

Reichmuth Pilatus - P

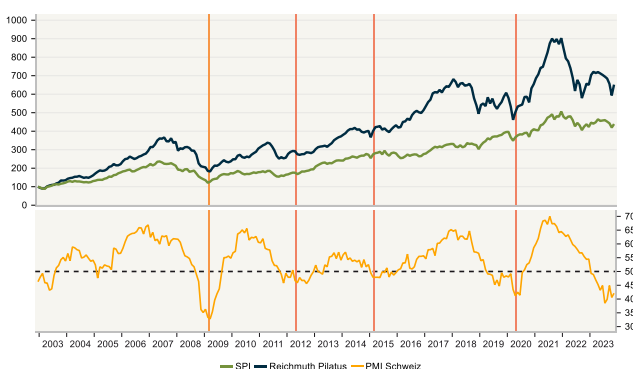
H2 2023

YTD +4.7%

Positive Year-End Closure

The second half of 2023 was marked by significant fluctuations in the stock markets, especially in the small-cap sector. During the summer, the economy proved to be more robust than generally expected. Central banks slowed economic growth with substantial interest rate hikes, leading to sharp declines in stock prices. By the end of October, the peak in interest rates was reached, and long-term rates sharply retreated by the year-end. This triggered a spectacular year-end rally, benefiting our cyclical small-cap selection. Reichmuth Pilatus gained 4.7% in the past year, a commendable result but falling below the long-term return expectation of 6-8% per annum. Since its inception in 1996, the fund has achieved an annual performance of 7.1%.

On one hand, the supply chain issues have eased, energy prices are lower, and transport costs have normalized. All of these factors are positive for company margins. On the other hand, the high order backlogs from previous years have been worked through, and the anticipated economic upturn with numerous new orders has not materialized yet. China is struggling to gain momentum, and industry in Europe is languishing. Leading indicators like the PMI confirm the currently bleak sentiment. However, caution is warranted, as resilient companies can adapt, and historically, managerial pessimism has signaled good buying opportunities. The graph below illustrates this point.



Quelle: Macrobond, Bloomberg (Stand: 27.12.2023)
Performance inkl. Dividendenzahlungen

Separating the Wheat from the Chaff

A nuanced perspective is worthwhile. Many of our portfolio companies deliver direct customer benefits and achieve high efficiency gains. This results in significantly better pricing power and stronger customer retention. The Near-Shoring trend remains relevant, offering opportunities for small, flexible companies. Regionalization is increasing; in China, production is increasingly tailored for the domestic market, while production for export markets is distributed across other continents, leading to an investment surge. We anticipate continued high fiscal deficits and tailwinds due to government investment programs.

The major contributors to performance in the second half-year include Also Holding, Comet, Siegfried, TX Group, and Inficon. Zehnder, Bystronic, and Schweiter experienced negative deviations. Also, Comet, and Inficon benefit from investments in AI, while Zehnder suffered from the unfavorable outlook in the German construction sector.

Swiss small-caps should be purchased contracyclically when sentiment is low, performance is below average, and leading indicators stabilize at a low level. This is currently the case, making weak phases opportune for additional acquisitions. The valuations are appealing, and the long-term growth prospects are favorable. Investment themes such as automation and robotics, health, and mobility remain relevant, driven by stable long-term growth trends. Our companies are well-positioned in their markets and possess the quality to overcome upcoming challenges with distinction.

Philipp Murer
Portfoliomanager

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