For marketing purposes
Swiss edition
Data as at end-May 2019

UBS Equity Asian Consumption

Manager Commentary

UBS Equity Funds > UBS Sector Funds

Name of fund
UBS (Lux) Equity Fund - Asian Consumption (USD)

ISIN
LU0106959298

Share class
UBS (Lux) Equity Fund - Asian Consumption (USD) P-acc

Reference Index
MSCI AC Asia ex Japan Consumer & Healthcare Sectors 10/40 Index

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 (USD)	-6.73	-1.78	49.44	-15.80	10.04	-7.05	20.40	3.78
Ref. Index[3]	-7.75	-1.87	38.05	-23.29	6.49	-9.71	-5.48	-1.12

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
UBS Sector Funds invest in equities and may therefore be subject to high fluctuations in value. For this reason, an investment horizon of at least five years and corresponding risk tolerance and capacity are required. Focusing intentionally on individual sectors may entail additional risks. All investments are subject to market fluctuations. Every fund has specific risks, which can significantly increase under unusual market conditions. The fund can use derivatives, which may result in additional risks (particularly counterparty risk).

For more information
UBS Fund Infoline: 0800 899 899
Internet: www.ubs.com/funds
Contact your client advisor

Portfolio management representatives
Manish Modi
Princy Singh
Vivien Ng

Portfolio manager summary & review (May 2019)
Performance was negative in May, with China and Hong Kong detracting the most from returns.
Sector-wise, consumer discretionary, staples and communication services detracted the most.
The key stock contributors were HDFC Bank, Philippine Seven and DLF, while the main detractors were Alibaba, Tencent and LG Household & Health Care.
We exited WH Group, which has fared well since our purchase, as the recent escalation of trade war risks affect the company's fundamentals given the potential restrictions on US pork imports into China.
The markets did an about-turn in May, with the MSCI Asia ex Japan Consumer and Healthcare 10/40 index falling 9.7% in USD terms. Sentiment worsened as the US/China trade conflict re-escalated, with the US blacklisting Huawei and curbing the company's ability to do business with American firms, while for its part China raised the prospect of various retaliatory measures. Hong Kong and China fell the most in May, with Korea falling significantly too. Korea's healthcare and staples sectors fell the most. All three sectors in the index were down, with consumer staples declining the least and outperforming the customised index.

Portfolio manager outlook (May 2019)
While some risks impacting Asia in 2018 have receded, the recent escalation of the trade conflict has clouded the near-term outlook for the continent. The Huawei ban effectively bars US companies from doing business with Huawei and could have wide-ranging first and second order effects well beyond this one company.
It is worth noting that the revenues of companies in the MSCI Asia ex Japan and China indices are overwhelmingly from domestic sources – over 60% for MSCI Asia ex Japan and over 90% for MSCI China – with only 7% and 2% respectively directly from the US. Additionally, intra-Asia trade continues to gain an increasing share of Asian exports. Furthermore, the predominant exposure in our portfolios is to domestic themes, especially stocks exposed to rising consumer affluence in Asian economies.
On average, Asian countries have high real rates, while fiscal balances have improved and inflation is in check. As a result there is scope for policy easing if required.
China has both the ability and willingness to partly offset the impact of the trade conflict via fiscal, monetary and regulatory measures, as it has done since Q4 2018. Elsewhere in the region, we see southeast Asia as a potential beneficiary of the trade conflict as companies gradually diversify their production away from China. India and Indonesia (barring uncertainties in relation to General Prabowo Subianto's challenge to the Indonesian election results) saw positive election outcomes which should provide reform continuity and revive private sector sentiment, with investment expected to pick up.
We have reduced our positions in China by lowering our exposure to Chinese liquor businesses such as Kweichow

Moutai and Wuliangye Yibin as well as hotpot condiments company Yihai, which have had a strong run in the year to date. We continue to focus on long-term themes such as the increasing share of discretionary spending and premiumisation, China’s rebalancing into services and consumption and the underpenetration of credit across India. We are also watching for potential opportunities as stocks may get sold down beyond the extent warranted by fundamentals.

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.