MANAGER’S COMMENT

Financial markets continued to climb in July at a slower pace than the two previous months. The surprising fall in both US and European interest rates has supported structural growth companies. The half year results’ publication season has started and has also influenced the development of the shares’ prices. Large caps, Nestlé, Roche and Novartis posted mixed results. In contrast, Belimo, Givaudan, Partners Group and Sika, among others, have shown excellent results. Despite good results, Kuehne + Nagel and Logitech were penalized by some profit taking.

The fund gained +3.9% in July, much better than its benchmark, the SLIC, up +1.5%. Year-to-date the fund is up +23.8% above its benchmark, +19.5%. This outperformance is explained by the strong showing of holdings such as Partners Group, Sika and Straumann, among others.

The fund has a 5 stars rating by Morningstar over 3 and 5 years.
1) Active Portfolio Management
The fund does not replicate the index. Its objective is to achieve steady growth based on security selection and valuation in order to best position the portfolio to deal with the various market phases. The fund invests in companies that show steady earnings growth, a solid balance sheet, a high return on investment and strong cash generation. The five-year average turnover of the Cadmos Swiss Engagement Fund remains very low at 9%, which indicates a true long-term focus from the portfolio managers. It also indicates that we keep the majority of our companies between 5 to 10 years providing us enough time to achieve tangible results through our engagement activities.

2) Active Voting & Stewardship
Of the total 726 votes that we cast in 2020, 5.2% were against management recommendations. We opposed at least one item at 53% of our companies which is a mark of how seriously we take our role as active shareholders. The vast majority of our portfolio companies do not however present controversial governance issues. We opposed none or only one item at 84% of our portfolio companies. 63% of all items submitted to the vote in 2020 concerned the board of directors.

3) Active Engagement & Impact
Engagement for the Strategic Integration of Sustainability:
Our dialogue with companies is geared to improve the strategic integration of sustainability into their business models.

At the end of 2020, we had already an engagement dialogue with 31 or 100% of the portfolio companies we assessed, 21 companies or 81% of long-term holdings improved on weak points raised previously and implemented our recommendations linked to the strategic integration of sustainability into their business models. We further increased our outreach and capacity to generate impact at Swiss companies from 52% to 66% of all the portfolio companies we hold since at least 5 years. In 2019, we had reached our five-year objective to create impact at a majority of our portfolio companies.

Engagement for Tangible SDG Impacts - SDG 17 Social Impact Partnerships
We encourage all portfolio companies to implement more conflict-sensitive and peace-promoting business practices within their operations in fragile states.

We encourage all portfolio companies to create superior value by embedding the SDG’s in their business models: social, environmental and business value. We selected 15 portfolio companies to engage on tangible SDG impacts. 13 or 87% of them expressed interest in identifying together with our social impact partners, how they can best progress on the SDG journey. Together with our social impact partners, we developed a healthy pipeline of 7 interested companies (44% of the engaged companies) which we met once or several times to discuss issues around the SDGs. We are already developing a partnership with 4 companies (Nestlé, SGS, Straumann and Novartis) to create additional social impact and make the SDG’s a source of business value.

Engagement example from past quarter: logitech
As a Swiss global provider of personal computer and mobile accessories with offices throughout Europe, Asia and America, Logitech has its main exposure with its product environmental and social impact. In our annual assessment, we focus on the topics of waste and hazardous materials management, lifecycle impacts of products and services, and product quality and safety. Further, the company’s supplier social impact is relevant, especially regarding working conditions and human rights.

This year’s engagement meeting was again attended by the VP Finance and the Head of Global Sustainability. As in the years before, the conversation with both company representatives was very informative, interested and committed. Logitech is on a promising track towards more transparency, accountability and reporting. Some of the recommendations that we discussed are now implemented, particularly regarding packaging: Logitech has developed packaging related indicators and a very strong commitment regarding sustainable packaging material. In FY20 Logitech updated its design process to incorporate environmental targets alongside other traditional product development goals like cost, user experience and technical feasibility. Logitech is also working on integrating the social aspects more strongly into their concept of Design for Sustainability. It has indeed strengthened its commitment to sustainability since our last engagement in 2019.