

UBS (D) Equity Fund - Smaller German Companies

Manager Commentary

UBS Equity Funds > UBS Small & Mid Cap Funds

Name of fund

UBS (D) Equity Fund - Smaller German Companies

ISIN

DE0009751651

Share class

UBS (D) Equity Fund - Smaller German Companies EUR

Reference Index

MSCI Germany Small Cap Index (net div. reinv.)

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)	10.74	0.53	38.70	-18.65	12.39	-7.29	27.67
Benchmark ³	26.61	2.60	38.16	-19.65	14.17	-6.39	58.62

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 benchmark. 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.
- Our preference for Stroeer, KWS Saat and Serviceware made a positive contribution to performance, while Freenet and Siltronic detracted.
- At the sector level, the portfolio has a preference for materials and healthcare, while we are cautious on real estate and consumer discretionary. Nevertheless, stock selection will remain the portfolio's key performance driver.
- In terms of trading activity, we increased our positions in Scout 24 and newly added Osram Licht to our holdings. We also took profits in Deutz and Rheinmetall.

The escalation of the trade conflict between the US and China, the introduction of US tariffs on imports from Mexico, the four-year low in the ifo index, the three-year low in the ISM index, the further inversion of the US yield curve, disappointing economic data in China, renewed fears about Italian debt and the uncertain Brexit with the resignation of May put pressure on equity markets in May. The ongoing robustness of US labour market data, the US decision to give the EU and Japan 180 days to agree on a deal over auto imports and the merely limited gains by nationalists in the EU election only temporarily supported equity markets.

Portfolio manager outlook (May 2019)

The rate of acceleration in global economic growth has moderated; however, we believe that recent concerns over a sharper deceleration in global growth and the potential for an imminent global recession are overdone. The tailwind from accommodative monetary policy is fading only gradually, and fiscal stimulus is likely to at least partly offset these forces. Meanwhile, developed world consumption growth and investment remain healthy, supported by robust labour markets and continued wage growth. In Europe, significant geopolitical uncertainties persist. Together with the current headwinds facing global trade, this is likely to hamper the near-term performance of European equities.

Fundamentals remain strong, with improving unemployment reaching post-crisis lows and some signs of wage growth as well. Valuations currently appear attractive in Europe, especially when compared to the US, and we continue to believe that the earnings recovery story has further to run. Operational gearing has played a key role in driving European earnings above expectations over the past year. We believe that there is further to go in this process as the recovery continues and margins expand further – albeit at a slower pace given the high capacity utilisation across Europe.

We are expecting M&A activity to remain very robust, especially in the small cap universe, as large companies are looking for opportunities to enhance their growth rates. Small cap investors will receive an extra premium in such cases. Our bottom-up approach is focused on identifying companies with prospects for earnings growth. We favour industry-leading names and management teams with proven track records and disciplined capital allocation.

For more information

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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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