

# Embracing the digital future

UBS (Lux) Key Selection SICAV – Digital Transformation Dynamic (USD)



# Speed and reach of user acceptance accelerates

Digital technologies affect everyone, everywhere and at all times

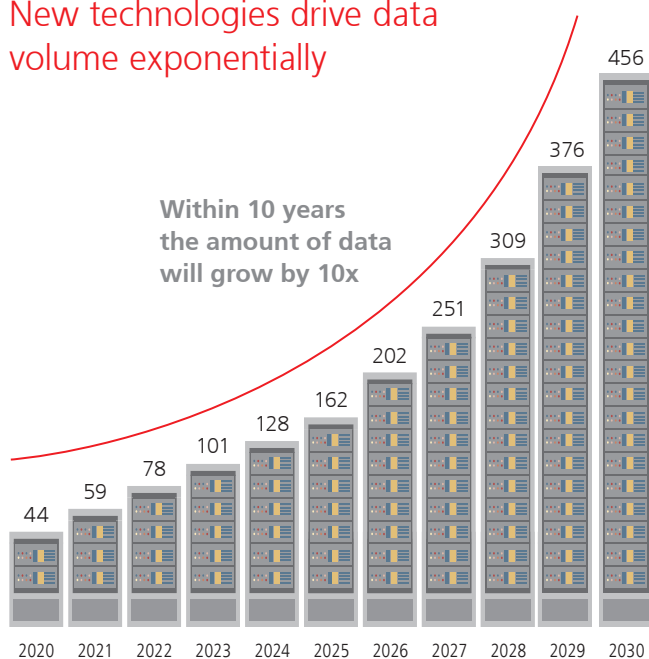
Digital transformation will have a disruptive effect by changing the very nature of work and consumer behavior. Entire job categories will disappear or be created. And consumers will access and interact with companies in new ways.



Source: Company reports, UBS, as of September 2018.

## Digital data volume growth multiplies

New technologies drive data volume exponentially



Biggest changes have yet to come

### Always connected

Massive **global adoption of the internet and digital networks** have created the right conditions for multi-year investment opportunities

### Increasingly aware

The proliferation of sensors and cameras, combined with huge amounts of data enable **more intelligent and more frequent business decisions**

### Cheap compute

Cloud computing and rapid improvement of mobile processors has made **powerful computing** increasingly available and cost effective

More than 10x growth expected in data from 2020–2030;

digital universe in zettabytes (1 zettabytes (zb) = 1,000,000,000 terabytes (tb) = 1 billion terabytes)

Source: IDC, EMC, Bloomberg Intelligence, UBS, April 2018.

# Digital transformation generates investment opportunities

## Exposure to multiple themes

- Diversified exposure across themes benefitting from the innovative and disruptive forces of digital transformation
- Weighting of themes will vary over time based on company attractiveness and investment universe size



Digital data



Enabling technologies



E-commerce



Security and safety



Healthtech



Fintech

## Overlay based on market signal

- Overlay allocation to global equities
- Depending on a proprietary UBS GWM CIO signal, the equity allocation within the global equities portion varies depending on the market environment<sup>2</sup>



Very positive signal



Positive signal



Negative signal

## UBS Digital Transformation Dynamic Fund<sup>1</sup>

**70%** of the fund assets invested in stocks that can benefit from digital transformation

### Focus on high quality companies

- Actively managed equity fund
- Picking stocks based on fundamental company research
- Companies benefiting from technological changes

### Diversification of investment exposure by company type

- **Early stage companies** with high growth potential
- **Mature companies** embracing digital transformation
- **Enabler companies** providing the underlying technologies for this transformation

**30%** allocation to global equities during phases with positive signal (overlay)<sup>2</sup>

### Enhanced risk/return profile

By dynamically adjusting equity exposure in response to economic and market conditions, the overlay can help mitigate volatility and drawdown risks during market downturns and can improve the return potential during expansions

<sup>1</sup> UBS (Lux) Key Selection SICAV – Digital Transformation Dynamic (USD).

<sup>2</sup> Depending on the signal, the global equity allocation can be allocated to US Treasuries (negative signal) or equity exposure can be raised up to a maximum of 115% (very positive signal).

# Attractive long-term investment themes

**Population growth, aging, and urbanization** are long-lasting trends that UBS believes will endure economic cycles and periods of political uncertainty, influenced by the disruptive forces of **technological advancement, societal changes, and resource constraints**.



## Digital data

Driven by a desire to stay connected at all times and the need to efficiently multitask throughout a busy day, an unprecedented amount of data is produced. Favorable demographics and other secular trends like the Internet of Things (IoT) are fueling this growth.



## Enabling technologies

Artificial intelligence (AI), augmented reality (AR)/virtual reality (VR), big data, cloud computing and 5G are set to transform many industries. Over the next decade, spending on their underlying enabling technologies that allow their development and production should remain high as both disrupting and incumbent companies continue to invest.



## E-commerce

Consumer behavior is changing, with consumers increasingly purchasing their goods online. Greater smartphone penetration has further dissolved the boundaries of time and place as consumers can buy products whenever and wherever they want.

### Internet of Things (IoT)

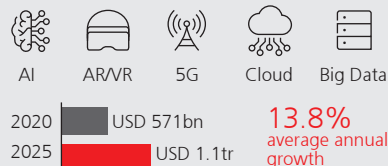
According to Ericsson, IoT units are expected to grow from 12.6bn units in 2020 to 26.9bn units in 2026.



Source: Ericsson, UBS, 2020.

### Annual growth

We expect the market for the five enabling technologies to grow by an average 13.8% annually, from USD 571bn in 2020 to USD 1.1tr in 2025.






Source: UBS, as of January 2021.

### Two global leaders

Global e-commerce is dominated by two companies (Alibaba and Amazon) and two regions (US and China).



Source: eMarketer, company reports, UBS as of January 2021.

				
		Digital data	Enabling technologies	E-commerce
Key drivers	Population growth	●	●	●
	Urbanization	●	●	●
	Aging			
Influenced by	Resources			
	Technology	●	●	●
	Society			●

Source: UBS GWM CIO, data as of November 2019. Neither investment advice nor recommendation to buy or sell any securities.



## Security and safety

Security and safety touch lives everywhere. The global security and safety market benefits not only from structural trends such as rising cyberattacks, but also from governments' need to keep infrastructure safe and functioning. Enterprises must protect data and consumers have to trust products like baby food.



## Healthtech

Healthcare is one of the least digitised sectors, but is poised for rapid change. Digitization can improve efficiency by reducing waste and fraud, prioritising the most effective interventions and saving time in the drug development process.

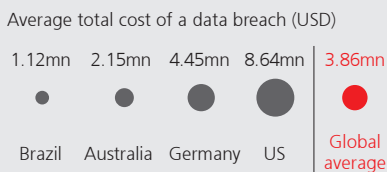


## Fintech

Driven by rapid urbanization, strong demand from millennials and favorable regulations, the global fintech industry is at an inflection point and is set to drive a major digital transformation in the financial services industry.

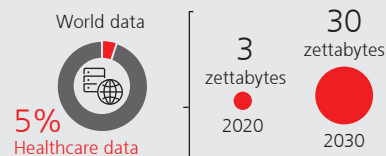
### Security breaches

The SolarWinds attack, which we learned about at the end of 2020, was one such event which, according to the White House, affected nine federal agencies and almost 100 private companies.



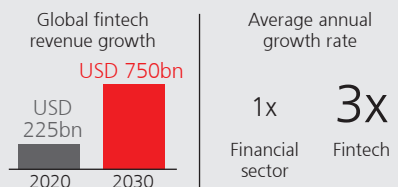
### Healthcare data

Healthcare generates 5% of all the data in the world. Healthcare data is estimated to reach 3 zettabytes by 2020 and 30 zettabytes by 2030.



### Global fintech revenue growth

We expect global fintech revenues to grow from USD 225bn in 2020 to USD 750bn in 2030, implying an average annual growth rate about three times faster than the broader financial sector's.



Source: IBM Security, Ponemon Institute, "Cost of a Data Breach Report 2020".

Source: UBS, as of June 2020.

Source: UBS, as of 2021.



## Security and safety



## Healthtech



## Fintech

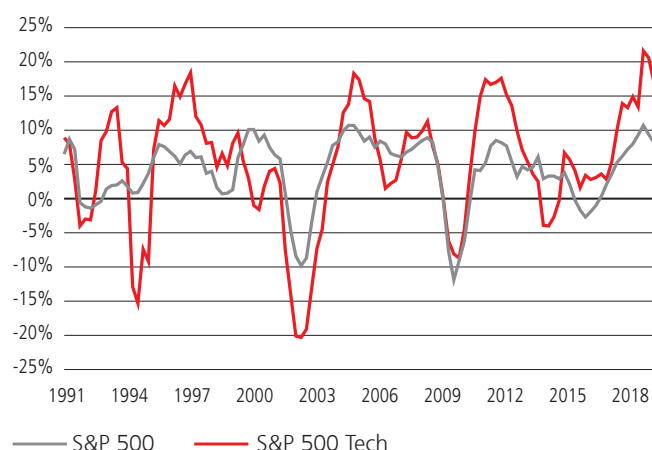
Key drivers	Population growth			
	Urbanization			
	Aging			
Influenced by	Resources			
	Technology			
	Society			

# Managing higher volatility and business cycles

## Global business cycles matter

Revenue growth of technology is correlated to global business cycles. During market recession phases, the technology sector is affected in the same way. With the growing share of the sector the impact becomes even more important.

### Revenues of the broad equity market vs. technology sector



Source: Bloomberg, data March 1991 to January 2019.

1 Depending on the signal, the global equity allocation can be allocated to US Treasuries (negative signal) or equity exposure can be raised up to a maximum of 115% (very positive signal).

## A matter of risk tolerance

A substantial part of the Digital Themes investment universe will be in the technology sector. These stocks tend to have higher volatility than the broad equity market.

### How to mitigate

The **UBS Digital Transformation Dynamic Fund's** concept is based on dual allocation:

- 1 **70%** allocation to equities related to digitization themes
- 2 **30%** is allocated to a flexible global equities portion, which in itself varies the equity allocation based on a UBS GWM proprietary market signal<sup>1</sup>

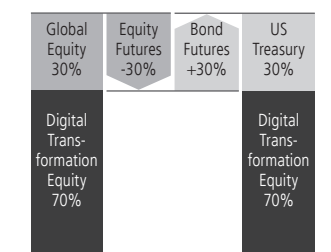
This dual allocation can help improve risk management and thus can reduce drawdowns.

# Benefit from digital transformation – with less turbulence

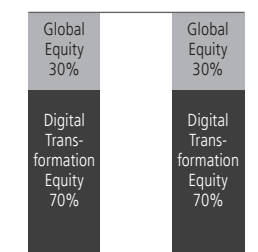
## Dynamic Equity Exposure based on signal from GWM CIO World Equity Market Indicator

Overlay based on signal from UBS GWM CIO World Equity Market Indicator (30%)

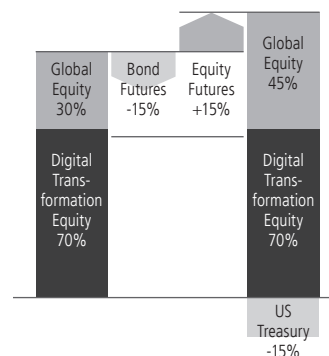
Signal: **Negative**  
Equity allocation: **70%**



Signal: **Positive**  
Equity allocation: **100%**



Signal: **Very positive**  
Equity allocation: **115%**



**Digital Equity Portfolio (70%)**

### Leverage

When the signal is high, UBS Digital Transformation Dynamic Fund uses leverage techniques in order to achieve the maximum equity exposure. Investors must be aware of the additional risk involved.

**Any decision to invest should take into account all the characteristics or objectives of the fund as described in its prospectus, or similar legal documentation.**

For complete information about the fund, including the risks of investing, applicable fees (e.g. entry or exit fees) and other important information, investors prior to investing should read the Key Investor Information Document (KIID), full prospectus, the complete risk information and any applicable local offering documents. Please refer to your adviser for more information.

#### Characteristics and fees

Fund name	<b>UBS (Lux) Key Selection SICAV – Digital Transformation Dynamic (USD)</b>		
Portfolio management	UBS Asset Management and UBS Global Wealth Management (UBS Switzerland AG)		
Custodian bank	UBS Europe SE, Luxembourg Branch		
Fund currency	USD; other currencies: EUR hedged, CHF hedged		
Accounting year end	30 September		
Subscriptions/redemptions	daily		
Distribution	No, accumulating (acc) share classes only		
SFDR aligned to	Article 6		
Reference index	MSCI All Country World (net div. reinv.)		
Share class	<b>P-acc (USD)</b>	<b>P-acc (EUR hedged)</b>	<b>P-acc (CHF hedged)</b>
Launch date	28.01.2020	28.01.2020	28.01.2020
ISIN	LU2041032165	LU2041032678	LU2041033056
Management fee p.a.	1.39%	1.43%	1.43%
Ongoing charges	1.83%	1.88%	1.88%
Share class	<b>Q-acc (USD)</b>	<b>Q-acc (EUR hedged)</b>	<b>Q-acc (CHF hedged)</b>
Launch date	28.01.2020	28.01.2020	28.01.2020
ISIN	LU2041032322	LU2041032835	LU2041033213
Management fee p.a.	0.75%	0.79%	0.79%
Ongoing charges	1.03%	1.08%	1.08%

Source: UBS Asset Management. Data as of December 2021.

Investors are acquiring units in a fund, and not in a given underlying asset such as building or shares of a company. If part or all of the total costs is to be paid in a currency different from your reference currency, the costs may increase or decrease as a result of currency fluctuations.



### Opportunities

- Ride the digital revolution: To benefit from the disruptive innovations that are transforming the world
- Exposure to multiple themes: Provides diversified exposure across several clearly identified themes which benefit from the innovative and disruptive forces of digital transformation
- Focus on high quality stocks: Picking stocks based on fundamental company research
- Diversification of investment exposure by company type: Investing in early stage companies with high growth potential, mature companies embracing digital transformation and enabler companies providing the underlying technologies for this transformation
- Enhanced risk/return profile: By dynamically adjusting equity exposures in response to economic and market conditions, the global equity overlay helps mitigate volatility and drawdown risks during downturns and improves the return potential during expansions
- Investment decisions are based on an investment philosophy and fundamental research, the portfolio manager is not tied to the benchmark in terms of investment selection or weight



### Risks

- Fund invests in equities and may therefore be subject to high fluctuations in value
- For this reason, an investment horizon of at least five years and an appropriate risk tolerance and capacity are required
- Fund pursues an active management style, which means that performance can deviate substantially from that of its reference index
- Fund focuses intentionally on stocks within certain themes, so there may be additional risks (e.g. lower diversification)
- Equity fund with core allocation to digital transformation, mainly IT sector related theme stocks with higher volatility than global equities
- Allocation within global equity overlay is based on the quantitative UBS GWM CIO World Equity Market Indicator and is thus subject to model risk
- Increase and reduction of equity allocation (from min. 70% to max. 115% notional) may lag market moves until market signal changes
- Investments through Shanghai or Shenzhen Stock Connect are subject to additional risks, in particular quota limitations, custody risk, clearing/settlement risk and counterparty risk
- Fund uses leverage techniques which entail additional risks
- Fund can use derivatives, which may result in additional risks (particularly counterparty risk)
- Every fund has specific risks, which can significantly increase under unusual market conditions

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### Glossary

**5G:** With 5G commercial networks being switched on, the first use cases are enhanced mobile broadband, which will bring better experiences for smartphone users, and fixed wireless access, providing fiber speeds without fiber to homes.

**Augmented reality (AR)/virtual reality (VR):** Refers to computer-generated simulations that integrate the real world (AR) or are entirely self-contained (VR).

**Artificial intelligence (AI):** This is the ability of a computer program or a machine to think and learn. In general use, the term means a machine which mimics human cognition. AI involves many different fields like computer science, mathematics, linguistics, psychology or neuroscience.

**Big data:** Big data usually includes data sets with sizes beyond the ability of commonly used software tools to capture, curate, manage, and process within a tolerable elapsed time. It requires a set of technologies with new forms of integration to reveal insights from datasets that are diverse, complex, and of a massive scale.

**Cloud computing:** Practice of using a network of remote servers hosted on the Internet to store, manage, and process data, rather than a local server or a personal computer.

**Counterparty risk:** Loss that a bank would incur if a business partner were to become insolvent.

**Derivatives:** A derivative or derivative financial instrument is a generic term for synthetic financial products which are linked to one or more underlying instruments such as shares, bonds, indices, etc.

**Drawdown:** The peak-to-trough decline during a specific record period of an investment or fund. It is usually quoted as the percentage between the peak and the trough.

**Futures/futures contract:** Standardized contract traded on an exchange by which the seller undertakes to sell or buy a specified quantity of a commodity of a defined quality (commodity future) or a specified amount of a financial instrument (financial future) on a specified due date and for a specified price.

**Internet of Things (IoT):** IoT is the extension of internet connectivity into physical devices and everyday objects. Embedded with electronics, internet connectivity and other forms of hardware, these devices can communicate and interact with others over the internet, and they can be remotely monitored and controlled.

**Leverage:** Leverage is an investment strategy of using various financial instruments or borrowed capital to increase the potential return of an investment. Leverage can also refer to the amount of debt a firm uses to finance assets.

**Quota limitations:** Limitations on foreign investment in China's mainland stock exchanges.

**Risk:** Exposure to damage or financial loss, e.g. a fall in the price of a security, or insolvency on the part of a debtor. It is measured by the degree of expected return fluctuations.

**Shanghai or Shenzhen Stock Connect:** Collaboration between the Hong Kong, Shanghai and Shenzhen Stock Exchanges, Stock Connect allows international and Mainland Chinese investors to trade securities in each other's markets through the trading and clearing facilities of their home exchange.

**Volatility:** Measure of the fluctuations in the rate of return of a security within a specific period. Usually stated as an annualized standard deviation.

More explanations of financial terms can be found at [ubs.com/am-glossary](https://ubs.com/am-glossary)



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