

New Capital Swiss Small and Mid-Cap Future Leaders



Quarterly Commentary | As of 31 March 2026

Market overview

Markets began the year on a positive note in January, with the MSCI All Country World Index rising 2.9% in US dollar terms, driven by a nearly 9% gain in emerging markets. US small caps outperformed, and value stocks continued their recovery versus growth stocks. Commodity prices saw unusual volatility, with gold, silver, and copper reaching new all-time highs and oil rebounding due to geopolitical tensions, including US military action in Venezuela, conflict with Europe over Greenland, and threats of intervention in Iran. Concerns about the Federal Reserve's independence, heightened by a criminal investigation into Chairman Powell, pushed government bond yields higher, though the nomination of Kevin Warsh as Powell's successor helped ease fears and led to a correction in commodity prices. Despite a partial recovery, the US dollar remained down 1.5% in trade-weighted terms since the start of the year. Stock markets were buoyed by a solid global economic cycle and expectations of Fed rate cuts, with corporate profits revised upward and projected to grow by double digits for a second consecutive year, though elevated valuations warrant caution.

In February, global equity markets continued to rise, with the MSCI World All Countries Index up 1.3%, bringing year-to-date gains to 4.3%. Gains were driven by markets outside the US, as the S&P 500 fell 0.8% and lagged other developed and emerging markets, which were up more than 14%. Value, small, and mid-cap stocks outperformed growth and large caps, particularly as tech companies weighed on performance. Safe assets rallied alongside equities, with falling government bond yields, rising gold prices, and a stronger Swiss franc, reflecting heightened risk of US and Israeli military action against Iran and concerns about credit quality. The US earnings season remained robust, but the announcement of over \$600bn in artificial intelligence (AI)-related investment by US hyperscalers raised questions about future profits. The US Supreme Court's ruling against Trump's tariffs under the International Emergency Economic Powers Act led to a decrease in effective US tariff rates, supporting the global business cycle.

March saw a sharp reversal, with the MSCI All Countries World Index falling 7.1%, erasing earlier gains and leaving first quarter performance at -3.1%. Bonds also declined as yields rose on fears of renewed inflation and more restrictive central bank policies. The shift in sentiment was triggered by the US and Israel's war against Iran, resulting in the closure of the Strait of Hormuz and threatening global supply chains, especially for energy, agri-food, steel, and semiconductors. The US, less dependent on these supplies, saw its equities and bonds outperform and the dollar strengthen, while non-US markets and currencies suffered. Notably, gold prices fell despite expectations of safe haven demand, as investors and central banks sought liquidity to address emergencies. Nevertheless, medium- to long-term fundamentals for gold remain supportive of a gradual price increase.

Fund performance and positioning

Swiss equities declined in line with global markets in the first quarter, with early gains in January and February offset by a sharp sell-off in March, driven by geopolitical tensions and energy market volatility. Small and mid-caps in Switzerland outperformed large caps, though the overall market forced broad valuation compression, particularly among high-quality innovation-led companies. The fund underperformed its benchmark, mainly due to drawdowns in March and underweights in financials (cantonal banks) and real estate, though stock selection earlier in the quarter was a positive contributor. Healthcare and industrials were the main detractors. In our view, current valuations – especially with 64% of Swiss Mid-Caps trading below 10-year averages – are at an attractive entry point for long-term focused investors.

Swiss equities – as measured by the Swiss Performance Index – declined by 2.1% in the first quarter, driven by strong performance in January and February, which was followed by significant decline of 7.4% in March amid the war in Iran and the spike in energy markets that have rattled global markets. Small and mid-caps (as measured by the SPI Extra) outperformed the SPI during the first quarter and continued their streak of outperformance since liberation day last year (April 2025). Yet, the SPI Extra dropped by 1.0% in the quarter and 6.5% in March. According to positioning data, this leaves the Swiss equity market as the second most net-sold market in Europe, as the geopolitical uncertainty impacted not just stocks but also safe havens like bonds, gold, currencies and safe-haven assets. Cyclical underperformance and growth underperformance value significantly during the quarter.

At a portfolio level, the fund lost -3.6% in the quarter, underperforming the benchmark by 265 basis points. January and

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February started with positive performance and positive stock selection effects, but the drawdown was particularly harsh in March (-7.3%). As a fund focused on Swiss innovators, we are structurally underweight financial services stocks (2.6% underweight) and real estate stocks (5.8% underweight), yet the rotation into domestically focused names shielded from geopolitical risks were helping both sectors in particular regional and cantonal bank stocks which were up 18% on average in the quarter, while real estate stocks were up around 9.3%. The structural underweights in those sectors explained roughly 70% of the underperformance in Q1 (or -1.6% in relative performance).

In addition, the Q1 underperformance reflects the broad-based valuation contraction of many high-quality innovators: While the headline decline of 3.3% appears rather benign, the rotation below the surface is more extreme: The P/E-ratio of the Swiss universe of innovation leaders de-rated by 11% during the quarter and now more than 60% of Swiss small & mid-cap stocks trade below 10-year average P/E ratios, creating, in our view, new opportunities for selective stock picking. This is particularly evident where the de-rating of many stocks appears unjustified by underlying company fundamentals and has instead been driven by headline news. This trend has been especially pronounced in the healthcare and industrial sectors:

- The health care sector is our biggest exposure and overweight (33% of net asset value and 5% overweight). Almost 40% of the negative absolute performance in the fund in Q1 was driven by the health care sector. For instance, the Contract Development Manufacturing stocks in the portfolio (around 7% of NAV), were down on average 10% in February as they dropped on headline news related to Novo Nordisk's study that failed to show superiority to Eli Lilly's weight loss drug. Yet those Contract Development and Manufacturing Organization (CDMO)s have limited exposure to Novo Nordisk or even benefit from higher exposure to Eli Lilly. Siegfried dropped 10% in February and 13% in March on a rather cautious guidance for 2026, while fundamentals appear very much intact, while we believe the guidance just reflects management's prudence.

- Industrials are the second biggest sector exposure of the fund (30% of NAV with an almost 3% overweight). While stock picking effects were positive in the quarter, the drawdown in March, induced by the Middle Eastern conflict, led the more cyclical industrial sector lower by 10% in March, resulting in negative sector allocation effects. Within industrials the biggest detractors were Interroll (-33% in Q1), Daetwyler (-12%) and Kardex (-15%), with stock level de-ratings looking overdone as Interroll showed improving order momentum and trading at 10-year lows, Kardex saw exceptionally strong order intake in H2, driving a record backlog and Daetwyler posting improvement in growth in the healthcare segment and giving a confident (albeit unspecific) outlook.

Last but not least the fears around artificial intelligence (AI) displacing software, led to a sharp sell-off in software stocks and perceived AI losers despite strong fundamentals. The AI headline risks collectively shaved off 1.1% during the quarter, accounting for 34% of the Q1 decline, despite the fact that three stocks in focus (Software One, Temenos and SMG) only account for 5% of the portfolio, yet those stocks were down 20% on average. Our deep-dive analysis into these business models and recent channel checks, however, point to limited displacement risks from AI, pointing to recovery potential from here, in our view.



In our view, current valuations – especially with 64% of Swiss Smid-Caps trading below 10-year averages – are at an attractive entry point for long-term focused investors.



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	New Capital Swiss Small and Mid-Cap Future Leaders	Swiss Performance Extra Index	Difference
1 Month	-7.27%	-6.50%	-0.77%
3 Months	-3.63%	-0.98%	-2.65%
6 Months	+1.50%	+4.98%	-3.48%
YTD	-3.63%	-0.98%	-2.65%
1 Year	+9.70%	+12.29%	-2.59%
3 Years	+13.56%	+16.42%	-2.86%
5 Years	+0.79%	+9.19%	-8.40%
10 Years	+64.09%	+103.42%	-39.33%
Since Inception Annualised	+5.42%	+6.46%	-1.04%
Since Inception (13/03/2014)	+88.98%	+112.60%	-23.62%

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Outlook

With now more than 60% of Swiss Small & Mid-Cap stocks trading below 10-year average P/E ratios, we believe the current sell off provides attractive entry opportunities for active stock selection. As a result we have started to add exposure to stocks that look unjustifiably discounted. The valuation de-rating described above were to a large extent driven by headlines (from AI displacement fears, Novo Nordisk news impacting CDMO stocks, private credit concerns impacting banks and private markets providers) that led to rotations (like the strong outperformance of regional banks and real estate stocks), which may reverse. While global recession risks have risen with the Middle East war, we still believe in the early-cycle playbook as leading indicators such as manufacturing purchasing managers' indexes have started to improve in the eurozone. In addition, we have seen earnings growth expectations for Swiss small & mid-caps being revised up even during March. We therefore view the recent underperformance as cyclical rather than structural, and as a result believe this to be a compelling entry point for long-term investors seeking exposure to quality Swiss innovators.

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