

UBS Convert Europe

Manager Commentary

UBS Bond Funds > UBS Convertible Funds

Name of fund

UBS (Lux) Bond Fund - Convert Europe (EUR)

ISIN

LU0108066076

Share class

UBS (Lux) Bond Fund - Convert Europe (EUR) P-acc

Reference Index

Thomson Reuters Eurozone Convertible Bond Index (EUR)

Past performance is not a reliable indicator of future results.

Performance in % (net of fees)¹

in %	2015	2016	2017	2018	2019 YTD ²	May 2019	5 years Ø p.a.	5 years
Fund (EUR)	5.47	3.66	2.16	-5.71	4.65	-0.76	6.55	1.28
Ref. Index ³	8.19	1.10	1.51	-4.12	5.37	-1.25	11.04	2.12

The performance shown does not take account of any commissions, entry or exit charges.

¹ These figures refer to the past. Source for all data and charts (if not indicated otherwise): UBS Asset Management

² YTD: year-to-date (since beginning of the year)

³ Reference Index in currency of share class (without costs)

Risks

The fund invests mainly in convertible bonds. Changes in equity prices, interest rates, credit quality and other factors can subject the fund to high fluctuations in value, which are for the most part less pronounced than with equities but significantly higher than with traditional corporate bonds. The fund may use derivatives which can reduce investment risk or give rise to additional risks (inter alia the counterparty risk). The fund can invest in less liquid assets that may be difficult to sell in the case of distressed markets. The value of a unit may fall below the purchase price. This requires an elevated risk tolerance and capacity. Every fund reveals specific risks, a description of these risks can be found in the prospectus.

Portfolio manager summary & review (May 2019)

Performance was negative in May.

After the market rally at the beginning of the year, global equity markets corrected in May in an environment of profit-taking and increasing uncertainties following the escalation of tariff tensions between the US and China.

European equity markets as measured by the MSCI EMU fell by over 5% in May. Credit spreads widened for investment grade credit qualities and for sub-investment grade qualities. During the month, convertible bond valuations decreased in value across all regions except in Japan, where they increased. The convertible bond asset class ended the month in negative territory.

A total of USD 7.1bn in convertible bonds was issued in May, which is below the issue size of a year ago (USD 12.1bn). The largest CB deals were the Tesla 2% 2024 (USD 1.35bn), followed by the mandatory bond Avantor 'A' \$3.125 2022 (USD 1.035bn), both issued in the US.

Smaller, less liquid names and convertible bonds in the sub-investment grade area still offer more value than other parts of the market.

Our selection within the industrial sector contributed positively to relative performance while our positioning in the telecoms sector detracted.

The best performing bond in the portfolio this month was the Hurricane Energy 7.5% 2022. Hurricane Energy is an oil and gas exploration company. It is engaged in a complex project using a new technique to extract oil from the northern coast of the United Kingdom. In May the company announced that the project was progressing as planned and that first oil was expected in June. The positive update lifted its shares and convertible bonds materially.

Our global convertible bond capability is partially open for subscriptions. All other UBS convertible bond funds remain hard-closed for further subscriptions due to capacity considerations.

Portfolio manager outlook (May 2019)

Convertible bonds are an attractive investment as they can take advantage of an upswing while enjoying the defensive quality of bonds on the downside. The fund's bottom-up strategy aims to select the most attractive convertible bonds within the universe.

We continue to prefer smaller, lesser known issuers, some non-rated bonds and more complex structures. These issues continue to provide more upside potential as they offer much more compelling valuations than the more liquid blue chip investment grade names.

For more information

UBS Fund Infoline: 0800 899 899

Internet: www.ubs.com/funds

Contact your client advisor

Portfolio management representatives

Alain Eckmann

Ulrich Sperl

UBS Convert Europe

Please note that additional fees (e.g. entry or exit fees) may be charged. Please refer to your financial adviser for more details. Investors should read the Key Investor Information Document (KIID), Prospectus and any applicable local offering document prior to investing. For a definition of financial terms refer to the glossary available at www.ubs.com/glossary.

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