

UBS Mid Caps Switzerland

Manager Commentary

UBS Equity Funds > UBS Small & Mid Cap Funds

Name of fund

UBS (CH) Equity Fund - Mid Caps Switzerland (CHF)

ISIN

CH0001117248

Share class

UBS (CH) Equity Fund - Mid Caps Switzerland (CHF) P

Reference Index

SPI® Mid Cap 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 (CHF)	10.57	7.56	31.52	-14.86	16.15	-4.14	57.62	9.53
Ref. Index ³	10.74	8.42	30.70	-16.33	17.12	-3.20	59.15	9.74

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 Small & Mid Cap 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. As these UBS Funds pursue an active management style, each Fund's performance can deviate substantially from that of its reference index. Focusing intentionally on small cap equities 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).

Portfolio manager summary & review (May 2019)

- Performance was negative in May.
- The surprising and sudden trade war escalation, which led to the announcement of tariff hikes on Chinese products as well as sanctions against Huawei, sent global markets down. In addition, there was more bad news for the markets in the shape of growing uncertainty over the outcome of Brexit and the political instability in Italy after the recent political turmoil.
- In the Swiss mid cap sector, utilities, healthcare and telecommunications were the best performers. Household goods, retail and chemicals fared worst.
- The mid cap index was down by 3.20% in May, underperforming the Swiss Market Index (SMI), which finished the month down 1.79%.
- Positive contributors at the stock level included Sonova, Temenos, Vifor Pharma, Tecan and PSP, while holdings in Swatch, OC Oerlikon, ams, Logitech and Schindler detracted.
- At the industry level, healthcare, financial services and telecommunications contributed positively, while industrial goods & services, banks and technology detracted the most.
- The best performing mid cap stocks were Idorsia, Sonova, PSP, Barry Callebaut and Vifor, while ams, OC Oerlikon, Swatch, Aryzta and Burckhardt Compression were the worst performers.
- We took new positions in Barry Callebaut and increased our exposure to Vifor. These moves were financed by reducing our exposures to Forbo, Fischer, Julius Baer, Kuehne & Nagel, Landis & Gyr, Sonova and Swiss Life.

Sonova: Reported better-than-expected organic growth driven by new product launches.

Temenos: Temenos highlighted its organic mid-term growth potential on the capital market.

Vifor: positive newsflow from the pipeline as well as from competitors.

Swatch: no company-specific newsflow; hit by renewed trade tensions.

OC Oerlikon: reported weaker-than-expected results, especially the decline in margins driven by higher investments, which was seen as negative.

ams: suffered due to US sanctions against Huawei (a customer of ams).

Portfolio manager outlook (May 2019)

While global sentiment and industry indicators have been softening recently, the economic outlook remains positive. Accordingly, central banks communicated a more dovish stance, slightly increasing the chance of an interest rate cut in the US.

In Switzerland we expect earnings momentum to remain positive in 2019. Furthermore, we expect continued growth in dividends, with yields clearly above interest rates as the major positive driver. Uncertainty regarding the impact and timing of trade and tariff talks between the US and China, Brexit, the

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Italian budget debate and potentially higher interest rates remain a source of uncertainty.

We believe stock selection is still an important performance driver as divergence between stocks and sectors remains high. We expect a moderately positive equity market trend for 2019. Fundamental data in terms of valuations, earnings and dividend growth support this view, although short-term setbacks are possible as uncertainties remain in the system. We would see this as an attractive entry point for investors with a long-term horizon as valuation discrepancies are still significant, offering great opportunities for stockpickers.

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