For marketing purposes
For professional / qualified /
institutional clients and investors only

Entering the golden age for China long/short investing

The transition of China's equity markets from beta-driven to alpha-rich is one of our current 'mega-trends' in relative value investing, and we believe the China long/short strategy is uniquely positioned to benefit.

Jay Raffaldini, Managing Director at UBS O'Connor explains why.

China long/short investing – in 60 seconds

- We believe that China's markets are becoming a key source of alpha and China's transition from beta to alpha is one of our current 'mega-trends' in relative value investing.
- China is actively focused on reforming its financial sector, and we believe that is creating opportunities for relative value trading that hasn't been available to investors in the past.
- QFII and RQFII reforms will drive a significant increase in liquidity in China's A-share markets and create opportunities for long/short investors like ourselves to exploit inefficiencies in the market.
- We believe high retail participation, improving liquidity, reforms to allow shorting and margining, and low analyst coverage combine to create a "golden age" for relative value investors

China now represents 19% of global GDP[1], and its economy cannot be underestimated.

We believe that China's markets are becoming a key source of alpha and China's transition from beta to alpha is one of our current 'mega-trends' in relative value investing.

Three sources of alpha

We break alpha down into three components.

Firstly, 'investment acumen alpha' from the skill of the portfolio manager vs. peers; secondly, 'cyclical alpha' which we attribute to market dislocations from policy errors or external events; and thirdly, 'structural alpha' which we define as regulatory impediments or improvements that create opportunities that are long-term and structural in nature.

Investment acumen alpha	**Cyclical alpha**	**Structural alpha**

We view China as a major opportunity for structural alpha.

Historically, relative value investing in China was limited to exposure to dual listed companies, or single names in the A-share market hedged with indices or ETF products, with much of performance driven by beta from directional positions rather than alpha.

Today China is actively focused on reforming its financial sector, and we believe that is creating opportunities for relative value trading that hasn't been available to investors in the past.

Reforms have changed the game for hedge fund investors in China

2020 saw key financial market reforms including changes to the Qualified Foreign Institutional Investor (QFII) and RMB Qualified Foreign Institutional Investor (RQFII) investor initiatives operated by the Chinese government.

These reforms fundamentally change the operating characteristics of the China A-share market by allowing hedge fund investors to short with domestic brokers and secure margin on a range of securities that were not available in the past.

We believe that the QFII and RQFII reforms will drive a significant increase in liquidity in China's A-share markets and create opportunities for long/short investors like ourselves to exploit inefficiencies in the market – which is a compelling proposition as we see China's A-share market driven by attractive investor dynamics.

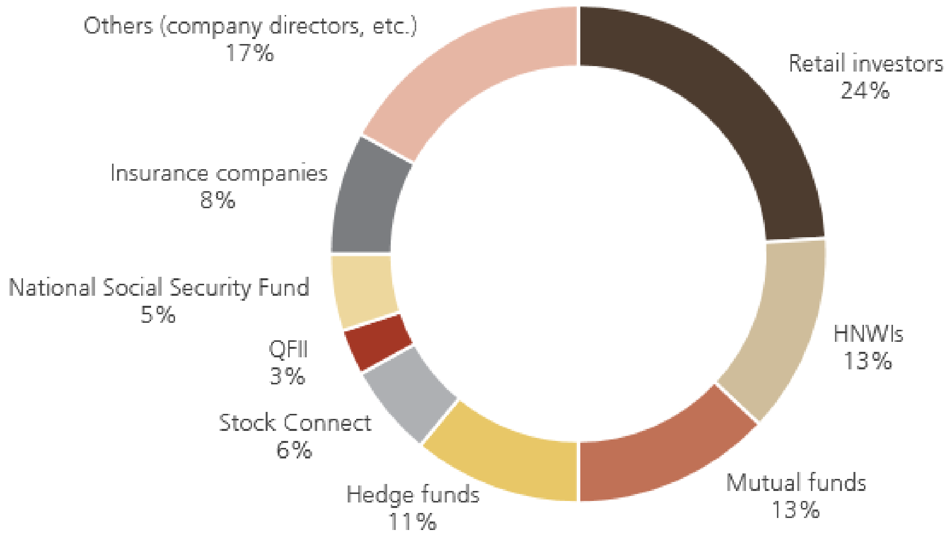
We believe that the QFII and RQFII reforms will drive a significant increase in liquidity in China's A-share markets and create opportunities for long/short investors like ourselves to exploit inefficiencies in the market

China: an uncrowded, retail-driven equity market

Historically China's A-share markets have had relatively few hedge fund participants relative to markets of similar size, and many hedge funds trade broader Asia strategies, e.g., Japan and Hong Kong, as opposed to specific China A-share focus.

[1] International Monetary Fund, December 2020

China A-shares: free float market cap by investor type



Source: Investor holding data updated as of December 2020. Source: Wind, CSRC, NSSF, UBS Securities estimates

Until recently it was difficult for hedge funds to transact in underlying A-shares aside from simple long positions, so there are relatively few participants actively hedging and shorting in specific securities.

Additionally, the China A-share market is dominated by retail investors with approximately 165m registered individual investor accounts[2], and we estimate approximately 55m of these actively trade every day.

The dominance of retail investors creates dramatic swings in momentum and valuation skews which can present unique alpha opportunities for relative value investors on both the long and short side of portfolios.

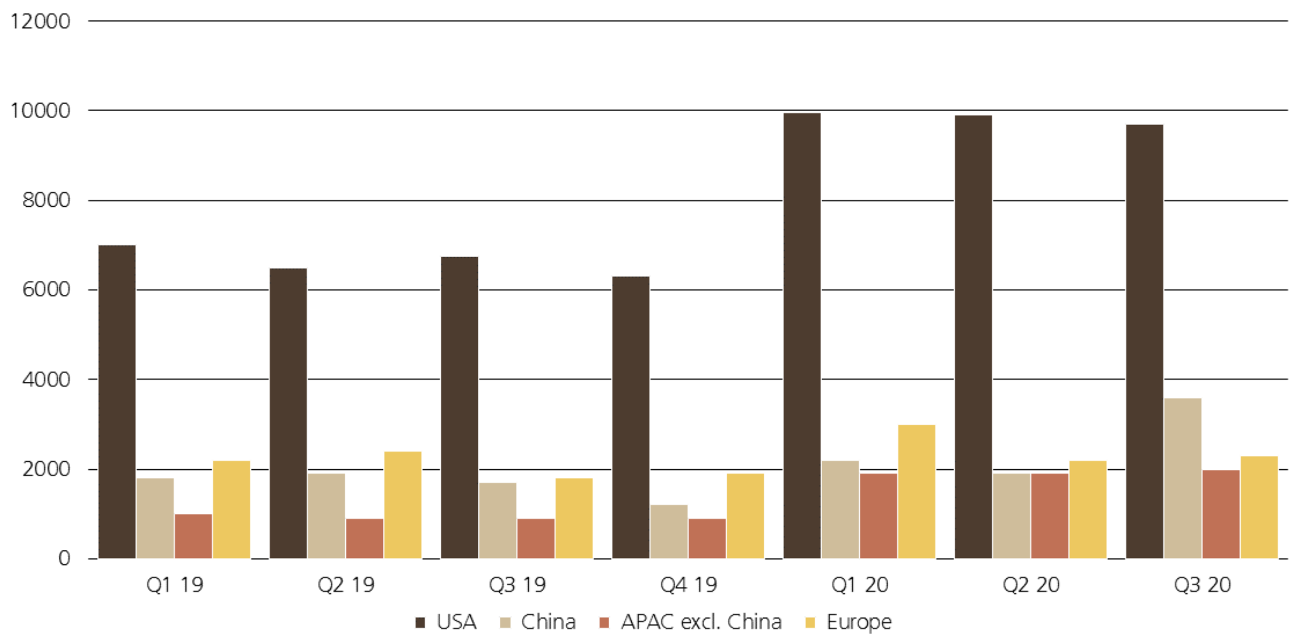
Onshore market turnover is large – and increasing

Onshore market turnover is large – and increasing. One goal of the recent reforms is to increase turnover on China's exchanges – an important metric that should allow Chinese markets to attract flow from institutional investors.

Over the past few quarters we've seen a steady increase in turnover in China, to the extent that it already exceeds turnover levels in both the rest of the Asia-Pacific region and Europe.

[2] UBS, July 2020

Average monthly turnover (USD bn), Q1 2019 -Q3 2020



Source: UBS, CBOE, Bloomberg, September 2020; European data includes all displayed and non-displayed liquidity including periodic auctions, systematic internalisers, off-exchange volumes; US data includes liquidity from Tape A/B/C on all US exchanges

This turnover has been driven by the large number of retail investors in the market, which provides hedge fund investors with volatility and dispersion, which may result in good entry and exit points, as well as the ability to trade around that turnover.

China's markets are under-researched

There's not a lot of analyst coverage of the China A-share market, particularly of mid/small cap companies, and according to Reuters almost 70% of companies are covered by three analysts or less.

Additionally, only about 300 to 400 companies have English language research coverage, a small percentage of the overall market - which means the visible opportunity set for global investors remains small.

So, taken together, we believe these four factors - high retail participation, improving liquidity, reforms to allow shorting and margining, and low analyst coverage - combine to create a "golden age" for relative value investors like O'Connor.

We believe that these dynamics will be prevalent over the long term; we foresee very little substantive change to them in the next three-to-five years.

A good example is retail dominance in the market: while the influence of institutional investment capital is growing, it will likely take years for it to overtake retail investors as a key driver of the market. We believe that there is a compelling window of opportunity to exploit this imbalance over the longer term.

Onshore insights will make the difference

Both O'Connor and the larger UBS have had a longstanding presence in China and our 'boots-on-the-ground' makes a huge difference to our ability to generate alpha.

Looking back on when long/short funds opened in Japan, we saw many portfolio managers stay based in London or New York. We felt those managers were at a disadvantage - particularly when understanding the small- and mid-cap side of the market - because they lacked real relationships with management teams and industry leaders in the local markets.

O'Connor is establishing a team on the ground in Shanghai that should capture valuable insights into the local markets, and UBS Asset Management has a separate large, established presence and network in China that we can leverage to support our relative value strategy.

Our China L/S strategy invests long and short across the China A-share market and offshore-listed Chinese companies, focusing on sectors where we see the most opportunity. Currently these sectors are financial services, health care, consumer, and TMT – and we plan to expand coverage to other areas as opportunities unfold.

Positioning for the golden age in China relative value investing

We believe the current market evolution in China is one of the best investment opportunities we have seen in many years and we'd go so far as to say that it will provide a "golden age" for relative value investors.

We believe that thanks to the to the recent QFII and RQFII reforms hedge funds can more effectively capture long and short alpha and dynamically manage beta, sector, factor, thematic, and idiosyncratic risk in China.

Our approach offers a highly differentiated approach to existing China long-only strategies which we believe will be compelling in a market currently lacking long/short equity investment options.

Our global expertise coupled with our deeply experienced local investment team, offers what we believe to be a strong competitive edge to capture one of the best relative value alpha opportunities in the world today.

For marketing and information purposes by UBS. For professional clients / qualified / institutional investors only.

This document does not replace portfolio and fund-specific materials. Commentary is at a macro or strategy level and is not with reference to any registered or other mutual fund.

Americas
The views expressed are a general guide to the views of UBS Asset Management as of October 2021. The information contained herein should not be considered a recommendation to purchase or sell securities or any particular strategy or fund. Commentary is at a macro level and is not with reference to any investment strategy, product or fund offered by UBS Asset Management. The information contained herein does not constitute investment research, has not been prepared in line with the requirements of any jurisdiction designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. The information and opinions contained in this document have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. All such information and opinions are subject to change without notice. Care has been taken to ensure its accuracy but no responsibility is accepted for any errors or omissions herein. A number of the comments in this document are based on current expectations and are considered "forward-looking statements." Actual future results, however, may prove to be different from expectations. The opinions expressed are a reflection of UBS Asset Management's best judgment at the time this document was compiled, and any obligation to update or alter forward-looking statements as a result of new information, future events or otherwise is disclaimed. Furthermore, these views are not intended to predict or guarantee the future performance of any individual security, asset class or market generally, nor are they intended to predict the future performance of any UBS Asset Management account, portfolio or fund.

EMEA
The information and opinions contained in this document have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith, but is not guaranteed as being accurate, nor is it a complete statement or summary of the securities, markets or developments referred to in the document. UBS AG and / or other members of the UBS Group may have a position in and may make a purchase and / or sale of any of the securities or other financial instruments mentioned in this document. Before investing in a product please read the latest prospectus carefully and thoroughly. Units of UBS funds mentioned herein may not be eligible for sale in all jurisdictions or to certain categories of investors and may not be offered, sold or delivered in the United States. The information mentioned herein is not intended to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. Past performance is not a reliable indicator of future results. The performance shown does not take account of any commissions and costs charged when subscribing to and redeeming units. Commissions and costs have a negative impact on performance. If the currency of a financial product or financial service is different from your reference currency, the return can increase or decrease as a result of currency fluctuations. This information pays no regard to the specific or future investment objectives, financial or tax situation or particular needs of any specific recipient. The details and opinions contained in this document are provided by UBS without any guarantee or warranty and are for the recipient's personal use and information purposes only. This document may not be reproduced, redistributed or republished for any purpose without the written permission of UBS AG. This document contains statements that constitute "forward-looking statements", including, but not limited to, statements relating to our future business development. While these forward-looking statements represent our judgments and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from our expectations.

UK
Issued in the UK by UBS Asset Management (UK) Ltd. Authorised and regulated by the Financial Conduct Authority.

APAC
This document and its contents have not been reviewed by, delivered to or registered with any regulatory or other relevant authority in APAC. This document is for informational purposes and should not be construed as an offer or invitation to the public, direct or indirect, to buy or sell securities. This document is intended for limited distribution and only to the extent permitted under applicable laws in your jurisdiction. No representations are made with respect to the eligibility of any recipients of this document to acquire interests in securities under the laws of your jurisdiction. Using, copying, redistributing or republishing any part of this document without prior written permission from UBS Asset Management is prohibited. Any statements made regarding investment performance objectives, risk and/or return targets shall not constitute a representation or warranty that such objectives or expectations will be achieved or risks are fully disclosed. The information and opinions contained in this document is based upon information obtained from sources believed to be reliable and in good faith but no responsibility is accepted for any misrepresentation, errors or omissions. All such information and opinions are subject to change without notice. A number of comments in this document are based on current expectations and are considered "forward-looking statements". Actual future results may prove to be different from expectations and any unforeseen risk or event may arise in the future. The opinions expressed are a reflection of UBS Asset Management's judgment at the time this document is compiled and any obligation to update or alter forward-looking statements as a result of new information, future events, or otherwise is disclaimed. You are advised to exercise caution in relation to this document. The information in this document does not constitute advice and does not take into consideration your investment objectives, legal, financial or tax situation or particular needs in any other respect. Investors should be aware that past performance of investment is not necessarily indicative of future performance. Potential for profit is accompanied by possibility of loss. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

Australia
This document is provided by UBS Asset Management (Australia) Ltd, ABN 31 003 146 290 and AFS License No. 222605.

China
The securities may not be offered or sold directly or indirectly in the People's Republic of China (the "PRC"). Neither this document or information contained or incorporated by reference herein relating to the securities, which have not been and will not be submitted to or approved/verified by or registered with the China Securities Regulatory Commission ("CSRC") or other relevant governmental authorities in the PRC pursuant to relevant laws and regulations, may be supplied to the public in the PRC or used in connection with any offer for the subscription or sale of the Securities in the PRC. The securities may only be offered or sold to the PRC investors that are authorized to engage in the purchase of Securities of the type being offered or sold. PRC investors are responsible for obtaining all relevant government regulatory approvals/licenses, verification and/or

registrations themselves, including, but not limited to, any which may be required from the CSRC, the State Administration of Foreign Exchange and/or the China Banking Regulatory Commission, and complying with all relevant PRC regulations, including, but not limited to, all relevant foreign exchange regulations and/or foreign investment regulations.

Hong Kong
This document and its contents have not been reviewed by any regulatory authority in Hong Kong. No person may issue any invitation, advertise¬-ment or other document relating to the Interests whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Interests which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) and the Securities and Futures (Professional Investor) Rules made thereunder.

Japan
This document is for informational purposes only and is not intended as an offer or a solicitation to buy or sell any specific financial products, or to provide any investment advisory/management services.

Korea
The securities may not be offered, sold and delivered directly or indirectly, or offered or sold to any person for re-offering or resale, directly or indirectly, in Korea or to any resident of Korea except pursuant to the applicable laws and regulations of Korea, including the Capital Market and Financial Investment Business Act and the Foreign Exchange Transaction Law of Korea, the presidential decrees and regulations thereunder and any other applicable laws, regulations or rules of Korea. UBS Asset Management has not been registered with the Financial Services Commission of Korea for a public offering in Korea nor has it been registered with the Financial Services Commission for distribution to non-qualified investors in Korea.

Taiwan
This document and its contents have not been reviewed by, delivered to or registered with any regulatory or other relevant authority in the Republic of China (R.O.C.). This document is for informational purposes and should not be construed as an offer or invitation to the public, direct or indirect, to buy or sell securities. This document is intended for limited distribution and only to the extent permitted under applicable laws in the Republic of China (R.O.C.). No representations are made with respect to the eligibility of any recipients of this document to acquire interests in securities under the laws of the Republic of China (R.O.C.).

Source for all data and charts (if not indicated otherwise): UBS Asset Management

© UBS 2021. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.

© UBS 2021. All rights reserved.
AMT-647 10/21
www.ubs.com/am

For professional / qualified / institutional clients and investors only.