UBS

UBS Asset Management
For Professional / Qualified / Institutional Investors only
All data as at 31 March 2024

UBS Future Leaders Global Small Companies Fund

Unhedged Unit Class

March 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.

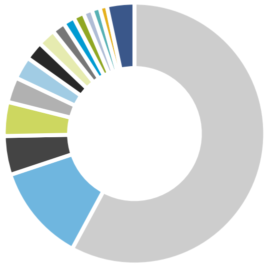
Investment objective

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	$ 3.2m
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 (%)



United States	57.9
Japan	12.0
United Kingdom	4.8
Israel	4.2
China	3.1
Taiwan	2.8
Sweden	2.3
Ireland	2.2
France	1.6
Germany	1.4
Belgium	1.3
Malaysia	1.1
Switzerland	1.0
Netherlands	0.9
Cash	3.4

Sector allocation (%)

Information Technology	25.1
Consumer Discretionary	23.0
Industrials	19.2
Health Care	11.4
Financials	6.4
Real Estate	4.8
Materials	4.0
Energy	2.8
Consumer Staples	0.0
Utilities	0.0
Cash	3.4

10 largest equity positions (%)

Name	Fund
Ryman Hospitality Properties	3.51
Medpace Holdings Inc	3.13
Azek Co Inc/The	3.07
Duolingo	2.83
Weatherford International Pl	2.79
Radnet Inc	2.73
Pure Storage Inc	2.69
Shake Shack Inc - Class A	2.66
Topbuild Corp	2.65
Regal Rexnord Corp	2.55

Investment performance

Fund	1 month %	3 months %	1 year %	2 years % pa	3 years % pa	5 years % pa	Since inception* % pa
Total return	1.33	10.38	13.63	-	-	-	10.94
Benchmark**	3.15	8.68	19.56	-	-	-	16.98
Added Value	**(1.82)**	**1.70**	**(5.93)**	**-**	**-**	**-**	**(6.04)**

* 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

Global equities delivered their fifth straight month of gains in March as implied volatility in bonds declined to its lowest level since the Federal Reserve's tightening cycle began and economic data continued to signal a broadening of growth. All major regional equity indexes rose in March, with outsized strength in the UK and Europe. Global credit spreads continued to compress even closer towards their tightest levels in the past 15 years. The Bloomberg Commodity Index rose 1.2 percent, with robust monthly gains in gold and oil driving returns.

Market review

In the US, activity data rebounded after some weather-induced weakness to start the year. Car sales reversed nearly all of their January decline, bouncing back to 15.8 million units on an annualized basis. Housing starts also surged to above 1.5 million, well above the consensus estimate. Better than expected data was broadly shared throughout real estate, as building permits and existing home sales also beat estimates. Retail sales were one exception, as the control group was flat on the month, bucking expectations for a 0.4 percent advance. Job growth surprised to the upside in February, with payrolls up 275,000 versus 229,000 expected. However, January's robust increase of 353,000 was revised downwards to show a more moderate gain of 229,000. The unemployment rate unexpectedly rose to 3.9 percent. The JOLTS report suggested further cooling in the job market, with openings falling and the private sector quits rate below 2.4 percent, well under what it averaged in 2018 and 2019. Initial jobless claims continue to signal that there is little outright weakness in the labor market, ending the month at 210,000. Inflation data once again surprised to the upside in February, with the core CPI rising 0.4 percent month-on-month, a tick hotter than anticipated, as did core producer prices with a 0.3 percent increase. Core PCE inflation was in line with expectations, up 2.8 percent year-on-year. The preliminary reading of the composite S&P Global US purchasing managers index moderated to 52.2 from 52.5, as anticipated, with a pickup in momentum in the manufacturing sector offset by a deceleration in services. The Federal Reserve kept interest rates unchanged at a range of 5.25 to 5.5 percent at its March meeting, and kept the statement nearly identical to January's. The Summary of Economic Projections revealed a pro-growth bias. Monetary policymakers (on net) moved their forecasts for growth and core inflation this year higher, and the unemployment rate a tick lower. At the same time, the median official sees 75 basis points as most appropriate for 2024 given these economic conditions. During the press conference, Fed Chair Jerome Powell suggested that the recent pickup in price pressures was a bump in the road amid an otherwise disinflationary trend, and that strong hiring would not be in and of itself a reason to hold off on rate cuts. Powell also added that the Federal Reserve is likely to announce plans to slow the pace of its balance sheet reduction in the near future.

Confidence data in the Eurozone continued to improve over the course of the month. The European Commission's gauge of consumer confidence inched higher to -14.9 in March from -15.5, while the Sentix gauge of investor confidence advanced to -10.5 from -12.9. Both readings were ahead of the consensus forecast. Germany's IFO business climate index also rose to 87.8 in March, better than the expected 86 and above February's upwardly revised 85.7. Conditions in the manufacturing sector continue to deteriorate, bucking the global trend. The flash reading of the HCOB Manufacturing PMI fell to 45.7, countering expectations for a modest improvement. However, this is being offset by more strength in services, where the flash PMI rose to 51.1 and drove an improvement in the composite PMI to 49.9 from 49.2. The European Central Bank kept rates unchanged and stressed data dependency in determining the path forward for rates. During the press conference, President Christine Lagarde said the central bank would "know a lot more in June," somewhat tipping her hand as to the expected start date for easing. Unlike the Fed, the ECB revised both its growth and inflation forecasts lower in their March projections. Compensation per employee, a key component for the inflation outlook, slowed to 4.6 percent year-on-year in Q4, down from the 5.1% pace in Q3.

Economic data from China pointed to a solid showing for the first two months of the year, albeit with a continued drag from the property sector. Fixed asset investment, industrial production, and exports all ran well above expectations for January and February on a cumulative basis relative to the same period in 2023. Retail sales were a tick below expectations at annual growth of 5.5 percent. Property sales, however, contracted by nearly 33 percent year-on-year over this stretch, while investment was down 9 percent. New and used home prices also contracted on a monthly basis for February. Broad surveys of the economy improved by more than expected in March, with the National Bureau of Statistics' non-manufacturing PMI up to 53 versus a consensus estimate of 51.5. The corresponding manufacturing PMI came in at 50.8 (50.1 expected) and the Caixin manufacturing PMI was a touch above estimates at 51.1. Labor market data in the UK softened somewhat, with the unemployment rate edging up to 3.9 percent in January and employment change unexpected declining by 21,000 for the three months ending January, counting expectations for a small increase. However, pay growth remains robust, with average weekly earnings excluding bonuses edging lower to growth of 6.1 percent year-on-year for the three months ending January. Inflation data was mixed, as core CPI ran at an annual rate of 4.5 percent in February, a tick lower than expected, while service sector inflation ran a tick hotter than expected at 6.1 percent.

The Bank of England kept rates unchanged at its March meeting, but the two officials who had been dissenting and favored more hikes joined the majority decision, with the central bank broadly sending the signal that rate cuts are coming before long. In his budget speech, Chancellor Jeremy Hunt some changes to tax policy that will contribute to 265 billion pounds of debt issuance in this fiscal year. Home prices rose, with the Rightmove index up 0.8 percent year-on-year and the monthly increase accelerating to 1.5 percent from 0.9 percent.

Performance summary

The strategy underperformed in March. Positive stock selection in Health Care and Materials added the most value, however stock selection in Information Technology and Consumer Discretionary detracted the most. In general, the best performing sectors were Health Care (0.39% total effect), Industrials (0.15% total effect) and Materials (0.12% total effect). While Information Technology (-1.34% total effect), Consumer Discretionary (-0.41% total effect) and Financials (-0.35% total effect) were key detractors. Concerning stock contribution, top contributors were RadNet (0.53% total effect, 28.53% port total return), Impinj (0.3% total effect, 17.57% port total return) and Chart Industries (0.23% total effect, 15.3% port total return). Though Braze (-0.47% total effect, -22.14% port total return), Shift4 Payments (-0.47% total effect, -19.64% port total return) and Elastic (-0.45% total effect, -25.09% port total return) had the most negative impact on performance. Concerning attribution by countries, France and Sweden were the top contributors to performance, exposure to United States and China 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 onoging 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 primariliy 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.

Client Services **www.ubs.com/am-australia**

Telephone: (03) 9046 4041 Freecall: 1800 572 018 Email: ubs@unitregistry.com.au

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