirits	Core	GBp	72.9	226.7	3		+	+
Colruyt	Food-Retail	-	EUR	7.2	221.8	3	+		
Rentokil Initial	Divers Oper/Commer Serv	-	GBp	3.4	220.3	3		+	+
Heineken	Brewery	Core	EUR	42.2	218.3	3		+	+
Campbell Soup	Food-Misc/Diversified	Core	USD	14.9	207.2	3		+	
Danone	Food-Misc/Diversified	Core	EUR	42.9	195.8	3			+
Capita	Human Resources	Core	GBp	11.7	193.7	3			+
Kraft Foods Group	Food-Misc/Diversified	Non-core	USD	38.9	188.5	2			
Carlsberg	Brewery	-	DKK	11.5	180.6	2			
Pernod-Ricard	Beverages-Wine/Spirits	Non-core	EUR	32.2	179.7	2			
Mondelez International-A	Food-Misc/Diversified	Non-core	USD	60.0	178.5	2			
Compass Group	Food-Catering	-	GBp	28.8	176.1	1			
Kellogg	Food-Misc/Diversified	-	USD	23.4	165.2	1			
Securitas	Security Services	-	SEK	5.1	154.3	1			
Remy Cointreau	Beverages-Wine/Spirits	-	EUR	3.6	147.4	1			
Carrefour	Food-Retail	-	EUR	23.8	139.8	1			
Tyson Foods-CI A	Food-Meat Products	-	USD	14.9	132.3	1			
Metro-Vorz	Food-Retail	-	EUR	10.6	127.3	1			
Tesco	Food-Retail	-	GBp	29.7	118.5	1			

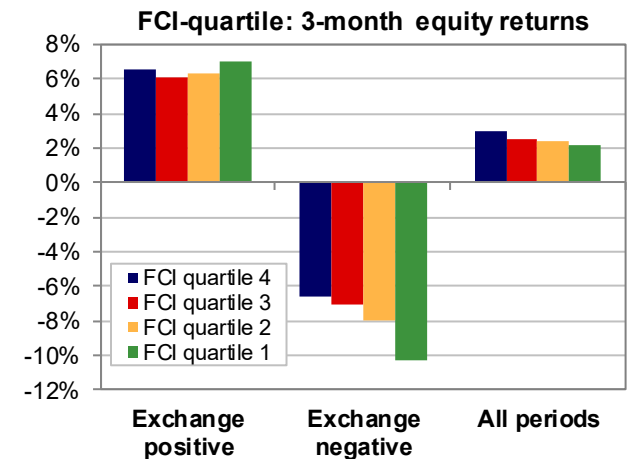
Note: Investment universe=part of our current investment universe; CCY=currency; Quartile=sample of ca. 1500 companies in global universe; +=above industry-sector average. Source: Company data, own calculations

Financial quality and equity returns

The chart shows the stock returns (total return for three months) in positive and negative stock market phases, in each case depending on the Financial Conditions Index (FCI) available at the time. The fourth FCI-quartile contains the 25% of companies with the best financial ratios (e.g. in terms of leverage, profit margins and cash flows), while the first quartile contains the financially weak companies. The results are based on companies from the Stoxx Europe 600 and the S&P 500 (excluding financials in each case) for which a complete data history is available for the analysis period 2005 to 2020 (560 companies in total).

In positive market phases, performance is largely independent of the FCI (with financially weak companies coming out very slightly ahead). In negative market phases, companies with above-average financial ratios clearly perform best. Over the entire period ("All periods" in the chart), in which stock market performance was very good overall, companies with good financial ratios even performed slightly above average. The results are also very similar for Europe and the USA.

The analysis allows the conclusion that an investment focus on companies with good financial ratios is worthwhile, especially as this is associated with a certain outperformance in bear market phases without the companies underperforming the overall market over an entire cycle.



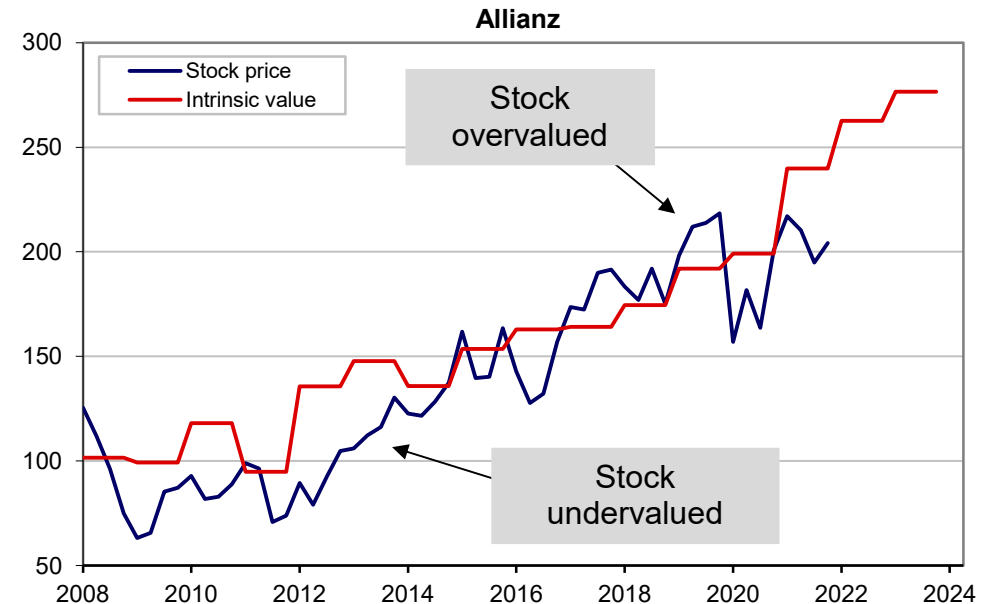
Source: Companies, exchanges, own calculations

Stock Selection: Valuation model

A company's intrinsic value is equivalent to the present value of future profits, adjusted not necessarily needed assets or liabilities (e.g. excess cash).

Country-, sector- and company-specific factors are taken into account for the future profits and the discount factors. A consistent parameterization of company-models ensures that the price potential of enterprises can be compared among countries and across industry sectors.

As an example, the graph contains the history of the intrinsic value of Allianz.



Discount rates, growth and valuation

The chart shows the P/E valuation of a low growth and a high growth company as a function of the discount rate (the sum of the risk-free interest rate and the risk premium). This is based on a one-step earnings discount model (Gordon Growth Model).

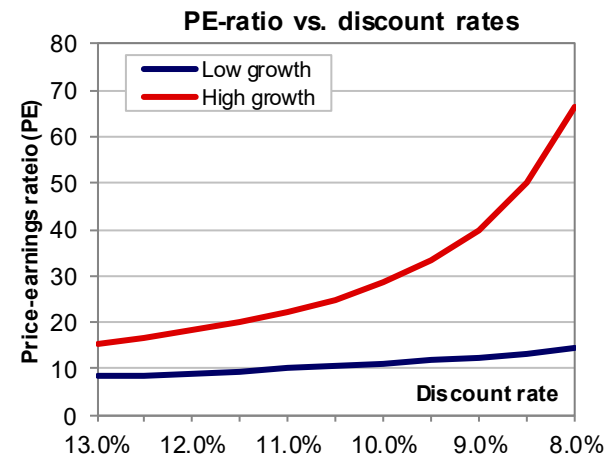
Even with large differences in the discount rate, the P/E ratio of the low growth company is an normal range of 8 to 14 times earnings.

In contrast, the P/E development of the growth company is strongly convex and even explosive in the transition to very low discount rates.

Conclusion

Currently, growth companies, especially when growth is above average largely independent of the economic cycle, are very highly valued, with P/E ratios increasing over the last 2 to 3 years and again very strongly during the corona crisis.

The driving factor is likely to be the risk premium (and much less the risk-free interest rate).



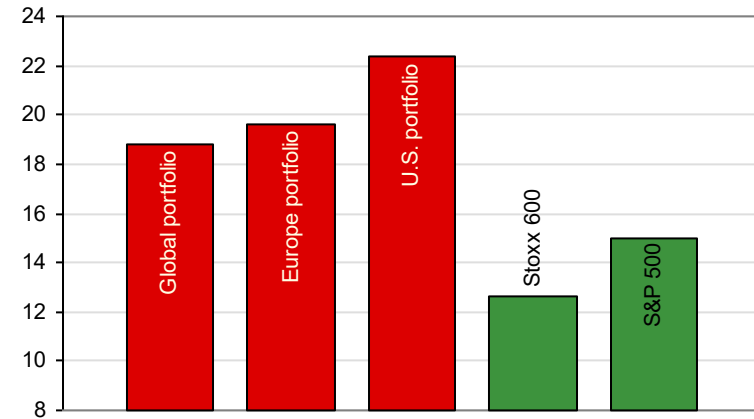
Source: Own calculations

Quality indicators of R & A portfolios

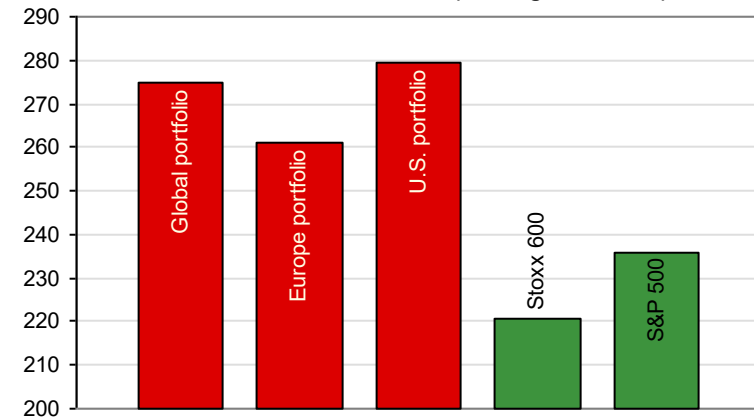
R & A portfolios

- ☐ Better financial ratios than the market-average.
- ☐ Higher returns on invested capital.
- ☐ Better 12-month earnings revision trend.

Return on invested capital (RoIC)



Financial conditions index (unweighted mean)



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