

UBS Future Leaders Global Small Companies Fund

Unhedged Unit Class

May 2024

Fund description

The Fund will be an actively managed fund investing in a portfolio of 40 – 60 listed global small capitalisation equity securities. The Fund combines top-down thematic exposures with bottom-up fundamental research to invest in companies ultimately expected to benefit from mega trends including "Growing Population", "Urbanization" and "Aging". The Fund is diversified across multiple themes, sectors, and countries..

Target market

The Target Market Determination (TMD) for the Fund sets out the class of consumers for whom the product, including its key attributes, would likely be consistent with their likely objectives, financial situation and needs. To access to the TMD and other Fund documentation visit our website.

Investment strategy

The Fund is an actively managed, thematic portfolio of small capitalisation global equity securities designed to provide investors exposure to high quality companies, set to benefit from digital, sustainable and health and societal transformation.

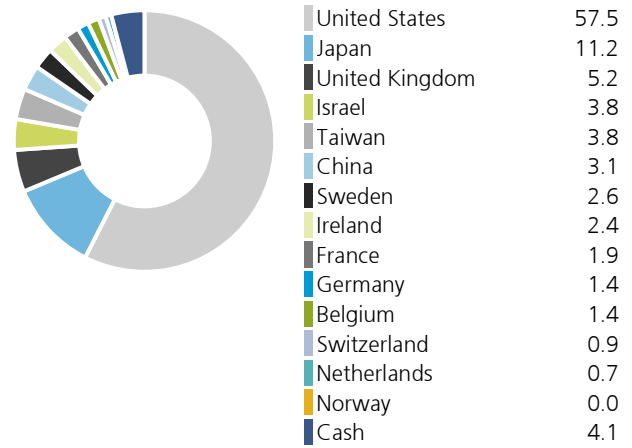
Investment objective

The Fund aims to outperform (after management costs) the MSCI ACWI Small Cap Index (net dividend. reinvested) over rolling seven-year periods.

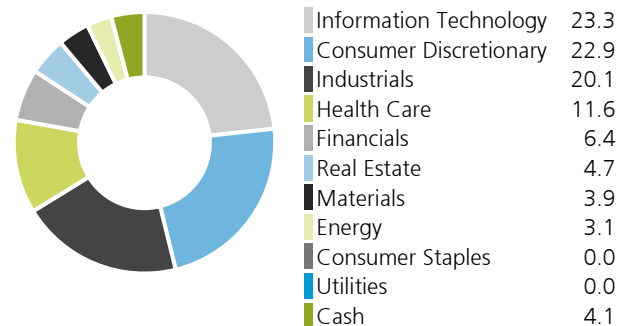
Fund information

Inception date	6 December 2022
Fund size	\$ 3.0m
Management fee	1.10% pa
Performance fee	No
Minimum initial investment	\$ 50,000
Typical number of holdings	40 – 60
Distributions	Semi-annual
Buy/sell spread	+/- 0.20%
APIR code	UBS6028AU

Country/regional allocation (%)



Sector allocation (%)



10 largest equity positions (%)

Name	Fund
Radnet Inc	3.38
Impinj Inc	3.32
Ryman Hospitality Properties	3.29
Pure Storage Inc	3.21
Weatherford International Pl	3.06
Medpace Holdings Inc	3.05
Azek Co Inc/The	3.02
Topbuild Corp	2.64
Churchill Downs Inc	2.58
Duolingo	2.58

Investment performance

Fund	1 month %	3 months %	1 year %	2 years % pa	3 years % pa	5 years % pa	Since inception* % pa
Total return	(1.76)	(5.38)	7.31	-	-	-	4.70
Benchmark**	1.52	0.82	15.55	-	-	-	13.18
Added Value	(3.28)	(6.20)	(8.24)	-	-	-	(8.48)

* Inception date: 6 December 2022.

** MSCI ACWI Small Cap Index (net dividend reinvested). Performance figures are net of ongoing fees and expenses.

The performance figures quoted are historical, calculated using end of month redemption prices, and do not allow for the effects of income tax or inflation. Total returns assume the reinvestment of all distributions. Performance can be volatile and future returns can vary from past returns.

Global economy

Macro data published in May generally supported the outlook for a US soft landing and has lifted both global stocks and US bonds. For the first time, the Dow Jones topped 40'000 and S&P 500 topped 5'300, though both experienced some softening afterwards. European equities lagged this month despite further improvement in growth data, as the dominant US Tech sector saw stellar performance of roughly 10% in May. Chinese stocks outperformed significantly in the first half of the month as newly announced government measures to support the property sector lifted sentiment. But doubts about the sufficiency of these measures to improve the growth outlook caused a pullback later in May. US 10-year Treasury yields ended the month 18bps lower, but government bonds in Europe and Japan weakened in May. US credit spreads remained relatively stable around historically tight levels.

Market review

In the US, headline and core CPI were down to 3.4% and 3.6% YoY in April (0.3% and 0.3% MoM), showing a genuine slowdown from last month. Softer readings were driven by a decent drop in the used car price. Within services inflation, rental inflation (0.35% MoM) was the slowest since last summer. Meanwhile, PPI was more mixed, rising 0.5% MoM (above the 0.3% estimates), driven by financial services, portfolio management and airfares. Labor market data further dispelled inflation concerns at the beginning of May. Non-farm payrolls of 175k came in significantly below consensus expectations (of 240k), while the unemployment rate ticked up by 0.1% to 3.9%. Meanwhile, average hourly earnings growth decelerated from 0.3% to 0.2% MoM. Growth in aggregate labor income is still running comfortably above its pre-Covid trend, supporting consumer spending. Still, April retail sales were unexpectedly weak, declining 0.3% MoM within the control group vs an estimate of +0.1%. But the 3-month trend of this volatile time series is still trending higher. Consumer sentiment indicators showed a mixed picture in May. While the University of Michigan indicator showed a significant worsening in consumer expectations, the gauge by the Conference Board improved for the first time in 2024. The former is more heavily skewed towards inflation expectations and might still show a lagged effect of negative inflation surprises in Q1, which could explain the recent divergence. Consumer spending as a component of Q1 real GDP was revised lower, down to 2% QoQ SAAR from 2.5%, reflecting weakness in durable goods spending. As a consequence,

Q1 GDP growth was revised down to 1.3% QoQ SAAR from 1.6% initially. We maintain the view that US economic growth remains on a stable footing. Currently the Atlanta Fed GDP Nowcast estimates a very solid 3.5% growth rate in Q2. Preliminary May PMI figures by S&P showed improvement in both the manufacturing and especially the service sector, beating expectations. The rise in the 30-year mortgage rate from below 7% at the start of the year to 7.6% at the peak in April and 7.4% currently, is showing an impact on the housing market. Building permits and housing starts generally softened and the NAHB Home Builders Index declined. The Fed's Senior Loan Officer Survey for Q1 confirmed that bank lending standards continued to tighten moderately, while demand for bank loans remained weak. This can be seen as another sign that current financial conditions are in restrictive territory. At its May 1st meeting the FOMC kept interest rates on hold as expected. In his press conference, Fed Chair Powell dispelled concerns that the central bank would have to hike the policy rate further to counter sticky inflation. Minutes published later in the month showed that various participants would be open to tighten policy further if necessary. But the discussion took place before the encouraging April CPI release and subsequent Fed speakers reinforced the message that "while it will take longer than previously anticipated to gain sufficient confidence to ease policy in the face of stubborn inflation" the bar for rate hikes remains high.

As expected, Eurozone headline CPI held steady at 2.4% YoY in April, rising 0.6% MoM. Core inflation, excluding energy, food, alcohol and tobacco, slowed down to 2.7% from 2.9% in March. Service inflation, which had been stuck at 4% for five months in a row, decelerated to 3.7%, but bounced back to 4.1% in May on preliminary data. The initial estimate for Eurozone inflation in May suggests an uptick in headline CPI to 2.6% YoY and core CPI to 2.9%, both above expectations. Growth in negotiated wages across the region unexpectedly accelerated in Q1 to 4.7% from 4.5%. But one-off wage payments for German public employees in Q1 distorted the figure. More timely private wage measures as well as the ECB's newly created wage tracker signal a deceleration of wage growth in the second half of the year - an important factor for ECB governors to gain confidence in the disinflationary process. The preliminary Eurozone Composite PMI for May beat expectations, rising for the 5th consecutive month to a level of 52.3, driven by a further improvement in the Manufacturing sector to 47.4, while the reading for Services held steady at 53.3. Across the board, business sentiment and consumer confidence indicators - such as the EC consumer survey, Sentix and ZEW economic expectations

point towards a brightening outlook for the region. Germany is still the weakest among Europe's main economies, but is also showing improvement. Germany April manufacturing PMI rose by 3 points to 45.4 and Ifo expectations improved further. Some ECB officials acknowledged the improving growth outlook, still maintaining that a first 25bps rate cut on June 6th is very likely. Investors will focus on the press conference for any hints about the future pace of rate cuts and revisions to the central bank's growth and inflation outlook.

Meanwhile, UK inflation for April, and especially wages, proved more sticky than in other regions. Average weekly earnings growth remained elevated at 5.7% (3M YoY), defying expectations for a cooling to 5.5%. While headline inflation dropped to 2.3% YoY from 3.2%, Service inflation decelerated only marginally to 5.9%, well ahead of consensus forecast of 5.4%. UK's growth momentum has also picked up, with Q1 GDP expanding by 0.6% QoQ, beating consensus and making a notable rebound from the contraction in H2 2023. UK's corporate earnings have also improved materially. The momentum in growth and inflation may cause hesitation from the BoE to cut in June.

China rolled out more national stimulus following negative credit growth data, including the sales of around \$140B in long-term bonds and the announcement of letting local governments buy unsold homes from developers directly. After an initial bounce in investor sentiment on the back of the measures, doubts about the relatively small size of the program caused a market reversal. There is an upside case for China, if strong execution of property purchases by local governments slows the negative trend in new home sales and property prices, ultimately lifting consumer sentiment. But for now, uncertainty remains high and data relatively weak. The latest official Manufacturing PMI unexpectedly dropped below the 50 threshold again to 49.5 and retail sales for April surprised negatively too, growing just 2.3% YoY. Additionally, US President Biden announced hikes in US tariffs on certain Chinese goods. These include some drastic increments including a 100% tariff on electric vehicles (EV), 50% on EV batteries and 25% on certain steel and aluminum products. For now, these have a limited impact on US inflation or the Chinese economy as the increases only affect 4% of US imports from China and below 1% of total China exports. But they highlight the geopolitical risks of investing in China, which will only get more severe as we approach US presidential elections.

Performance summary

The strategy underperformed its benchmark, the MSCI All Country World Small Caps Index in May. Positive stock selection in Health Care and Financials added the most value, while stock selection in Information Technology and Consumer Discretionary detracted the most. In general, our positioning in Health Care (0.24% total effect), Financials (0.14% total effect) and Consumer Staples (0.03% total effect) was the highest contributor to performance. On the other hand Information Technology (-1.62% total effect), Consumer Discretionary (-1.32% total effect) and Energy (-0.22% total effect) had a negative impact. Key contributors to the portfolio's performance where our holdings in RadNet (0.48% total effect, 20.91% port total return), Pure Storage (0.4% total effect, 19.62% port total return) and Shift4 Payments (0.18% total effect, 16.28% port total return). However Sprout Social (-0.61% total effect, -35.28% port total return), Duolingo (-0.57% total effect, -15.22% port total return) and DoubleVerify Holdings (-0.48% total effect, -37.88% port total return) were top detractors. Regarding attribution by countries, France and United Kingdom were the top contributors to performance, while exposure to United States and Israel detracted the most.

Outlook and strategy

The Future Leaders Small Caps strategy invests in companies with large addressable markets, current or emerging competitive advantages, innovative product offerings and the financial strength to execute on their growth opportunities.

The portfolio is conviction-based and while temporary market dislocations will impact a company's current valuation, the long-term opportunity is often unimpacted by the short-term price volatility.

We expect the current market environment to remain volatile as central banks take aggressive steps to stem inflationary pressures, geopolitical tensions remain heightened, and countries deal with ongoing energy security issues.

Over time, we expect that growth companies will return to favor as investors seek out companies that can grow amidst moderating economic growth.

From a thematic perspective, the strategy is invested across more than ten different themes with the largest allocations to Energy Efficiency, Enabling Technology and Consumer Experience.

From a sector perspective, the strategy's largest sector overweights are to Information Technology, Consumer Discretionary and Health Care. Within Information Technology, the strategy is overweight to software and semiconductors & semiconductor equipment. The Consumer Discretionary overweight is primarily due to overweight positions in hotels, restaurants & leisure and specialty retail. The strategy's overweight to Health Care is comprised primarily of overweights in life sciences tools and health care providers.

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