Not even thinking about thinking

With investment ideas
For investors domiciled in Switzerland
Contents

04 Monthly Letter
Not even thinking about thinking

13 Tactical preferences

14 In Focus
CHF base currency:
Focus on solid real assets

16 Investment ideas

24 Client information

Due to market volatility, we have condensed this issue of the Investor’s Guide. For our most recent views we encourage you to visit our online offering, as shown on the last pages of the publication.

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Dear Reader,

At the peak of the pandemic-related lockdowns, few would have thought that the stock markets would recover so impressively as they have over the past few weeks. Governments in the major industrialized countries have now been able to start gradually reopening their economies as case numbers fall. As a result, numerous economic indicators have already stabilized and are now moving upwards again. However, the recovery on the financial markets has primarily been driven by the unprecedented monetary and fiscal stimulus.

Over the coming weeks and months, three “narratives” or “stories” are likely to have a decisive influence on the direction of the financial markets. First, the “Fed story” and in particular the extent to which the Federal Reserve continues to pursue its extremely expansionary monetary policy both in word and deed. Next is the “second wave story” and the associated question of how we deal with local outbreaks of the virus. And finally, the US presidential election. To find out why we believe the “Fed story” will dominate and what this means for our preferences in the various asset classes, please read the article starting on page 4. In the article on page 14, we discuss what Swiss franc-based investors have to prepare themselves for and which investments we can recommend for the negative interest rate environment in this country.

We hope you enjoy reading this issue.

Mark Haefele
Chief Investment Officer
Global Wealth Management

Daniel Kalt
Regional CIO Switzerland
Not even thinking about thinking

Three narratives
Three stories are driving markets: central bank liquidity, second wave virus fears, and US elections.

The Fed is key
The Fed’s intentions have never been clearer. It will loosen financial conditions further and keep stimulus in place even as the economy starts to recover.

Second wave
The second wave and US election stories will create volatility as they fuel investor perceptions of the speed and strength of the economic recovery. Yet, over the medium term, we think the Fed story will support risk assets.

Investment ideas
We like both equities and credit. We outline our top ideas for other scenarios as well.

In this letter, exactly one year ago, I wrote about Nobel Prize-winning economist Robert Shiller’s concept of “narrative economics.” Shiller believes the stories we tell ourselves can drive economies and markets far more than any economic statistics. Today, when investors are left to contend with an invisible virus and distorted data, the story is everything.

Markets are faced with at least three evolving narratives: the “Fed” story, the “second wave” story, and the “US election” story. But which narrative will prove most powerful, stable, and durable? While news headlines can make us think the second-wave and election stories are the biggest drivers for markets, it is the Fed story that will endure over the medium term. Against this backdrop, we think the most important thing an investor can do is to be invested, not sit on the sidelines. We are positive on the outlook for both equities and credit.

The naked truth is that the Federal Reserve has never been more explicit with its intentions. It is not focused on the theoretical, long-term political or economic consequences of its drive to loosen financial conditions. It intends to use its powers to help ordinary workers, fully expecting that it will also benefit owners of capital. Indeed, Fed Chair Jerome Powell may even think that efforts to loosen financial conditions will increase inequality, provided the rising tide lifts all boats. As he told the press last week: “Just the concept that we would hold back because we think asset prices are too high…what would happen to the people we’re actually, legally supposed to be serving? We’re supposed to be pursuing maximum employment and stable prices and that’s what we’re pursuing…we’re not even thinking about thinking about raising rates”.

The two other narratives—centered around a second wave of the virus and the US election—will create volatility as headlines feed investors’ hopes and fears about the speed and strength of the economic recovery. But ultimately we think the Fed’s efforts will continue to support capital in risk assets. To borrow a phrase from Theodore Roosevelt, the Fed “speaks softly but carries a big stick”.

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Chief Investment Officer
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UBS House View Investor’s Guide – July 2020 4
We believe these evolving narratives create opportunities for investors. The Fed story should be supportive of equities and credit such as US and Asian high yield bonds, hard-currency emerging market sovereign bonds, as well as private credit strategies. Should fears of a second wave story prove overblown it will support recovery plays including US mid-caps, the UK and German markets, and stocks geared toward a reopening of the economy. Finally, the US election story is likely to cause volatility leading up to the November vote as markets weigh the prospects of additional fiscal stimulus against the potential for higher taxes and increased regulation. However, the election also provides additional insurance that the Fed won’t hike rates and both political parties are likely to support further stimulus into the election.

**The “Fed” story**

The Fed story has never been stated this clearly. At the June FOMC press conference, Chair Powell said: “We’re not thinking about raising rates. We’re not even thinking about thinking about raising rates. What we’re thinking about is providing support for this economy.”

At a minimum, the Fed intends to put financial conditions back to where they were before the coronavirus crisis, and is using a barometer—the National Financial Conditions Index—to track its progress. In starting to loosen conditions again, the Fed has responded with unprecedented scale and speed. It has expanded its balance sheet by nearly 75%, from USD 4 trillion to USD 7 trillion, in just three months. On 15 June, it stepped up by announcing that it will begin buying individual corporate bonds under its Secondary Market Corporate Credit Facility, an emergency program previously dedicated to buying exchange-traded funds (ETFs).

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**Figure 1**

Getting financial conditions back to pre-COVID-19 levels

Chicago Fed National Financial Conditions Index (NFCI), including subindexes (credit, risk, leverage). Positive/negative values: financial conditions that are tighter/looser than on average.

Source: Bloomberg, as of June 15, 2020
We can already see the effects of Fed policy in ETF flows. The Fed has been buying credit ETFs; its total ETF holdings were reported at USD 5.5bn as of 10 June. Yet this has been dwarfed by the broader flows driven by the Fed narrative itself. Investor flows into the same ETFs that the Fed has bought exceed the Fed’s actual purchases by almost 10 times since 23 March, when the Fed first announced unlimited quantitative easing and its credit backstop facilities.

Credit has performed well since the Fed started buying. Bond spreads relative to the risk-free rate were at their widest on 23 March. Since then, high yield bond spreads have narrowed by from 1,084 basis points (bps) over US Treasuries to just 585bps today.

Going forward, we believe returns on investment grade bonds are likely to be more muted and will push more investors further out on the risk curve. With central bank support, USD and Asian high yield, USD emerging market sovereign bonds, as well as equities can generate higher returns. We see potential for further total returns of 6% in USD high yield, 11% in Asian high yield, and 10% in emerging market sovereign bonds over the next year in our central scenario, and even higher returns in our upside scenario. We also think the combination of distressed assets and low borrowing costs could provide a significant opportunity for distressed private credit investors.

Meanwhile, history shows that stock valuation multiples and equity market performance are highly correlated with excess liquidity (defined as year-over-year growth in M1 money supply minus nominal GDP growth). In the US, M1 money supply has grown 34% year-over-year in just three months (March–May, monthly data). Our analysis shows that, if interest rates persist at current levels, global equity risk premiums could fall another 80–100bps over the next six months, supporting further upside for equities. In our central scenario, we expect 6% upside for US stocks, 6% for Swiss stocks, and 11% for emerging market stocks.
Upticks in virus numbers have been small in relation to the capacity of healthcare systems. Fears of a “second wave” have potential to add volatility to markets. Google mobility data shows that US activity continues to increase, but states such as Texas, Arizona, Florida, and California have seen an uptick in new virus cases since reopening. Meanwhile, 33 out of 329 sub-districts in Beijing have imposed new restrictions on movement following the emergence of new virus cases.

But it’s important to remember that a) these upticks are still small in relation to the capacity of health systems, b) various governments, including the US, have stated that we will not see a renewed national lockdown, c) we have not seen any evidence of a negative consumer response to “second wave” fears, and d) progress on vaccines and therapeutics continues to be made. As such, while “second wave” fears could add to volatility, ultimately, in our central scenario we expect the recovery to gather strength over the coming year.
To position for the normalization story arc in the US we prefer mid-caps and stocks exposed to the reopening of the economy. We prefer Eurozone industrials and German stocks for their cyclical exposure. We like the UK market for its attractive valuation and high exposure to value sectors. In Asia we recommend stocks exposed to a recovery in consumption. See more in the “Investment Ideas” section below.

The “US election” story

This November’s US presidential election has yet to become a significant story for markets, but we expect it to move closer to the forefront of investors’ minds as the vote approaches. President Donald Trump’s surprise victory in 2016 triggered the so-called “Trump trade” across financial markets. Risk assets rallied, government bonds fell, and the US dollar initially strengthened as investors rushed to price in a combination of lower taxes, looser regulation, and higher fiscal spending.

This year, polls suggest the race will be close, and given the severe economic disruptions caused by the coronavirus, specific policy platforms are yet to be clearly defined. Four months ago, it was President Trump’s election to lose, running on a strong economy and a 50-year low in the unemployment rate. Now, less than four months to the ballot, his approval rating is near the low end of its range during his presidency, and former Vice President Joe Biden is leading in almost every national poll.

The election has the potential to add volatility to markets if investors tell themselves a “fear” story—either that a blue-wave Democratic victory leads to higher taxes, tighter regulation, and antitrust action against big tech, or that President Trump campaigns and wins on a renewed anti-China platform. By our reckoning, increasing the corporate tax rate from 21% to 28% would reduce S&P 500 earnings per share (EPS) by about 5%. But a Biden administration would reallocate these funds into spending on climate, healthcare, infrastructure, and other policy initiatives. Potential new regulation, meanwhile, could be a headwind for energy and financial stocks.
Both parties are likely to support further stimulus.

Neither of these fear outcomes is certain, however. The Democratic agenda remains fluid, the US Senate could remain in Republicans’ hands, and President Trump has shown willingness to be opportunistic in support of the economy.

Positioning for a particular election outcome is therefore inadvisable, especially at this stage. What is clear is that the US election story weaves itself into the Fed story. To ward off the impression of political bias, the Fed is not likely to withdraw monetary stimulus this close to the election. Moreover, both the GOP and Democratic parties are likely to support new stimulus efforts to gain voters’ favor. This month, for example, the Trump administration signaled that it wants the next coronavirus relief program to be at least USD 2tr.

### Investment ideas

**Top three ideas**

<table>
<thead>
<tr>
<th>Upside</th>
<th>Central</th>
<th>Downside</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Select cyclicals</td>
<td>1. Equity</td>
<td>1. Active management</td>
</tr>
<tr>
<td>2. Select value</td>
<td>2. Credit</td>
<td>2. Gold</td>
</tr>
<tr>
<td>3. Weaker dollar</td>
<td>3. Take adv. of volatility</td>
<td>3. CHF</td>
</tr>
</tbody>
</table>

**For our upside scenario**

**Select cyclicals: US mid-caps.** So far this year, US mid-caps still lag large-caps by roughly 6%, due primarily to the stronger performance of companies exposed to “stay at home” trends. These companies are disproportionately represented in large-cap benchmarks, which also tend to be more defensive. In a recovery smaller companies tend to outperform because they are more cyclical and typically more leveraged to trends in the broader economy. As lockdowns and social distancing ease, we expect the economic recovery to broaden and gain more traction. This should disproportionately benefit mid-caps relative to large-caps. In addition to US mid-caps we have assembled a Reopening America basket to focus on the recovery.

In the Eurozone we also like stocks exposed to the reopening of economies, and this cyclical bias supports our preference for the industrials sector and the German market.

**Select value: UK equities.** We see potential for value to recover some ground against growth, but do not see a full reversion to the mean, which would likely need rising bond yields as a precondition. However, UK stocks trade at a large discount to global peers and to their own long-term historical valuation range. This suggests an upward potential over a 12-month horizon. Net EPS revisions—the balance between upward and downward adjustments to analyst forecasts, indicating earnings momentum—are improving on the back of higher oil prices, but stock performance is still lagging. The UK market should benefit from a rotation out of defensive growth stocks into value names, given its large exposure to value sectors such as basic materials, energy, and banks, which account for a combined 40% of the FTSE 100. We also still find opportunities in high quality stocks.

Faster economic normalization will favor cyclical stocks.

The UK is a preferred value market.
Scenario analysis for COVID-19 recovery

<table>
<thead>
<tr>
<th>Upside</th>
<th>Central</th>
<th>Downside</th>
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<tbody>
<tr>
<td>A return to “normal” social activity by 3Q–4Q20 (i.e., a V-shaped recovery), partly due to the availability of an effective vaccine at scale by end-2020, test and trace models, or some countries reaching herd immunity. Minor local outbreaks remain possible.</td>
<td>Sustained economic recovery starting in 3Q20 and a return to normal social activity in 1H21 (i.e., a U-shaped recovery). Developed economies gradually lift major economic restrictions over the summer, but softer restrictions remain in place. Recurrences of the virus are digested by health systems.</td>
<td>A major second wave of the virus in various countries and health systems are unable to cope with it. Lockdowns are reimposed intermittently. No vaccine or drug treatment is available until mid-2021. The global economy does not recover before 2H21. Geopolitical meddling with China, blocking Chinese tech companies, or reimposing tariffs threaten the Phase 1 deal and set back financial markets.</td>
</tr>
<tr>
<td>Status quo in US-China relations remains in place. Both countries stick to their Phase 1 trade deal (i.e., no tariff increase). Heated rhetoric is not followed by actions. Central banks remain accommodative, but indicate rate increases in 2H 2021.</td>
<td>The US and China stick to their Phase 1 trade deal but relations somewhat deteriorate, with new capital flow and investment restrictions and a toughening political rhetoric. Central banks remain accommodative, with no rate increases by end-2021.</td>
<td>Geopolitical meddling with China, blocking Chinese tech companies, or reimposing tariffs threaten the Phase 1 deal and set back financial markets.</td>
</tr>
</tbody>
</table>

Asia equities should be supported by the ongoing normalization of activity, although higher trade tensions are a risk. Our equity focus is on industries that should benefit from a consumption recovery, like autos, consumer electronics, transportation, beverages, retailers, and select casinos.

Weaker dollar. While the greenback enjoyed some flight-to-safety flows during the recent equity market volatility, demand for safe-haven assets is likely to recede as confidence grows that the worst of the COVID-19 crisis is over. The Fed has been the most aggressive of the major central banks in easing monetary policy, and with it, the US’s interest rate premium has eroded. At the start of 2020, the two-year US Treasury yield was 215bps above the equivalent German bond. Now the gap is just 85bps. Meanwhile, the Fed’s balance sheet has grown by USD 3tr over the course of the pandemic, at least twice the growth in the European Central Bank’s balance sheet.

The US political situation, whether related to fears of higher deficits, higher regulations, or higher taxes, should also drive the dollar weaker. Our preferred currency against the US dollar for our upside scenario is the British pound, which we think is heavily undervalued with a purchasing power parity of 1.54.
We are positive on equities in both our central and upside scenarios.

With rates lower for longer and central banks buying, credit remains attractive.

Still elevated volatility creates an opportunity.

For our central and upside scenarios

**Equity.** We are positive on global equities. The global economy is starting to show signs of bottoming out, helped by surging money supply and aggressive fiscal stimulus. As earnings are likely to recover in the second half of the year and excess liquidity continues to support risk assets, we see further upside potential in global equities, in particular among sectors that have lagged the rally so far.

**Credit.** A lower-for-longer rate environment and aggressive central bank purchase programs will continue to support credit. Financial conditions are easing and the Fed’s stated intention is to ease them further. Corporate issuers will also continue to take bondholder-friendly action, in our view, fortifying balance sheets and preserving cash flow to avoid downgrades or default.

Within credit we prefer US high yield, Asian high yield, and USD-denominated emerging market sovereign bonds (those captured by the EMBI Global Diversified Index). We see potential for further total returns of 6%, 11%, and 10% on these bonds, respectively, over the next year in our central scenario and even higher in our upside scenario. Meanwhile, we continue to believe investment grade credit will be well supported, but believe that the bulk of the spread tightening in the asset class has already occurred, limiting the potential for future returns.

Private markets offer an alternative source of yield for investors willing to accept less liquidity. For active investment strategies in stressed and distressed assets in the private market and hedge fund universe, there is an opportunity to deploy capital, help companies at a critical time, and potentially generate attractive returns. We expect default rates to rise, but while we believe this is priced into HY spreads, which focus on large listed companies, much of the distress is focused on small and mid-cap companies, which may not be eligible for or able to access government support programs.

**Taking advantage of volatility.** We believe investors can benefit from current levels of volatility to earn an attractive yield while pre-committing to buying into attractive long-term investments on dips. For investors able to use options, this can be executed through a put-selling strategy. For investors who find themselves sitting on the sidelines but worried about the risk of an ill-timed investment, we recommend using a dollar-cost averaging strategy to build up long-term positions. Averaging into equities can help investors deploy capital while smoothing near-term bumps.
Active management strategies can help navigate the downside.

Gold has fundamental support.

The Swiss franc has safe haven appeal, but should also benefit from a weaker dollar.

For our downside scenario

Active management. One means of insulating portfolios against downside is by including exposure to hedge funds with a strong track record of risk management. As lower yields reduce the ability of bonds to improve portfolio risk/reward, investors can also incorporate dynamic asset allocation strategies to navigate periods of elevated volatility.

Gold. Heightened sensitivities to USD weakness, high levels of public debt, financial repression, and geopolitical risks should make gold attractive to investors with an affinity for real assets. In our central scenario, we expect gold prices to rise to USD 1,800/oz over the rest of 2020. We regard the risks to our forecasts as balanced, with gold prices rising to USD 1,900–2,000/oz in the downside scenario and sliding to USD 1,400–1,500/oz in the upside scenario.

Swiss franc. The CHF combines safe haven qualities with a growth-oriented currency that profits from a stronger European economy and rising global trade volumes. The Swiss National Bank has been intervening on a large scale, but we expect it might reduce its efforts and accept a somewhat stronger currency.

Mark Haefele
Chief Investment Officer
Global Wealth Management

UBS Investor Forum Insights

At this month’s Investor Forum participants discussed the economic recovery and the US election.

- Most participants felt that the worst of the pandemic was behind us, and that governments were not likely to implement complete lockdowns again.
- Some participants argued that while current fiscal expansion measures were intended to be temporary, it would prove difficult to unwind them, which could become a cause for concern in more indebted countries. However, there was broad agreement that despite fiscal expansion there was currently no cause for concern over inflation.
- The participants agreed that with a Democratic win the large corporate tax cuts implemented under the current administration would likely be reversed, a wealth tax would be addressed, and income tax would be cut for low-income households. If the current presidency continues, the participants expect policies to mirror those of the last four years.

Tactical preferences

Asset allocation

Economic growth has bounced back quicker from the coronavirus-induced slump than many observers expected. Indeed, the surprise recovery of the US labor market in May supports the view that the market has gone someway to repairing itself as the US economy reopens. Equities, as well as other risk assets, benefited from the stronger-than-expected data as well as from supportive global monetary policy. Risks to the outlook linger and financial markets remain vulnerable to setbacks, as seen by the recent correction following the cautious outlook given by Fed President Powell. Still, we think the balance of risks has improved and the outlook has brightened. Against this backdrop we are adding global equities as a most preferred asset class.

Equities

Global equities have risen more than 35% from their March lows, but are still trading 10% below their February high. Price-earnings ratios have rerated sharply, despite the fact that we expect more earnings downgrades in the weeks ahead. Economic surprises and earnings revisions have recently improved and the global economy is starting to show signs of bottoming out, helped by surging money supply and aggressive fiscal stimulus. As the earnings recovery is likely to come through in the second half of the year and excess liquidity continues to support risk assets, we see further upside potential in global equities, in particular among sectors that have lagged the rally so far, such as small and mid cap stocks. Regionally, we prefer UK over Eurozone equities, mainly due to the former’s cheaper valuation.

Bonds

Long-dated government bond yields increased somewhat recently, amid signs of an improving economic picture, while the short-end of major yield curves is firmly anchored at low levels by central banks. Inflation expectations remain very low, despite the rally in commodity prices, thus not putting any pressure on monetary policy makers to change course. In this environment, investors will likely continue to look for carry. Most global credit segments have been in high demand recently, driving credit spreads notably tighter. We still see value in credit. US investment grade and high yield bonds as well as emerging market hard currency sovereign bonds offer attractive carry over low-yielding alternatives. Investors should also look for value off the beaten tracks, e.g. in Asian high yield or Chinese government bonds.

Foreign exchange

Within G10 currencies we remain mildly bearish on the US dollar (USD). US interest rates have collapsed and the US Federal Reserve has supplied markets with an unprecedented supply of USD cash to alleviate funding issues, easing its policy stance more pro-actively than other central banks globally. We expect USD depreciation, as lockdown measures ease and economies slowly recover, while the Fed stays highly expansive. Broad USD weakness will only become evident, when the easing of lockdowns is shown to be successful and we see stronger global growth. We expect USDCHF to drift down to 0.92 by end-September as either the Fed eases its monetary policy in response to risk aversion or global economic strength promotes the currencies of exporters. The biggest risk to our forecast is robust growth exclusively in the US, while other G10 countries wait for a rebound.
Financial markets have made an impressive recovery from their lows in the first phase of the coronavirus crisis in mid-March. However, the medium and longer-term prospects for Swiss investors are rather mixed. The main reason for this is that top-quality fixed-income investments in Swiss francs will probably pay negative real yields for years to come. In other words, anyone who keeps their assets in secure bonds or cash is likely to lose money year in, year out, once inflation, taxes and costs are factored in.

Recent announcements from the major central banks have boosted the likelihood of this happening. In the US, Federal Reserve Chair Jay Powell recently made it clear that the Fed “is not even thinking about raising rates” and signaled that the country’s interest rates would probably remain at zero until at least 2022. This means that interest rates in Europe are likely to stay in negative territory for even longer. In this environment, the European Central Bank (ECB) will not consider raising interest rates ahead of the Fed – and the SNB most certainly will not, if only because this would further fuel the appreciation of European currencies against the dollar that is already under way.

**SNB: Keep interest rates steady and hope**

The SNB sent out the same message at its most recent monetary policy assessment. It still considers the franc to be highly valued and continued to signal its willingness to intervene in the currency market. Over the first half of this year alone, banks’ sight deposits with the SNB – a good indicator of the scale of intervention – rose by around CHF 100 billion. With the Swiss economy expected to slump by 6% in the current year, the SNB also stressed the high level of uncertainty about the future course of the economy. Secretly, of course, it too is hoping for a successful and rapid recovery of the global economy, which would remove the prospect of the franc coming under renewed upward pressure. Finally, their inflation forecast assumes a slight overall decline in prices both this year and next, also suggesting that a rise in interest rates in this country is probably still a long way off.

**Corporate bonds and solid real and alternative assets**

Since lending to the government only offers negative expected returns, investors’ desperate search for positive real returns continues unabated. They are effectively being forced to take (entrepreneurial) risk. Ideally they will do so as part of a well thought-out investment concept, such as our UBS Wealth Way approach, and with the broadest possible diversification of investments.

Company-based real returns can be brought into the portfolio through equity or bond investments. In some areas of corporate bonds we expect positive returns even over a longer investment horizon. In the high yield segment in particular, attractive, broadly diversified portfolio solutions can certainly be found for CHF-based investors in both the US and Asian markets. When picking individual issuers in the domestic Swiss franc market we continue to recommend securities in our preferred defensive sectors (healthcare, food and beverages, telecommunications), but careful selection is important.

Real estate investments rank as proven real assets. For years, these have paid significantly higher distribution yields than high-quality bonds. However, the situation on the Swiss real estate market is still dominated by a high level of uncertainty about economic performance over the next few quarters. We see the greatest risks in commercial properties; residential investment properties are typically less sensitive to cyclical trends.

For investors able to take a very long investment horizon for a portion of their assets and who can accept a degree of illiquidity, private investments offer an extremely interesting area. Private equity is developing into an increasingly important asset class that not only promises attractive long-term returns, but also provides access to companies that cannot be reached on the listed markets. The supply of listed companies in developed markets has been shrinking for years, as more and more companies delay an IPO or even avoid one entirely. This means that part of the value creation that public markets used to
enjoy now flows to private investors. It is also becoming increasingly difficult to take positions in rapidly growing and innovative companies, e.g. in technology, if you only invest in listed stocks.

**Equities: High quality yields and long-term trends**

On publicly listed stock markets, Swiss equities too have recovered from their March lows by more than 20% and, after a setback at the beginning of the month, the Swiss Market Index (SMI) is back above the 10,000 level at the time of writing. We expect the second quarter to mark the low point for Swiss corporate earnings, although the recovery that is now beginning is likely to be modest and marked by large differences between defensives and cyclicals.

All in all, we expect significantly more resilient earnings from companies in the Swiss market compared with those in the Eurozone and the US. Market expectations for a 7% decline this year seem realistic to us, while we are forecasting profit falls of 39% and 26% in the Eurozone and the US respectively. The robustness of the market in this country is mainly due to its defensive sector composition. Global food and pharmaceutical companies account for 61% of the SMI’s market capitalization and these could even slightly increase their profits this year. A further 16% of the SMI is made up of financials, whereas cyclicals, whose earnings will fall by almost 40% this year, represent only 15%.

In an environment of low interest rates, Swiss dividend yields of 3.2% are attractive again this year and above their historical average. Given the economic situation, we certainly see a risk of dividend cuts. However, compared to the European environment, this risk is significantly lower in Switzerland, which is why we continue to prefer dividend-based investment strategies. We also favor post-pandemic winners (for example, companies offering innovative healthcare products and services, or focusing on digitization, factory automation and robotics).

For investors who expect recurring setbacks on the equity markets in the current environment, the sustained market volatility makes it possible to structure solutions allowing individual stocks or even entire market indices to be bought only once they have corrected by a certain amount. At the same time, such structures also generate attractive yields.

Investors who are prepared to sit out short-term fluctuations can concentrate on long-term trends and companies that benefit from these. One of these megatrends are the new digital technologies being used in practically all areas of life and the economy. You will find our latest study on this subject entitled “The Future of the Tech Economy” at the following link: https://bit.ly/2UXpwcu.

For further information on all Swiss franc asset classes, please refer to our publication “Investing in Switzerland”, which you can download via e-banking on the CIO portal (in e-banking under “Markets & Trading” -> “Investment Views” -> “Regions: Switzerland”) or have emailed to you regularly by subscription.
Investment ideas
Capital Group New Perspective Fund

**UBS Advice™: CHF hedged 30164666**

Our Chief Investment Office (CIO) recently went overweight global equities in its tactical asset allocation. Increasing money supply by central banks and fiscal stimulus by governments has led to economic surprises and the global economy is starting to show signs of bottoming out. However, market uncertainty remains high. Nevertheless it is important to stay invested within the individually defined strategy, but managing the downside risks. High-quality stocks tend to perform better than the overall market when the economy grows below trend or slows down. Quality companies are characterized by durable business models with competitive advantages and low financial leverage which leads to high returns on equity and more stable earnings.

### Region breakdown

<table>
<thead>
<tr>
<th>Region</th>
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<tbody>
<tr>
<td>North America</td>
<td>2.9%</td>
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<tr>
<td>Europe</td>
<td>6.1%</td>
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<tr>
<td>Emerging markets</td>
<td>22.5%</td>
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<td>Japan</td>
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<td>Pacific ex Japan</td>
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<tr>
<td>Cash &amp; equivalents</td>
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Source: Capital Group, end of May 2020

### Sector breakdown

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<th>Sector</th>
<th>Percentage</th>
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<tbody>
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</tr>
<tr>
<td>Utilities</td>
<td>5%</td>
</tr>
<tr>
<td>Real estate</td>
<td>5%</td>
</tr>
<tr>
<td>Other</td>
<td>5%</td>
</tr>
</tbody>
</table>

Source: Capital Group, end of May 2020

One of our preferred solutions to invest in global equities with a quality-growth style is the **Capital Group New Perspective Fund**. It offers the following benefits and characteristics:

- **45 years+ plus investment navigator strategy** that has weathered many storms and invests in companies that are benefiting from secular trends
- **Large research resources** – Capital Group is one of the largest privately-held investment management organizations in the world with more than 80 years of investment experience
- **Focus on companies with fast-growing market share/business outside of their home countries (i.e. multinationals)**
- **The portfolio is managed independently and unconstrained by 7 managers with an average experience of 27 years, resulting in a well-diversified portfolio of about 200–300 companies**

### Risks

Equity funds are exposed to equity market fluctuations. For this reason, they are appropriate only for investors with an investment horizon of at least five years, and corresponding risk tolerance and risk capacity. Additional information about these and other risks can be found in the KIID as well as in the prospectus of the fund. Past performance is no indication of future results. Fund under Luxembourg law. Representative in Switzerland: Capital International Sarl 3 Place des Bergues, 1201 Geneva. Paying agent: JPMorgan (Suisse) SA 8 rue de la Confédération, 1204 Geneva. Prospectuses, simplified prospectuses or key information documents, the articles of association or the management regulations as well as annual and semi-annual reports of the fund are available free of charge from the representative.

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Time to “buy the dip”

Global equity markets have recovered from its lows in March 2020. Investors who expect further corrections in global indices in the short-term, but expect a more positive development over the next three years, can now use the opportunity to buy into equity markets with an averaging-in investment solution. Buy on Dips Notes linked to the SMI, S&P 500 or EuroSTOXX 50 can be used to enter the market and potentially buy again automatically if stock prices start dropping again.

Why invest in Buy on Dips Notes?
- **Participation:** 100% participation in the weighted performance of the underlying within the equity component
- **Build-up exposure:** Gradual build-up to the underlying in case of market correction (“buy-on-dips”)
- **Cash Flow:** Regular coupon payment on relevant cash component (if any)

**Generic index for illustrative purposes**

![Initial allocation: 60% cash – 40% equity](image)

- Reallocate first 20% to equity component if index closes 10% from strike
- Reallocate additional 20% to equity if index drops 15% from strike
- Reallocate additional 20% to equity if index drops 20% from strike

**Indicative Pricings on the Dips Note**
The product has a tenor of 3 years and initially contains a 40% equity and 60% cash component. The allocation in case of a Trigger Event will be shifted +20% into the equity component. A Trigger Event has occurred if the underlying closes at or below the trigger level based on a daily close observation. Trigger levels are set at 90%, 85% and 80%. The cash component will be reduced accordingly. Please find an overview of our current offering below:

<table>
<thead>
<tr>
<th>Underlying</th>
<th>Currency</th>
<th>Coupon p.a.</th>
<th>ISIN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Euro STOXX 50 Index</td>
<td>EUR</td>
<td>[4.25–5.25]%</td>
<td>CH0551321117</td>
</tr>
<tr>
<td>SMI Index</td>
<td>CHF</td>
<td>[2.00–3.00]%</td>
<td>CH0550134065</td>
</tr>
<tr>
<td>Hang Seng China Quanto</td>
<td>USD</td>
<td>[2.00–3.00]%</td>
<td>CH0550134149</td>
</tr>
</tbody>
</table>

**Risk**
- The product may underperform a direct investment in case of constantly positive performance in the underlying
- The coupon is only paid on the relevant cash component (if any)
- No capital protection (in case of a third trigger event, full exposure in the equity component may result in a loss similar to direct investment)
- Investors are fully exposed to the default risk of the issuer. In the worst case a default of the issuer can lead to a loss of the entire invested capital

Please contact your Client Advisor for further information and execution.
UBS Digital Transformation Themes Fund

**UBS Advice™: CHF hedged 49407798**

Our Chief Investment Office (CIO) recently published the ‘Future of the Tech Economy’ research paper. In this CIO outlines opportunities in the area of digital transformation and regards digital transformation as the key disruptive force redefining business models. This shift will likely define the next decade and our CIO expects particular beneficiaries in the fields of digital data, enabling technologies, e-commerce, security and safety, healthtech and fintech. Investing in the winners of this transformation offers opportunities and our CIO recommends gaining exposure to a broad group of digital transformation companies.

### Themes exposure in %

<table>
<thead>
<tr>
<th>Category</th>
<th>Exposure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital data</td>
<td>10%</td>
</tr>
<tr>
<td>Enabling technology</td>
<td>15%</td>
</tr>
<tr>
<td>E-commerce</td>
<td>20%</td>
</tr>
<tr>
<td>Security &amp; safety</td>
<td>5%</td>
</tr>
<tr>
<td>Healthtech</td>
<td>10%</td>
</tr>
<tr>
<td>Fintech</td>
<td>25%</td>
</tr>
<tr>
<td>Cash</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: UBS Asset Management, end of May 2020

### Sector exposure in %

<table>
<thead>
<tr>
<th>Sector</th>
<th>Exposure</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT</td>
<td>25%</td>
</tr>
<tr>
<td>Comm. services</td>
<td>10%</td>
</tr>
<tr>
<td>Consumer discretionary</td>
<td>5%</td>
</tr>
<tr>
<td>Financials</td>
<td>10%</td>
</tr>
<tr>
<td>Health care</td>
<td>5%</td>
</tr>
<tr>
<td>Industrials</td>
<td>5%</td>
</tr>
<tr>
<td>Cash</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: UBS Asset Management, end of May 2020

One of our preferred solutions on this topic is the UBS (Lux) Key Selection SICAV – Digital Transformation Themes Fund. It offers the following benefits:

- **Ride the digital revolution**: The fund seeks to capture significant growth opportunities created by digital transformation which touches all aspects of our daily lives
- **Exposure to multiple themes**: It invests in six themes which will benefit from digitization: Digital data, enabling technologies, e-commerce, security and safety, healthtech and fintech
- **Quality tilt**: Focus on high quality stocks. Picking stocks based on fundamental company research
- **Diversification**: Investments are diversified also by company type: early stage companies with high growth potential, mature companies embracing digital transformation and enabler companies providing the underlying technologies for this transformation

### Risks

The 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 is required. Focusing intentionally on stocks within certain themes may come with further risks. Additional information about these and other risks can be found in the KIID as well as in the prospectus of the fund. Past performance is no indication of future results. Fund under Luxembourg law. Representative in Switzerland: UBS Fund Management (Switzerland) AG, Aeschenplatz 6, 4002 Basel. Paying agent: UBS Switzerland AG, Bahnhofstrasse 45, 8001 Zurich and its branches in Switzerland. Prospectuses, simplified prospectuses or key information documents, the articles of association or the management regulations as well as annual and semi-annual reports of the fund are available free of charge from the representative.

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For marketing purposes only

**Investment ideas July 2020**

**Asset class Equities**

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Participate in the Future of Tech Economy

UBS Chief Investment Office (CIO) continues to believe that technology disruption as a theme offers a good investment opportunity for investors, as both technology disruptors and enablers should maintain their above-average growth. The coronavirus outbreak will hurt earnings in the first half of 2020 but CIO expects a recovery in the second half of 2020 and 2021. As a result, they see the recent correction as overdone.

Among technology disruptors, UBS CIO likes platform companies with network effects and accelerating market share gain prospects. Among technology enablers, our analysts like companies exposed to trends like cloud, 5G, big data and artificial intelligence (AI).

Clients who would like to get exposure to these topics can now invest in the new Participation Certificate linked to UBS CIO “Technology Disruption” Equity Preference List (EPL).

Why invest in the Participation Certificate?
- Efficient and easy access to a careful selection of global stocks in the “Technology Disruption” investment theme that UBS CIO expects to outperform their benchmark
- Dynamic adjustments via rebalancing when UBS CIO adjusts the EPL
- Potential for unlimited participation in the performance of the dynamic reference portfolio
- Flexible trading in secondary market (under normal market conditions)

The product has a tenor of 7 years (extendible at the option of the issuer for additional 7 year periods), is denominated in USD and issued by UBS. For EPL constituents denominated in currencies other than USD, the certificate hedges the currency risks via FX forward transactions (as these are implemented on a monthly basis, residual currency risks remain). Net dividends are reinvested into the certificate.

Risk
- No capital protection – a potential loss in an investment in the Participation Certificates is comparable to a direct investment in the stocks of the reference portfolio. You may lose a significant part or all of your capital invested.
- If the currency of the Participation Certificate is different from your reference currency, the return may increase or decrease as a result of currency fluctuations
- Currency risks are only partially hedged
- Reinvestment risk in case of an early redemption
- Full exposure to the credit risk of the issuer (in a worst case scenario a default of the issuer can lead to a loss of the entire invested capital)

The Underlying Equity Preference List (equally weighted)
- This is the UBS CIO Equity Preference List (EPL) “Technology Disruption” as of 11 June 2020.
- The “most-preferred” stock selection for the investment theme of Technology Disruption includes companies which UBS CIO Analyst Sundeep Gantori expects to outperform their benchmark in the next 12 months.
- EPLs can be updated on a daily basis, and are refreshed at least every two weeks. Please visit the UBS WM CIO Portal (where you can also find the CIO analysis responsible for recommendations and benchmark selection) or contact your client advisor for the most recent publication of this EPL.

<table>
<thead>
<tr>
<th>Most Preferred</th>
<th>Currency</th>
<th>Company</th>
<th>Currency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accenture PLC-CL A</td>
<td>USD</td>
<td>Microsoft Corp.</td>
<td>USD</td>
</tr>
<tr>
<td>Adobe Systems Inc.</td>
<td>USD</td>
<td>Netflix Inc</td>
<td>USD</td>
</tr>
<tr>
<td>Alibaba</td>
<td>USD</td>
<td>NVIDIA Corporation</td>
<td>USD</td>
</tr>
<tr>
<td>Alphabet Inc</td>
<td>USD</td>
<td>Paypal</td>
<td>USD</td>
</tr>
<tr>
<td>Amazon.com</td>
<td>USD</td>
<td>Qualcomm Inc.</td>
<td>USD</td>
</tr>
<tr>
<td>Apple Inc</td>
<td>USD</td>
<td>Salesforce.com</td>
<td>USD</td>
</tr>
<tr>
<td>ASML</td>
<td>EUR</td>
<td>SAP AG</td>
<td>EUR</td>
</tr>
<tr>
<td>Cisco Systems Inc.</td>
<td>USD</td>
<td>Visa Inc.</td>
<td>USD</td>
</tr>
</tbody>
</table>

Please contact your Client Advisor for further information and execution (Valor: 51136663).

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UBAM High Grade CHF Income Plus

UBS Advice™: CHF hedged 52162907

Central banks around the world have cut rates to unprecedented levels. Against this backdrop of lower-for-longer interest rates our Chief Investment Office (CIO) expects the search for yield to be back. Swiss fixed income investors with the Swiss franc (CHF) as their base currency can either invest in CHF bonds issued by Swiss or foreign entities or in EUR and USD (or other foreign currency) bonds with currency hedging to the CHF.

One of our preferred solutions for Swiss investors to invest in the fixed income market is the UBAM High Grade CHF Income Plus Fund. It offers the following benefits and characteristics:

- Attractive income in CHF: mainly investment-grade investments and up to 15% exposure to high yield rating
- The fund invests in CHF-denominated bonds, EUR- or USD-denominated bonds hedged to the CHF
- The fund uses standardized and cleared interest rate and credit derivatives
- Moderate interest rate risk with a typical average maturity of 5 years
- Top-down macroeconomic-driven process to actively manage the interest rate and credit exposure
- No stamp duty for Swiss investors

**Risks**

The fund invests in fixed income securities which poses a higher risk than cash and hence investors will move up the risk curve and take e.g. liquidity, credit, currency and counterparty risk. The fund invests in bonds of companies with a credit rating of below-investment grade. Such companies are considered speculative and the investment is exposed to higher credit risk. The fund invests in derivative financial instruments and therefore is subject to derivative risks. Additional information about these and other risks can be found in the fund’s prospectus and KiID. Past performance is no indication of future results. Fund under Swiss law. Representative in Switzerland: GERIFONDS SA, Rue du Maupas 2, 1002 Lausanne. Paying agent: Banque Cantonale Vaudoise, Lausanne. Prospectuses, simplified prospectuses or key information documents, the articles of association or the management regulations as well as annual and semi-annual reports of the fund are available free of charge from the representative.

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UBS House View Investor’s Guide – July 2020 21
4% p.a. Yield and buying stocks at a discount

The pandemic of COVID-19 has pushed global markets into an environment with increased equity volatility. By investing in Reverse Convertible (GOALs), investors can benefit from elevated volatility levels and the potential to build up Equities at a discount.

Investors who are worried about further drawdowns in equity markets, and who are willing to potentially buy stocks at a discount could establish a diversified, income-generating CHF Reverse Convertible (GOAL) portfolio. There is no need to time the market! GOALs offer a disciplined approach to “buy the dip” and getting paid while waiting. Furthermore, investors benefit from:

- **Cashflow:** Guaranteed coupon, paid in any scenario
- **Discount:** Potentially buy the stock at a significant discount of up to ~30% (without paying brokerage fees)
- **Diversification:** Reverse Convertible portfolio is diversified with regards to “market timing”, volatility, sectors and issuers
- **Early Redemption opportunity:** An early redemption event may provide a cash-out opportunity at regular intervals in case all underlyings close at or above their respective early redemption level

### Reverse Convertible Portfolio (CHF) – Investment Idea

<table>
<thead>
<tr>
<th>Weight</th>
<th>Sector</th>
<th>Currency</th>
<th>Underlyings (worst-of)</th>
<th>Tenor</th>
<th>Coupon</th>
<th>Strike</th>
<th>Early Redemp. Level</th>
<th>Issuer*</th>
</tr>
</thead>
<tbody>
<tr>
<td>12.50%</td>
<td>Industrials</td>
<td>CHF</td>
<td>Bucher, Adecco, Georg Fischer</td>
<td>3 years</td>
<td>4% p.a.</td>
<td>70%</td>
<td>100%, annually</td>
<td>JP Morgan</td>
</tr>
<tr>
<td>12.50%</td>
<td>Industrials</td>
<td>CHF</td>
<td>Sulzer, Oerlikon, Stadler Rail</td>
<td>3 years</td>
<td>4% p.a.</td>
<td>66%</td>
<td>100%, annually</td>
<td>JP Morgan</td>
</tr>
<tr>
<td>12.50%</td>
<td>Industrials &amp; Materials</td>
<td>CHF</td>
<td>SFS Group, SGS</td>
<td>3 years</td>
<td>4% p.a.</td>
<td>81%</td>
<td>100%, annually</td>
<td>JP Morgan</td>
</tr>
<tr>
<td>12.50%</td>
<td>IT &amp; Communication Services</td>
<td>CHF</td>
<td>Landis+Gyr, Swissscom</td>
<td>3 years</td>
<td>4% p.a.</td>
<td>76%</td>
<td>100%, annually</td>
<td>JP Morgan</td>
</tr>
<tr>
<td>12.50%</td>
<td>Healthcare</td>
<td>CHF</td>
<td>Lonza, Novartis, Roche</td>
<td>3 years</td>
<td>4% p.a.</td>
<td>68%</td>
<td>100%, annually</td>
<td>Barclays</td>
</tr>
<tr>
<td>12.50%</td>
<td>Financials</td>
<td>CHF</td>
<td>GAM Holding, Swiss Life, Credit Suisse</td>
<td>3 years</td>
<td>4% p.a.</td>
<td>68%</td>
<td>100%, annually</td>
<td>Vontobel</td>
</tr>
<tr>
<td>12.50%</td>
<td>Consumer Staples &amp; Cons. Discretionary</td>
<td>CHF</td>
<td>Barry Callebaut, Nestle, Richemont</td>
<td>3 years</td>
<td>4% p.a.</td>
<td>66%</td>
<td>100%, annually</td>
<td>Barclays</td>
</tr>
<tr>
<td>12.50%</td>
<td>Consumer Discretionary &amp; Healthcare</td>
<td>CHF</td>
<td>Straumann, Forbo</td>
<td>3 years</td>
<td>4% p.a.</td>
<td>76%</td>
<td>100%, annually</td>
<td>Societe Generale</td>
</tr>
<tr>
<td>100.00%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Selection of issuer based on pricing conditions as well as taking into account issuer diversification.

Extract of indicative terms (as of 12 June 2020)

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Overview

Performance in %¹

<table>
<thead>
<tr>
<th>Valor</th>
<th>Performance in %¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 year</td>
<td>3 years</td>
</tr>
<tr>
<td>Global equities</td>
<td></td>
</tr>
<tr>
<td>Capital Group New Perspective Fund</td>
<td>CHF 30164666</td>
</tr>
<tr>
<td>3-years Buy on Dips Notes linked to the SMI, S&amp;P 500 or EuroSTOXX 50</td>
<td>CHF, USD, EUR</td>
</tr>
</tbody>
</table>

Future of Tech Economy

<table>
<thead>
<tr>
<th>Valor</th>
<th>Performance in %¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 year</td>
<td>3 years</td>
</tr>
<tr>
<td>UBS Digital Transformation Themes Fund</td>
<td>CHF 49407798</td>
</tr>
<tr>
<td>Participation Certificate linked to UBS CIO “Technology Disruption” Equity Preference List</td>
<td>USD 51136663</td>
</tr>
</tbody>
</table>

Hunt for yield

<table>
<thead>
<tr>
<th>Valor</th>
<th>Performance in %¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 year</td>
<td>3 years</td>
</tr>
<tr>
<td>UBSAM High Grade CHF Income Plus</td>
<td>CHF 52162907</td>
</tr>
</tbody>
</table>

UBS Asset Allocation Funds

UBS offers a broad range of multi asset funds with varying equity and bond components and corresponding risk/return characteristics. Our investment funds are well-diversified and actively managed with the aim to increase return potential. The portfolio management teams taking care of the funds are globally integrated and interlink investment specialists who are highly experienced in their respective fields of top-down and bottom-up research and risk management. They also leverage the UBS Wealth management investment process which combines the expertise of more than 900 investment experts from around the globe, covering all key markets and asset classes. This integrated and systematic process enables clients to profit from the UBS House View in a straightforward way through the UBS Strategy and the UBS Strategy Xtra Funds.

<table>
<thead>
<tr>
<th>Valor</th>
<th>Performance in %¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 year</td>
<td>3 years</td>
</tr>
<tr>
<td>UBS Strategy &amp; UBS Strategy Xtra Funds</td>
<td></td>
</tr>
<tr>
<td>UBS (Lux) Strategy Xtra SICAV – Yield (CHF) P-acc</td>
<td>CHF 1796535</td>
</tr>
<tr>
<td>UBS (Lux) Strategy Xtra SICAV – Balanced (CHF) P-acc</td>
<td>CHF 1796537</td>
</tr>
<tr>
<td>UBS (Lux) Strategy Fund – Fixed Income (CHF) P-acc</td>
<td>CHF 618669</td>
</tr>
<tr>
<td>UBS (Lux) Strategy Fund – Income (CHF) P-acc</td>
<td>CHF 22821930</td>
</tr>
<tr>
<td>UBS (Lux) Strategy Fund – Yield (CHF) P-acc</td>
<td>CHF 601322</td>
</tr>
<tr>
<td>UBS (Lux) Strategy Fund – Balanced (CHF) P-acc</td>
<td>CHF 239657</td>
</tr>
<tr>
<td>UBS (Lux) Strategy Fund – Growth (CHF) P-acc</td>
<td>CHF 601320</td>
</tr>
<tr>
<td>UBS (Lux) Strategy Fund – Equity (CHF) P-acc</td>
<td>CHF 529255</td>
</tr>
</tbody>
</table>

UBS Suisse Funds

<table>
<thead>
<tr>
<th>Valor</th>
<th>Performance in %¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 year</td>
<td>3 years</td>
</tr>
<tr>
<td>UBS (CH) Suisse – 25 P-dist</td>
<td>CHF 10973898</td>
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<td>UBS (CH) Suisse – 45 P-dist</td>
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¹ Data as of 29 May 2020 (or latest available), net of fees.
Past performance is not an indication of future returns.

Source: Morningstar

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