

Asset class: Equities
Educational material for clients

Banque Bordier & Cie SCmA

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*This educational sheet provides a simple explanation of what shares are as financial instruments representing an ownership stake in a listed company, as well as the main risks associated with them. It is intended for clients without financial expertise and **does not replace, where applicable, a key information document (KID), a prospectus or any other official information documentation relating to the instruments in question.***

1. Introduction

Shares play a central role in the world of financial investments. This document is designed to help our clients understand this asset class by clearly and accessibly explaining its characteristics, advantages, risks and role in building a diversified portfolio. It is primarily aimed at private investors wishing to consolidate their understanding of the fundamental concepts.

2. What is a share?

A share represents a fraction of a company's capital. By acquiring a share, the investor becomes a co-owner of the company, with all the rights and responsibilities that this entails. Shares may be listed on a stock exchange or remain unlisted. Their value fluctuates depending on the company's performance, economic prospects and market supply and demand.

Holding shares gives the investor a right of ownership, but also direct exposure to the company's growth and risks. The nominal value of a share corresponds to the portion of the share capital it represents, whilst its market value reflects the collective perception of its future value.

3. Key characteristics of shares

Shares have specific characteristics that distinguish them from other financial instruments. They offer attractive long-term return potential, in return for direct exposure to risks associated with the company and the financial markets.

- **Equity ownership and shareholder rights:** holding a share means owning a fraction of a company's capital. Shareholders enjoy financial rights, such as the potential receipt of dividends, as well as corporate rights, notably the right to vote at general meetings, depending on the class of shares held.
- **High long-term return potential:** shares offer direct exposure to corporate growth. Returns may come from an increase in the share price (capital gains) and, where applicable, from dividend payments. Over the long term, shares have historically delivered higher returns than many other asset classes, although there is no guarantee of future performance.
- **Volatility and fluctuations in value:** the value of shares may fluctuate significantly in the short term. These fluctuations are influenced by the company's financial performance, its prospects,

general economic conditions, sector-specific events, and supply and demand on the stock market.

- **Generally high liquidity for listed shares:** shares listed on a regulated market can generally be bought or sold quickly at market prices. However, liquidity may vary depending on the size of the company, trading volume and market conditions.
- **Transparency of information:** listed companies are subject to disclosure and financial reporting obligations. This transparency allows investors to access regular information on the company's financial position and prospects, without eliminating the risk of misinterpretation.
- **Direct exposure to the company's risk:** as a co-owner, the shareholder bears the risks associated with the company's business directly. In the event of significant difficulties or bankruptcy, the investor may suffer a partial or total loss of the capital invested.

4. Purpose of shares

Issuing shares enables a company to finance its development, innovation or expansion projects. For the investor, shares offer a dual source of return: the possibility of receiving dividends (a share of the profits distributed by the company) and that of realising capital gains when selling the shares if their value has increased.

Investing in shares also means participating in the economy, supporting businesses and, in the long term, benefiting from the growth potential of the financial markets. Shares are also a diversification tool, allowing risks to be spread across a portfolio.

5. What are the main types of shares?

Shares can take various forms, depending on the rights they confer on their holders and the capital structure of the issuing company. These differences can affect voting rights, the receipt of dividends and the level of risk for the investor.

- **Ordinary shares (or common shares)** Ordinary shares are the most common form of listed shares. They generally confer on their holders' voting rights at general meetings and a right to dividends, when the company decides to distribute them. The value and income associated with these shares depend directly on the company's performance and prospects.
- **Preference shares** Preference shares offer certain specific advantages, such as a priority or fixed dividend, or priority in the event of the company's liquidation. In return, they may carry limited or no voting rights. These shares may have a different risk and return profile to ordinary shares.
- **Shares with or without voting rights** Some companies issue several classes of shares, distinguishing in particular between shares with voting rights and those without. This structure allows founders or certain shareholders to retain control of the company, whilst opening up the capital to other investors.

- **Listed and unlisted shares**

Listed shares are traded on an organised stock exchange, generally offering high liquidity and continuous valuation.

Unlisted shares, on the other hand, are not traded on a regulated market. They offer lower liquidity, are valued less frequently and carry a higher risk profile. They are not covered in this document and fall under the category of private equity investments. For a full description, **please refer to the educational factsheet on ‘Private Equity’**.
- **High-dividend shares or growth shares**

Although they do not constitute a legal category, certain shares are often distinguished according to their economic profile. High-dividend shares prioritise the regular distribution of income, whilst growth shares primarily aim to increase capital value, with little or no dividends in the short term.

6. The main players in equity investment

Equity investment involves several parties, each playing a distinct role in the issuance, trading, custody and monitoring of securities.

- **The issuing company:** this is the firm whose shares are issued. It uses the capital raised to finance its operations, investments or development. The company’s financial performance, strategy and governance directly influence the value of the share.
- **Stock markets:** listed shares are traded on organised markets (stock exchanges), which ensure the matching of supply and demand, price formation and the liquidity of securities. Stock markets play a central role in transparency and access to information.
- **Financial intermediaries (banks, brokers):** financial intermediaries execute buy and sell orders on behalf of investors. They also manage securities accounts and hold shares in custody. Their role is essential for market access and the security of transactions.
- **Supervisory authorities:** equity markets are subject to a strict regulatory framework. Supervisory authorities ensure compliance with applicable rules, particularly regarding transparency, financial reporting and investor protection. The level and methods of supervision depend on the country in which the shares are listed.
- **Investors:** investors, whether retail or institutional, contribute to price formation through their buying and selling decisions. Their collective behaviour influences market liquidity and volatility.

7. The life cycle of a share

The life cycle of a share traces the main stages that a stake in a company’s capital may go through over time. It varies according to the company’s strategy, its stage of development and the decisions taken by its governing bodies.

In many cases, a company begins its development outside the stock markets, in an unlisted setting (often financed by private equity investors). When the company reaches a certain level of maturity, it

may decide to launch an initial public offering (IPO) in order to broaden its access to finance and open up its capital to a wider public.

Once listed, the share enters a phase of stock market life, during which the investor may be exposed to various events:

- participation in general meetings,
- potential dividend payments,
- capital increases or reductions,
- share splits or consolidations,
- securities transactions such as mergers or acquisitions.

Finally, in certain situations, the life cycle of a share may end with delisting or the liquidation of the company, resulting in the share ceasing to exist.

Not all these stages occur systematically; some may never happen, whilst others may recur during the company's lifetime.

8. Classification of shares

Shares can be classified according to various criteria, enabling a better understanding of their behaviour and risk profile.

8.1 By sensitivity to the economic cycle

- **Cyclical shares:** their performance is heavily dependent on economic conditions (e.g. industrials, consumer discretionary). They may offer high growth potential in favourable periods but are more volatile during downturns.
- **Defensive shares:** less sensitive to economic cycles (e.g. healthcare, consumer staples). They tend to offer greater stability, particularly during periods of uncertainty.

8.2 By market capitalisation

- **Large-caps ('blue chips')**: well-established companies, generally more stable and liquid.
- **Mid-caps:** growth companies, with higher potential returns but increased risk.
- **Small-caps:** smaller companies, often more volatile and less liquid.

8.3 By investment style

- **Growth shares:** companies that reinvest their profits to support their expansion.
- **Value stocks:** companies considered to be undervalued by the market, which sometimes offer higher dividends.

9. Key indicators for stock analysis

Analysts and investors use various indicators to evaluate and compare shares. These provide insight into a company from several angles (profitability, valuation, prospects) but do not guarantee future share price movements. For educational purposes, the main indicators are set out below:

i. Fundamental financial indicators

These indicators are based primarily on the financial data published by the company.

- Earnings per share (EPS): the portion of profit attributable to each share. It allows the company's profitability to be assessed on a per-share basis.
- Price-to-earnings ratio (P/E ratio): the ratio of the share price to EPS, providing an indication of valuation.
 - A high P/E ratio may reflect growth expectations.
 - A lower P/E ratio may reflect more moderate expectations or a higher perceived level of risk.
- Dividend yield: the ratio of the dividend paid to the share price. It allows an estimate of the current income generated by the share, without prejudging future changes in the dividend or share price
- Book value per share and price-to-book ratio (P/BV):
Book value per share corresponds to the company's equity divided by the number of shares. The price-to-book ratio compares this book value to the market price of the share. It can help assess whether the market is valuing the company above or below its net book value.
- *Fair value*: This is a theoretical estimate of a share's intrinsic value, generally derived from a discounted cash flow model (known as the DCF method). This estimate is based on assumptions (growth, margins, discount rate) and necessarily involves a degree of uncertainty.

ii. Market indicators

These indicators incorporate the expectations and behaviour of market participants.

Consensus *target price*:

- This corresponds to the average target price set by financial analysts covering a share.
- It is an aggregate estimate based on various valuation models. This indicator reflects the expectations and assumptions specific to each analyst. It may change over time and vary significantly from one institution to another.
- It should be interpreted with caution: it is neither a guarantee of performance nor an automatic recommendation to buy or sell.

iii. Technical indicators

Technical analysis is based on the study of market data (price movements and trading volumes), independently of the company's economic fundamentals.

Among the most common tools:

- Moving averages: these help identify a general trend over a given period.
- RSI (Relative Strength Index): this aims to detect overbought or oversold conditions.
- Trading volumes: these measure the intensity of trading in a security.

These tools are generally used in conjunction with one another. Taken in isolation, they do not provide a sufficient basis for an investment decision.

These various indicators allow a share to be analysed from complementary angles: profitability, valuation, prospects or market dynamics.

However, they are based either on historical data or on estimates and assumptions. As such, they in no way constitute a guarantee of future performance and do not replace a comprehensive analysis considering, in particular, the investor's risk profile and investment horizon.

10. Key risks associated with shares

Investing in shares exposes the investor to several types of risk:

- **Market risk:** price fluctuations linked to general trends in the financial markets.
- **Company-specific risk:** depends on the company's financial situation, strategy, governance or sector of activity.
- **Risk of capital loss:** in the event of major difficulties or the company's bankruptcy.
- **Liquidity risk:** difficulty in selling certain shares quickly, particularly small-cap shares.
- **Other risks:** currency, interest rate, country or tax risk, depending on the nature of the investment.

These risks may be partially mitigated through diversification, rigorous stock selection and, where appropriate, hedging strategies.

11. Stock market indices

Stock market indices measure the performance of a representative group of shares from a market, sector or region. They serve as a benchmark for assessing portfolio performance and comparing investments.

Among the best-known indices are:

- SMI (Swiss market),
- S&P 500 (US market, the main barometer of US large-cap stocks),
- Nasdaq Composite / Nasdaq 100 (US market, heavily weighted towards technology),
- Stoxx Europe 600 (European market, broad sectoral representation),
- MSCI World (developed markets),
- MSCI Emerging Markets (emerging markets).

Indices are also used as the underlying asset for certain investment products or index funds.

12. Key advantages and disadvantages

Advantages	Disadvantages
▪ Attractive long-term return potential	▪ Market volatility
▪ Generally high liquidity for listed shares	▪ Risk of capital loss
▪ Transparency and access to information	▪ Dependence on company performance
▪ Portfolio diversification	▪ Exposure to macroeconomic factors
▪ Shareholder rights	▪ Need for an appropriate investment horizon

The above points provide a brief and non-exhaustive overview of the main advantages and disadvantages associated with shares.

13. How to invest in shares

Investing in shares can be done directly, by purchasing shares in companies listed on a stock exchange via a financial intermediary, or indirectly, through solutions offering professional management and greater diversification.

Before investing, investors should consider their risk profile, investment time horizon and ability to withstand fluctuations in value. Investing in shares is generally a medium- to long-term endeavour.

Access to equity markets requires opening a securities account and familiarising oneself with the information documents relating to the instruments in question. Professional guidance can help ensure that investments are suited to the investor's personal circumstances.

14. How to close a share position

A share position is generally closed by selling the shares on a stock exchange, through a financial institution or a broker. The selling price depends on market conditions at the time the order is executed, in particular on supply and demand.

For listed shares, liquidity is generally high, allowing the investor to sell their shares quickly. However, the speed of execution and the price obtained may vary depending on the volume traded, the size of the company, market volatility and general economic conditions.

In certain cases, particularly for illiquid shares or during periods of significant market stress, the sale may be executed at a price lower than the investor's expectations. For unlisted shares, disposal is generally more complex, may require the consent of other parties and often takes place outside organised markets, with limited liquidity.

It is therefore important for investors to consider the liquidity of the security and their investment horizon before making any decision to buy or sell.

15. Bordier's equity offering

The Bank offers its clients access to equity markets via direct lines, i.e. the purchase of individual shares in listed companies, held in the client's own name within their portfolio.

Our coverage focuses primarily on the US and European markets, which form the core of our investment universe. The team may also recommend securities listed in other regions of the world where specific opportunities warrant it.

This approach is structured around two complementary pillars:

- **Core Holdings:** a selection of high-quality stocks, offering visibility on earnings and proven financial strength, intended to form the stable and sustainable foundation of the equity portfolio. These positions are favoured for their resilience across economic cycles and their ability to generate value over the long term.
- **Satellites:** complementary, more targeted positions designed to capitalise on specific opportunities linked to market themes, sector trends or particular valuation situations. These positions add a tactical dimension to the portfolio and aim to enhance the overall return potential.

In addition to these direct holdings, the bank also utilises equity funds or collective investment vehicles, aimed at complementing the portfolio's geographical exposure and/or exploiting thematic or style-based

investment opportunities, amongst other things. These funds are then carefully selected following a rigorous due diligence process, with the selected funds and collective investment vehicles subject to regular monitoring.

This structured approach allows us to combine stability and dynamism within the equity allocation, whilst adapting to each client's risk profile and investment objectives.

16. Important information

This document is provided for informational and educational purposes only and does not constitute personalised financial advice. Nor should it be interpreted as an advertisement or an offer of financial instruments. The content presented is neither exhaustive nor intended to cover all the characteristics and risks associated with the relevant category of financial instruments.

This information is intended to provide a factual overview and should not be used as the sole basis for investment decisions. Past performance is not indicative of future results, and the value of investments may fall as well as rise.

For general information on financial instruments, please refer to the Swiss Bankers Association's brochure entitled 'Risks inherent in trading in financial instruments', available on our website under the heading Legal & Compliance, Switzerland, FINSA, Guidelines Risks Involved in Trading Financial Instruments (published by SBA): <https://www.bordier.com/legal-and-compliance/switzerland/finsa/>.

If, for the relevant type of financial instrument, a key information document (KID) or a prospectus has been drawn up in accordance with the applicable legal provisions, these documents can be viewed and downloaded from our website under the heading Legal & Compliance, Switzerland, FINSA, Key Information Document (KID), at the following address: <https://www.bordier.com/legal-and-compliance/key-information-documents-kids/>

Before making any investment decision, investors are advised to carry out their own checks and carefully assess the potential risks. It is strongly recommended that they seek the assistance of a qualified financial adviser. The relationship manager is available to provide, upon request, any further information and to supply the relevant documentation. The Bank accepts no liability for decisions made on the basis of the information provided in this document.

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