

Quality by Design – An Interview with Our Swiss Equities Fund Manager

In this interview, we ask Illya Lebedynets, our Lead Portfolio Manager on his view of the Swiss market and the Swiss Equity High Conviction strategy.



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High Conviction Fund
DWS

IN A NUTSHELL

- A high conviction approach built on earnings durability, pricing power and disciplined capital allocation
- A concentrated portfolio with risk managed through economic exposure and position sizing, not sector constraints
- Long-term outperformance driven primarily by stock selection and identification of true compounders
- The Swiss franc as a structural quality filter, with currency risk assessed at company level rather than hedged
- Current opportunities where short-term uncertainty contrasts with solid long-term fundamentals, combined with strict valuation discipline

The strategy behind is “high conviction” by design. How do you define conviction in the context of Swiss equities, and what criteria must a company meet to earn a place in this concentrated portfolio?

For us, conviction starts with clarity on earnings durability. A company earns a place in the portfolio only if we have high confidence in its ability to grow cash flows through different market environments.

In practical terms, we look for businesses with clear pricing power, strong competitive positioning in their niche, and a track record of disciplined capital allocation. I want to understand exactly why margins are sustainable and where future growth comes from - be it innovation, mix improvement, or structural demand.

Because the portfolio is concentrated, every position must matter. Conviction is reflected not only in position size, but also in the willingness to hold through volatility as long as the underlying investment case remains intact.

Switzerland is known for its heavy weighting in large caps, particularly in healthcare and consumer staples. How do you navigate sector concentration risk while still exploiting the strengths of the Swiss equity universe?

We don't manage concentration mechanically by sector weights. Instead, we focus on diversifying economic exposure.

Many Swiss large caps may sit in the same sector, but they are often exposed to very different end markets, growth drivers, and cost structures. For example, within healthcare or consumer staples,

some companies are driven by innovation and emerging-market demand, while others are more defensive cash-flow generators.

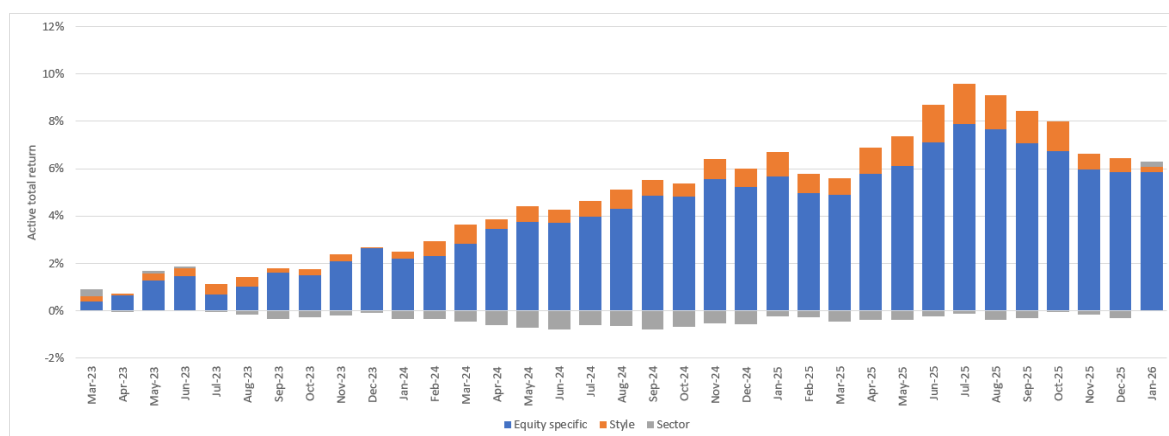
From a portfolio perspective, we pay close attention to overlapping risk factors - such as sensitivity to global growth, currency, or input costs - and manage position sizing accordingly. This allows us to benefit from the structural strengths of the Swiss market without unintentionally concentrating the same risk multiple times.

What have historically been the main drivers of outperformance for this strategy - stock selection, sector allocation, mid cap exposure, or something else, and how consistent have these drivers been over time?

The primary driver has clearly been stock selection. The strategy is built around identifying companies that can consistently deliver earnings growth above market expectations.

Sector allocation and style exposure have contributed at times, but they are not structural return drivers. What has been consistent is our focus on quality companies with self-driven growth, rather than relying on macro or cyclical tailwinds.

In Switzerland in particular, performance dispersion tends to increase when growth becomes scarcer. In those phases, the ability to differentiate between true compounders and businesses with only temporary momentum becomes especially important.



Source: DWS International GmbH, Aladdin BRS. *Past performance is not indicative of future returns.*

How do currency dynamics - particularly the role of CHF as a perceived safe-haven, influence portfolio construction and risk budgeting, and which scenarios would lead you to revisit hedging or position sizing?

We do not hedge currency exposure. Currency strength is a structural feature of the Swiss equity market, not a temporary distortion, and we treat it accordingly. Since mid-1960s, the Swiss franc (Real Effective Exchange Rate) has appreciated by roughly 0.8% p.a. on average against major currencies.

The long-term trend is not an anomaly – it reflects Switzerland’s institutional stability, competitiveness, and balance-of-payments strength. Importantly, Swiss companies have operated under this structural headwind for decades.

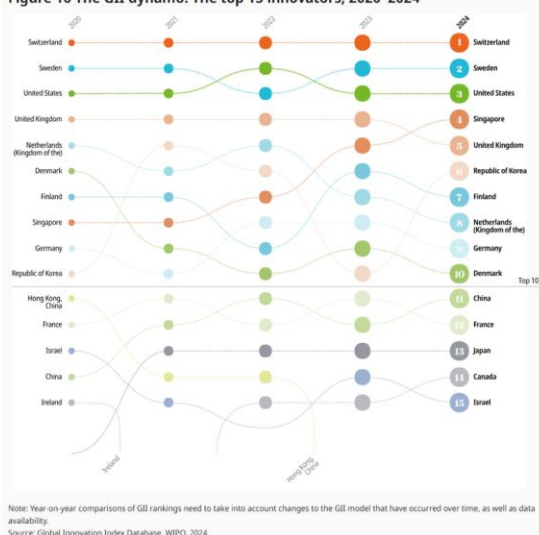
In our view, this is precisely one of the reasons why Swiss companies remain among the most innovative and competitive globally. Persistent currency appreciation acts as a continuous pressure test: only companies with strong pricing

power, high value-added products, operational excellence, and global relevance are able to sustain margins and reinvest through cycles. Over time, this pressure has reinforced quality rather than eroded it.

Switzerland - Innovation Leader

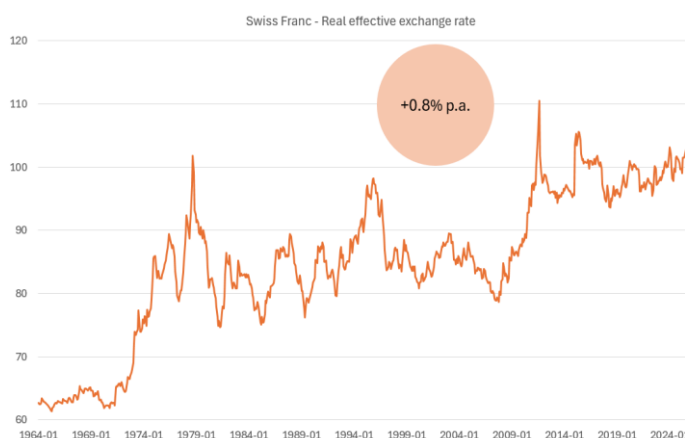
SUSTAINING RESILIENCE AMID RISING PRESSURES

Figure 16 The GII dynamo: The top 15 innovators, 2020–2024



Source: Global Innovation Database, WIPO; As of December 2024. *Past performance is not indicative of future returns.*

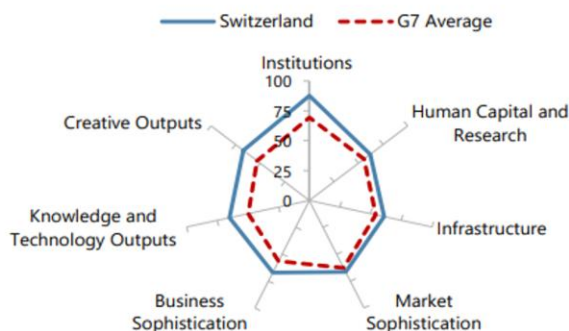
From a portfolio perspective, currency risk is managed entirely at the company level, not through overlays. We focus on businesses with global revenue exposure, flexible cost structures, and the ability to pass through currency effects via pricing or productivity gains. If a strong Swiss franc were to structurally undermine a company's economics or strategic optionality, that would be reflected in our conviction and position sizing. Accepting currency volatility is therefore not a risk we try to eliminate, but a filter that helps identify the strongest companies within the Swiss equity universe.



Source: Bank for International Settlements via FRED, DWS International GmbH; As of December 2025. *Past performance is not indicative of future returns.*

Global Innovation Index, 2024

(Scores out of 100)^{1/}



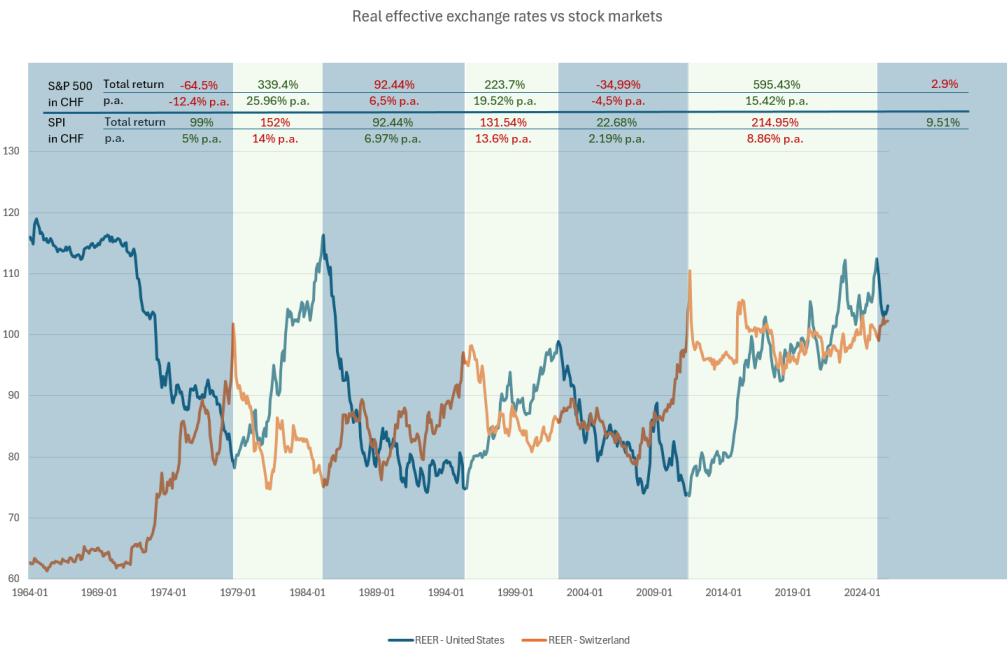
As we move into 2026, where do you see the most compelling opportunities in the Swiss equity market, and what potential headwinds are you preparing the portfolio for?

Looking into 2026, I see opportunities where short-term uncertainty contrasts with solid long-term fundamentals. This includes selective industrial and technology-driven businesses, as well as companies going through operational or strategic transitions that are not yet fully reflected in valuations.

At the same time, valuation discipline remains critical. Some high-quality Swiss names are priced for very stable growth, which leaves little margin for error. In those cases, patience and selective exposure are key.

In terms of allocation, for Swiss investors, the Swiss equity market is particularly attractive at the current stage of the cycle. With the USD real exchange rate elevated and US valuations high, currency effects have historically been a dominant headwind for CHF-based investors in foreign equities. By contrast, Swiss equities offer exposure to globally competitive companies whose business models are structurally adapted to a strong and appreciating Swiss franc. At this point in the cycle, investing at home reduces currency risk while preserving access to innovation, pricing power, and resilient long-term returns. As a result, the Swiss market has historically delivered more stable – and at this point of cycle, potentially higher returns for Swiss-based investors, by reducing currency drag while maintaining access to innovation, pricing power, and long-term compounding.

Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.



Source: DWS International GmbH, Bank for International Settlements via FRED, Bloomberg; As of December 2025. Past performance is not indicative of future returns.

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