

November 15, 2019

## Dear Clients and Colleagues:

This week Global Alpha was in Switzerland seeking new potential investments. This small country of 8.5 million inhabitants is punching well above its weight and is among the top 20 economies in the world at \$700 billion. The average income in Switzerland is \$84,000, one of the highest in the world, and its highest income tax rate is 36%, the lowest in Western Europe.

What is remarkable and perhaps surprising about Switzerland is how well the country is doing in terms of income equality. The middle class accounts for 70% of the country's assets. Also important in terms of equality is access to health care. Switzerland has a system that requires everyone to buy insurance from private providers with the caveat that those unable to afford it are subsidized. The Swiss public school system is interesting in that it identifies the academic strengths of students as young as aged 12, and shapes their studies accordingly.

It would be remiss not to mention Switzerland's negative interest rates, which have been in place for over four years and were applied to prevent the Franc from appreciating too much. It is a contributing factor in Switzerland having the highest household debt-to-GDP ratio in the world. The low interest rate environment has also contributed to a hot housing market as property prices have skyrocketed.

Switzerland recently went to the polls, and while the conservative People's Party (SVP) remained in power, the largest gains were made by the Green Party, winning 13.5% of the votes, and the Liberal Greens, winning 7.8% of the votes. This should lead to a more prominent green agenda in the House and possible changes with regard to regulations, taxes and subsidies.

Although not part of the European Union, the borders between Switzerland and the EU are open, allowing for the free movement of people, and this has helped it become one of the most innovative countries in the world. These open borders are also an economic advantage as exports of goods and services make up over 60% of the country's GDP, and exports have not been declining with the recent strength of the Swiss Franc, which is a positive sign that customers are willing to pay more for Swiss products and services and the quality associated with them. Swiss companies often target specialized niches, such as biotech and engineering, and become global leaders in their fields. Corporate Switzerland has an entrepreneurial spirit; there are around 500,000 small- and medium-sized enterprises in the country, accounting for two of every three jobs.

One of these niche-market global leaders, and a potential beneficiary of the Green swing in the Swiss parliament, is Schweiter Technologies, a holding in our portfolios. Schweiter, via 3A Composites,

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manufactures and markets high-quality aluminum composite panels, structural composite materials, plastic sheets and lightweight foam boards. It transforms raw materials, such as aluminum, paper, plastics and balsa wood, into unique light-weight solutions. The company is a global market leader in the production of core materials for sandwich constructions, particularly for use in wind farms.

The advantage of using a solid material is its uniform mechanical properties. The main advantage of using a composite material is it weighs less but retains the required stiffness. To a lesser extent other advantages include excellent surface quality, thermal isolation and efficient use of raw materials, depending on how the sandwich is constructed. A core competence of Schweiter is designing the most effective sandwich configuration and specifying the best raw materials to use in construction. Schweiter uses the same manufacturing process and raw materials across all segments, resulting in significant cost savings. These result in cost advantages over competitors that concentrate on individual markets and have a narrow product range.

Schweiter's main business segment is Display which accounts for 51% of sales. This segment produces products used for interior and exterior signs, kiosks and point of purchase displays. Core Materials contributes 17% of sales and includes the sale of balsa ply panels used mainly in blades and nacelles production in wind turbines. Architecture and Design accounts for 16% of sales. Its products include aluminum composite materials that are fire-rated and for use in facades and cladding for both exterior and interior applications. Transport and Industry accounts for 14% of sales. The product line is similar to Core Materials but includes integrated functions, such as floor heating and insulation.

Going forward, Schweiter will continue to invest in attractive industrial activities that will provide growth potential for the company's segment-specific sandwich offerings. Non-organic growth is also a part of the company's growth strategy, as exemplified by the recent acquisition of Perspex, a company with a wide product range that complements Schweiter's existing acrylic sheet business.

Have a great weekend.

The Global Alpha team

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