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Smaller companies, larger returns?

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Executive summary

The Coronavirus pandemic has had a profound effect on share prices this year and smaller companies have been no exception. In the first seven months of 2020, the MSCI All Country World Small Cap index (ACWI Small Cap) fell by 8.7% against the 1.3% drop of the MSCI All Country World Index (ACWI). Small cap stocks typically deliver higher long-term returns, and we explore why we believe that now is a good time for investors to consider their allocations to small cap stocks. We also believe that UBS Asset Management has a broad range of actively managed small cap strategies that can deliver strong returns for clients over the long term. In summary:

We believe small cap stocks offer investors:

- Potential for better long-term returns. The MSCI ACWI Small Cap index outperformed the MSCI ACWI by 2.4% per annum over 20 years[1]
- Lower research coverage, which leads to greater market inefficiency
- Broader universe with higher active share, thereby providing potential for better active returns
- Higher risk, but compensated by better returns over the long term, providing improved Information and Sharpe Ratios
- Lower liquidity and higher cyclicality, which may be a positive in post-COVID-19 recovery
- Small caps trade at a lower price/book (P/B) ratio than large cap stocks, providing a more attractive entry point

What are small caps?
Small caps are typically defined as the lowest tier of quoted companies by market capitalization. While index provider definitions are not consistent, MSCI, arguably the most broadly followed index provider, counts the small cap universe as the bottom 14% by free-float. The MSCI ACWI Small Cap, which is commonly used as the global index including developed and emerging markets has 5,798 stocks, compared to just under 3,000 stocks for the MSCI ACWI. The market cap of small companies ranges from USD 50m to over USD 12bn, with the median market cap currently around USD 570m.

While small cap stocks are characterized as being small in stock market terms, many are actually very large and long-standing businesses within their industries. For example, Performance Food Group, quoted in the US, a constituent of small cap indices, is valued at around USD 4.3 billion, and yet is one of the leading suppliers in the US food services industry with over 20,000 employees and revenue of over USD 25 billion a year[2].

1 MSCI as of 31 July 2020. **Past performance is not indicative of future results.**
2 Performance Food Group annual report 10-k filing 18 Aug 2020.

Why invest in small caps?

We believe there are several key attractions for investors when looking at small cap stocks today.

Small cap stocks have historically performed better over the longer term

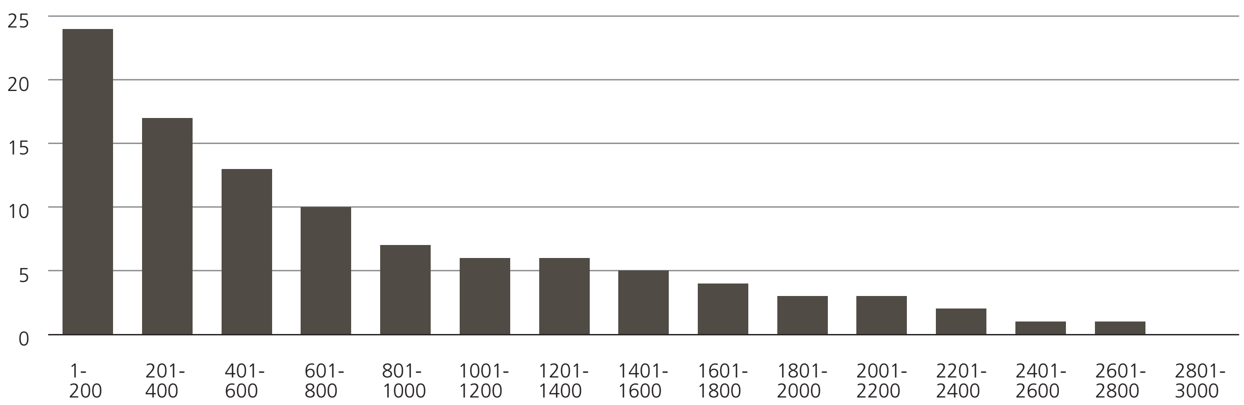
There have been many academic studies conducted on the 'size effect' over the past 40 years. Pioneering work by economist Rolf Banz published in 1981[3] looked at the size effect across US stocks. This was soon followed by the seminal work by Fama and French in 1992[4] as they introduced their 'three factor model' that explored the performance of the size effect across Value and Growth segments.

The academic research has been supported by the performance of small cap indices over the long term. As Figure 7 shows, the small cap premium, which is the difference in returns between small caps and the broader market, has been 2.4% for the last 20 years.

Lower research coverage creates greater market inefficiency

The size of free float of small companies means it is generally uneconomic for stockbrokers and investment banks to commit resources to analyzing them. Figure 1 illustrates this for European equities by market cap – there is a precipitous decline in the number of sell-side analysts covering smaller stocks. We see the same effect in other regions. The lack of coverage of small cap stocks may also have been impacted by the introduction of MiFID II in Europe, which has driven an even greater focus on the economics of research. We believe this relative lack of information is one of the key reasons for the greater level of small cap market inefficiency. It could provide well-resourced portfolio management teams with a substantial information advantage, in turn enabling them to identify strong investment opportunities.

Figure 1: Average number of analysts by market cap



Source: UBS-AM, 31 March 2020, Bloomberg.
Note: from a database of 3000 European companies ranked in descending order of market capitalization and then divided at regular intervals of 200 companies.

3 The relationship between return and market value of common stocks, Rolf W. Banz, Journal of Financial Economics 9 (19810).
4 Data available on Kenneth R. French database:mba//tuck.dartmouth.edu

Broader investment universe and higher active share

One of the key tenets of investment management is that outperformance is a function of manager's skill combined with the breadth of investment opportunities. Assuming a consistent level of manager skill, small cap managers should perform better and provide a higher degree of alpha than managers of large cap portfolios due to their broader investment set. Thus experienced small cap investors may be more likely to avoid companies in structural decline and find companies exposed to fast growing areas, such as e-commerce and educational services.

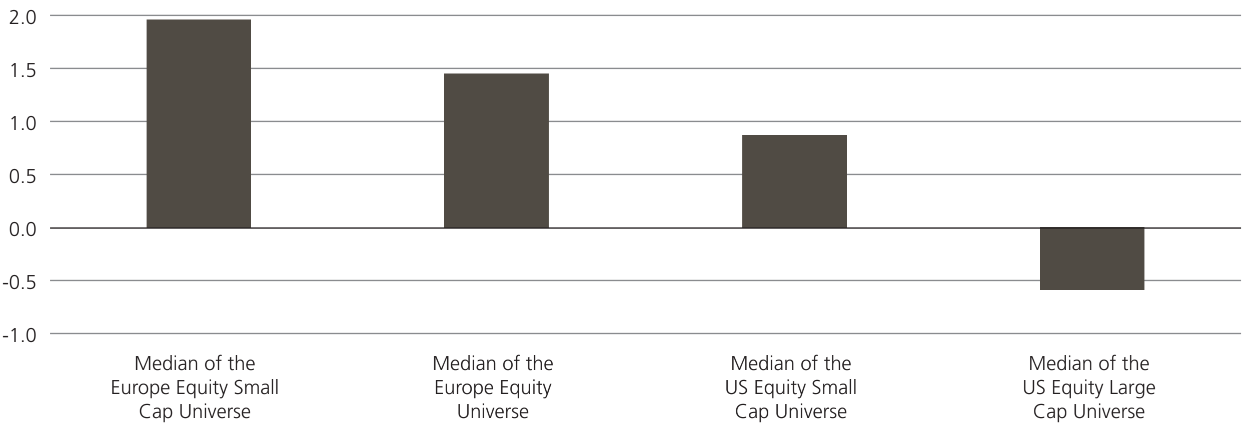
Small cap indices are less concentrated than large cap indices, with the largest 10 stocks in the MSCI ACWI Small Cap Index accounting for only 1.7% of the index's total market cap, while the top 10 companies in the MSCI ACWI Index account for 15.6%.[5] This means that small cap managers typically have a higher active share than large cap managers. This higher differential provides greater potential for alpha generation.

Figure 2 compares the performance of small cap and large cap investment managers relative to their benchmarks in both the US and Europe. We see that over the past five years the median small cap manager outperformed their benchmark by 2% in Europe and 0.85% in the US, while the median large cap manager outperformed their benchmark by 1.45% in Europe and underperformed by -0.6% in the US. Hence, adding better manager performance to higher overall returns increases the return that small cap investors may realize over the long term.

One reason for the better returns may well be the difference in complexity in analyzing stocks. Smaller companies tend to have a narrower, more focused range of business activities than their larger peers and are therefore generally easier to analyze. By contrast, GE for example has 205,000 employees across hundreds of businesses, ranging from health care to energy to jet engines. Developing a deep understanding of the dynamics of a company of such scale is a mammoth task requiring knowledge across multiple sectors.

In contrast, smaller companies tend to operate with fewer, or often single business lines, making the task for an analyst that much easier. While this may not necessarily mean they perform better, it does mean investors seeking to generate alpha can feel greater confidence in understanding the dynamics of the business, and therefore hold a higher active share.

Figure 2: Relative performance of the median manager against benchmark for five-year period ending 30 June 2020



Source: eVestment, as of end of June 2020.

5 Source: MSCI data as of 31 July 2020.

Potential small cap investment pitfalls

Having identified some of the benefits, it is worth bearing in mind a number of potential issues and risks with small cap investing.

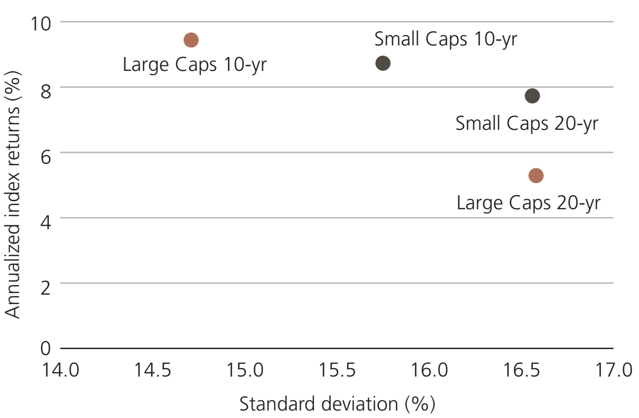
Stock-specific risk is higher in the short term
Small company stocks at an individual level are typically more volatile than large cap stocks, and the negative impact of one investment that does not live up to expectations could make a sizeable dent in portfolio returns.

However, while it is clear that small cap stocks at the security level are more volatile than large cap stocks, it is not necessarily always true for the asset class. As can be seen from Figure 3a, over the past 20 years, small cap stocks exhibited similar risk to large caps, and considerably higher returns. However, over 10 years, large caps have performed better with lower volatility, primarily due to the strong performance of the mega cap stocks in recent years.

In Figure 3b, we show the Sharpe Ratio for large and small caps over the same period. As can be seen, small caps have delivered a higher Sharpe Ratio over a 20-year period.

Lower liquidity
Small cap stocks are typically less liquid and usually more expensive to trade, which means investors may be less able to withdraw funds at short notice. In addition, while investors can hedge the beta, or market exposure, of large cap indices relatively cheaply through selling futures, it is more expensive to do so with small cap investments given the relative absence of appropriate derivative instruments.

Figure 3a: Global markets risk/return (10 and 20 years)



Source: UBS Asset Management, Thomson Datastream. Data as of 31 July 2020 based on MSCI daily indices. We have not excluded risk-free rates.
Past performance is not indicative of future results.

Figure 3b: Sharpe ratio small caps vs large caps as of 31 July 2020

	3-yr	5-yr	10-yr	Since Dec 29 2000
MSCI ACWI Small Cap	0.14	0.31	0.55	0.36
MSCI ACWI	0.38	0.47	0.63	0.30

Source: UBS Asset Management, Thomson Datastream. Data as of 31 July 2020 based on MSCI daily indices.
Past performance is not indicative of future results.

More cyclical and higher beta

Small cap stocks tend to be more cyclical and domestically-focused, in contrast to the larger multi-nationals that dominate large cap indices. The sector breakdown in Figure 4 shows the difference in weightings between the MSCI ACWI Index and the MSCI ACWI Small Cap Index.

The structure of indices by sector can clearly make a difference to long-term performance. Small cap indices are typically more cyclical with more Materials and Industrials stocks, while large cap indices have more weight in Information Technology and Communication Services. This is especially the case in the US where the mega caps have dominated performance over the past few years, and this sector differential will remain a key driver for relative performance going forward.

Small cap stocks also typically have a higher beta, so when the market goes down they usually suffer more, and this was seen clearly during the downturn in the first half of 2020, as shown in Figure 5. This was largely driven by the underperformance of US small cap stocks, while European small caps actually performed relatively well. This greater cyclicality has been a negative in 2020, but on a longer-term basis the higher cyclicality and beta is a positive for delivering better returns.

Business risk and leverage

Small caps tend to have fewer choices in credit markets and might have to pay a higher yield premium to compensate debt investors for increased levels of risk. As a consequence, small caps are more dependent on bank loans for financing, which can be problematic during environments of tighter credit control. The number of defaults and bankruptcies is higher due to lower diversification and companies will often be at the mercy of one main bank rather than syndicates, increasing the financial risk. Small cap companies are often more leveraged than larger caps, which provides higher risk, but also greater leverage to economic upside.

More variable ESG data

Environmental, social and governance (ESG) issues are of increasing importance to investors and data for smaller companies can often be more difficult to access due to the relatively low coverage of these companies by data providers. Smaller companies are sometimes controlled by a founding family or by management shareholders. While this may align financial interests, it usually implies a lower level of independent oversight. Also of interest is the size of boards. Large companies, due to the complexity of the business, usually have large boards. For smaller companies, boards tend to be less diverse. The cost of employing numerous non-executive directors is often a cost smaller companies are not willing to pay, so there is generally a lower level of oversight and scrutiny. What is clear is that corporate governance for smaller companies is more variable, and investors need to pay much closer attention to the management of the business.

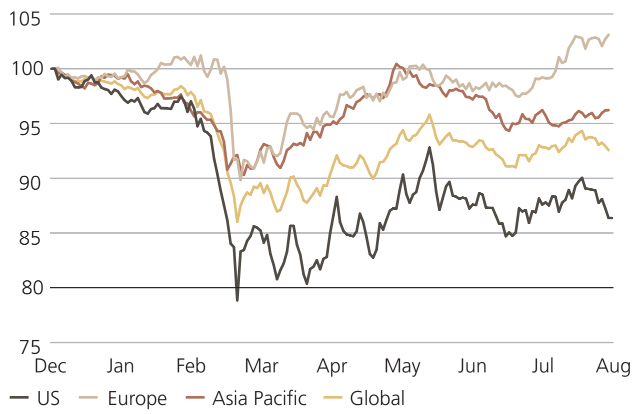
Small companies also may not have the same degree of resources in developing environmental, social and governance policies as their larger peers.

Figure 4: Sector breakdown for MSCI ACWI Index vs. MSCI World Small Cap Index

	MSCI ACWI %	MSCI ACWI Small Cap %
Communication Services	9.44	3.39
Consumer Discretionary	12.10	12.90
Consumer Staples	8.10	4.89
Energy	3.30	2.44
Financials	13.05	11.73
Healthcare	12.80	12.57
Industrials	9.26	16.82
Information Technology	21.10	14.94
Materials	4.76	7.54
Real Estate	2.85	9.87
Utilities	3.24	2.91

Source: MSCI, 31 July 2020.

Figure 5: Small vs. large cap performance in 2020



Source: Factset, data as of 23 August 2020.

Current market environment

Small cap stocks have had a difficult year so far in 2020, as shown in Figure 5; falling considerably and underperforming large cap stocks, influenced by a 'flight to safety' during a turbulent period around COVID-19. Further, large cap outperformance has been led by a narrow subset of names where the top 5 mega cap stocks in the US, which includes Amazon and Apple, rose by 36% on average through the end of July, whereas the S&P 500 equally weighted actually fell by 9%[5].

While the success and growth rates of giants such as Amazon and Apple have been extraordinary, it would be unrealistic to expect such rates to continue over the long term given the sheer size of the companies with market caps nearing or surpassing USD 2 trillion each.

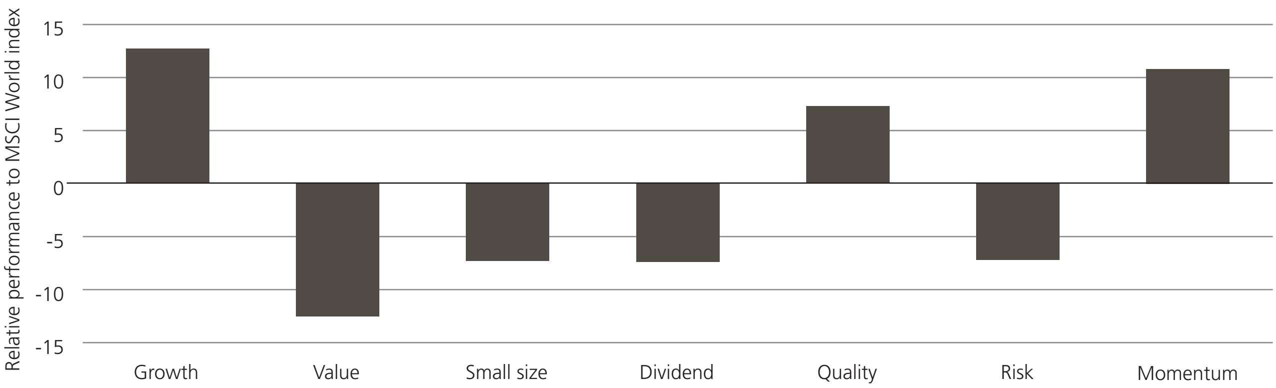
The extreme style divergence across the market as a whole as illustrated in Figure 6, has clearly had a major impact on the performance of small cap stocks. Growth, Momentum and Quality have outperformed other styles, and small size has notably been significantly negative.

The relative weakness of small caps in 2020 can be partially explained by the global pandemic and consequent broad-based lockdown in economies. However if we consider the recent Q2 earnings season, 43% of the members of the small cap index reported growing sales year on year against 40% of the members of MSCI ACWI[6].

Small cap stocks have been out of favor with investors over the past three years, delivering around 2.5% annualized return against 7.6% for the MSCI World Index. (See Figure 7)

However, the short-term setback should not eclipse the fact that smaller companies have provided better returns over the long term. As can be seen over a 20-year period, this has been 2.4% per annum; a very meaningful increase in returns. As markets and economies enter recovery period, we believe it is an opportune time for investors to consider increasing their commitment to small cap strategies.

Figure 6: Style performance year-to-date



Source:Factset, 30 June 2020.

Figure 7: Performance of smaller companies has historically been better over the long term
Index performance – gross returns (%) (Jul 31, 2020)

	1 month	3 months	YTD	1 year	3 years	10 years	20 years
MSCI ACWI Small Cap	4.50	15.06	-8.71	-1.24	2.54	8.73	7.73
MSCI ACWI	5.33	13.54	-0.98	7.76	7.56	9.45	5.29

Source: MSCI data as of 31 July 2020.
MSCI ACWI Small Cap Index launched 1 June 2007, data prior to launch date is backtested data provided by MSCI.
Past performance is not indicative of future results.

5 Source UBS Asset Management, based on S&P 500, 31 July 2020.
6 Source Factset comparison of MSCI ACWI Small Caps and MSCI ACWI as of 20 August 2020.

Valuations

Clearly, the current earnings environment is very difficult for companies, as we have seen in the Q2 data. This makes looking at short-term metrics such as price/earnings (P/E) ratios more challenging. Figure 8 shows the valuation premium of smaller companies versus their large peers, using data at the end of July 2020.

The forward P/E ratio of 23.3 for small cap against 19.7 for the MSCI ACWI reflects the higher cyclicality of earnings for smaller companies and the depressed earnings delivered so far during the pandemic-induced global recession. However, as economies move into recovery phase we should see the greater cyclicality lead to faster earnings growth, thereby justifying the higher shorter-term P/E ratio.

It may be more meaningful to look at Price to Book ratios as a better guide to long-term valuations as book value is more stable in a period where earnings have been severely impaired by the global pandemic. Currently on this measure small cap stocks trade at a significant discount, which we believe could provide a more attractive entry point for investors.

Figure 8: Valuation premium of small vs. large companies

	Div yield %	**P/E ratio**	**P/E ratio fwd**	**Price/ book value**
MSCI ACWI Small Cap	1.9	24.9	23.3	1.6
MSCI ACWI	2.1	20.9	19.7	2.4

Source: MSCI data as of 31 July 2020.
Valuation is based on trailing earnings.

What makes a good small cap manager?

When looking for small cap managers we believe there are three key points that investors need to consider.

Strength of team and process
Stability and experience are especially important in small cap investment management. The level of public information on small companies is much lower, so the knowledge built up by investors over a long period and through numerous interactions with management teams is hard to replicate and extremely valuable in building sustainable long-term performance. Hence, a manager with greater depth of resources and experience may have a clear competitive advantage.

Risk management
Given the higher-risk nature of small companies, a robust risk management process is of great importance in delivering returns to clients, while aiming to avoid specific stock disappointments.

Clear capacity management process
One of the key issues with small cap investing is the lower liquidity of small cap stocks. Investors need to be assured that managers are committed to maintaining the integrity of the alpha generated and limiting the amount of new assets they take on, when required.

What does UBS Asset Management offer?

UBS Asset Management manages USD 2 billion (as of 30 June 2020) in small cap portfolios across a range of regional capabilities. We also have expertise in mid cap and small / mid cap (SMID) capabilities on a regional basis.

We believe that the key to small cap investing is having regionally focused, well-resourced, dedicated teams. We believe our teams meet these criteria. Our teams have on average over 20 years of experience, providing continuity and positioning us well to continue our excellent performance record across our capabilities.

The small cap investment teams have full access to the UBS platform and can leverage the knowledge base of large cap and specialist investment managers. We believe that the breadth and depth of these resources provide our teams with a sustainable competitive advantage.

Small Cap strategies at UBS AM

Asia Small Cap
Our Asia small cap capability is led by AAA rated[6] manager Raymond Wong. Much like large cap, the volatility in markets is higher and small cap stocks highly inefficient with low research coverage, providing excellent alpha opportunities.

Europe Small Cap
Our European small cap capabilities are led by A rated[6] portfolio manager, Thomas Angermann, and our flagship fund dates back to 2004. We have a well-established team with average experience of over 20 years and a strong track record in European small caps.

US Small Cap Growth
Our US Small Cap Growth capability is led by AA rated[6] UBS AM veteran David Wabnik and is comprised of three senior investors with an average of 21 years dedicated to small cap. The US has tremendous breadth of opportunities with over 1,000 stocks in the investment universe creating excellent alpha potential.

Switzerland Small Cap
Our Swiss small cap capability is led by Tobias Schulte who has been at UBS AM for 25 years and managing the Swiss small cap capability for 10 years. Performance has been excellent over 3 and 5 years.

Performance of Active strategies relative to benchmark (gross of fees)

	Excess return 1 year	Excess return 3 years	Excess return 5 years	Excess return 10 years	Excess return since inception
UBS Equity Asian Smaller Companies (BAS.SA.14937851)	26.66	11.89	8.62	–	8.99 (Inception 30 April 2012)
UBS Equity Small Cap Europe (EURSMCAP)	4.72	2.96	1.03	1.86	1.28 (inception 31 Dec 2002)
US Small Cap Growth (US Domiciled) Composite (USDL127NY)	10.36	9.19	4.09	3.75	4.22 (Inception 31 July 1994)
UBS Equity Switzerland Small Cap (BAS.SA.0431133)	3.81	3.49	3.60	3.26	2.38 (Inception 30 April 1996)

Source: UBS Global Asset Management, Data as of 31 July 2020, in USD.
Past performance is not a guide to future performance.

6 Citywire manager ratings end of June 2020.

UBS Asset Management (the Firm) claims compliance with the Global Investment Performance Standards (GIPS) and has prepared and presented this report in compliance with the GIPS standards. UBS Asset Management has been independently verified for the periods January 1, 2002 through December 31, 2018. The verification reports are available upon request. Verification assesses whether (1) the Firm has complied with all the composite construction requirements of the GIPS standards on a Firm-wide basis and (2) the Firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

Performance: UBS Equity Asian Smaller Companies
May 01, 2012 Through December 31, 2019
Amounts and returns expressed in USD (US DOLLAR)

Year	Gross Asset-Weighted Return (%)	Net Asset-Weighted Return (%)	Benchmark Return (%)	Composite 3-Yr St Dev (%)	Benchmark 3-Yr St Dev (%)	# of Portfolios End of Period	Total Composite Assets End of Period (millions)	Asset Weighted Dispersion (%)	Composite Assets as % of Firm Assets
2012*	10.75	9.35	8.77	N/A	N/A	1	25	N/A	0.00
2013	25.81	23.40	5.64	N/A	N/A	1	36	N/A	0.01
2014	3.35	1.39	1.46	N/A	N/A	1	47	N/A	0.01
2015	7.28	5.24	-5.23	13.79	13.35	1	56	N/A	0.01
2016	0.38	-1.53	-1.32	12.48	14.21	1	47	N/A	0.01
2017	41.89	39.20	36.93	11.90	14.44	1	60	N/A	0.01
2018	-18.35	-19.91	-15.81	13.07	14.61	1	53	N/A	0.01
2019	27.59	25.17	8.17	13.87	14.05	1	62	N/A	0.01

* Performance Presented for May, 2012 through Dec, 2012. No statistics are annualized.
** 3 yr standard deviations are based on the gross returns

1. This actively managed equity composite invests in Asian small and mid cap companies (with capitalizations typically below USD 5 billion). The composite offers access to the strong growth potential of Asia through small, innovative companies with local currency exposure. The composite is diversified across countries and sectors, with single stock weights typically below 4%. The composite is suitable for investors with a high risk tolerance that want to profit from the growth potential of Asian smaller companies or want to diversify their Asian equity exposure. The Composite Creation Date is 31 May 2012. The actual benchmark for this composite always reflects the best match to the investment strategy. Benchmark changes over time are necessary to underline this fact. The benchmark is MSCI All Country Asia ex Japan Small & Mid Caps (net div. reinv.).

2. The Firm is defined as all actively and passively managed institutional and retail accounts of UBS Asset Management ("the Firm") throughout the world. The Firm was incepted in January 01, 2002 following the reorganisation of the asset management divisions of UBS AG under a single Asset Management brand. The performance record prior to 2002 is that of the local asset management division which managed the composite, and has been prepared in compliance with GIPS from the inception date of this composite. The composites are administrated out of UBS Asset Management Basel office. The firm, UBS Asset Management - Fund Management Switzerland has complete discretion for all investment activities within the fund. As per January 1st, 2010 the three Firms: UBS Global Asset Management Switzerland - Retail Fund Management, UBS Global Asset Management Switzerland - Institutional Fund Management and UBS Global Asset Management Switzerland - AST Fund Management were merged into UBS Global Asset Management - Fund Management Switzerland. The Firm includes all traditional UBS branded Wholesale, Institutional and AST Funds domiciled in Switzerland or Luxembourg. Policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request. As per October 5th, 2015 the company name was changed from UBS Global Asset Management to UBS Asset Management. This change of the firm's name does not impact the definition and scope of the GIPS firm or the composites.

3.

Year	Total Risk (%)	Derivative Risk (%)
2014	3.35	1.39
2015	7.28	5.24
2016	0.38	-1.53
2017	41.89	39.20
2018	-18.35	-19.91
2019	27.59	25.17

Explanation of the table above: All figures presented are fully in-line with the KKV-FINMA guideline on the use of derivative instruments for collective investments. The Total Risk is the sum of the direct investment exposure (Total Exposure net) and the derivative risk (Global Exposure net). The direct investment exposure (Total Exposure net) is calculated as the market value of all direct investments, excluding cash and other liquid assets. The derivative risk (Global Exposure net) is the sum of the net credit-, currency- and market-risk. The market risk consists of equity-, interest- and commodity-risk. Derivative financial instruments are only used in the course of ordinary management of portfolio assets and to hedge the currency risk exposure. Leverage in the sense of short sales may not be used. Investment Transactions are accounted for on a trade date basis.

4. Performance is calculated on a time-weighted return basis, taking into account the accrued interests and dividends. Where applicable, returns are shown net of non-recoverable withholding taxes.

5. The performance is calculated net-of-fees. The gross-of-fee returns are calculated based on all fee components excluding transaction costs. This composite has a 100% flat fee of max. 250 bps p.a. (this represents the highest possible standard fee for this composite). Due to the varying client segmentation the charged fee for this composite can differentiate. The bundled fee includes all charges for portfolio management, custody, and other administrative fees. The only costs not covered are transaction costs incurred in the administration of the fund's assets (brokerage fees in line with the market, fees, duties, etc. as well as any applicable taxes).

6. Composite dispersion represents the consistency of the Firm's composite performance results with respect to the individual portfolio returns within the composite. Presented is the asset-weighted dispersion (standard deviation) of the portfolios within the composite. Only portfolios in the composite for each full time period are included in the dispersion calculation and no dispersion is presented for composites consisting of only a single portfolio. The 3 year annualized ex-post standard deviations are based on monthly returns, shown starting with the first full 3 year calendar period.

7. A complete list of all Firm composite descriptions is available upon request. The composite's past performance is not necessarily an indication of how it will perform in the future.

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Performance : US Small Cap Growth (US Domiciled) Composite
August 01, 1994 Through December 31, 2019
Amounts and returns expressed in USD (US DOLLAR)

Year	Gross Asset-Weighted Return (%)	Net Asset-Weighted Return (%)	Benchmark Return (%)	Composite 3-Yr St Dev (%)	Benchmark 3-Yr St Dev (%)	# of Portfolios End of Period	Total Composite Assets End of Period (millions)	Asset Weighted Dispersion (%)	Composite Assets as % of Firm Assets
1994*	6.91	6.47	3.24	N/A	N/A	1	154	N/A	N/A
1995	23.13	21.93	28.44	N/A	N/A	1	205	N/A	N/A
1996	19.19	18.01	16.50	N/A	N/A	1	213	N/A	N/A
1997	23.42	22.21	22.36	14.31	13.43	1	311	N/A	N/A
1998	-10.70	-11.60	-2.55	23.03	20.56	1	63	N/A	N/A
1999	42.84	41.46	21.26	24.58	21.42	1	17	N/A	N/A
2000	23.39	22.18	-20.54	30.07	28.57	1	15	N/A	N/A
2001	-5.37	-6.32	-9.23	28.61	30.62	1	15	N/A	N/A
2002	-16.25	-17.10	-30.26	28.33	32.14	5	99	N/A	0.03
2003	46.83	45.41	48.54	22.30	27.83	11	679	0.37	0.16
2004	12.33	11.22	14.31	17.11	21.87	11	836	0.24	0.17
2005	7.60	6.54	4.15	14.67	16.53	8	708	0.15	0.13
2006	9.52	8.47	13.35	13.56	15.74	9	629	0.10	0.10
2007	5.97	4.95	7.05	12.83	14.38	7	598	0.28	0.09
2008	-43.79	-44.36	-38.54	23.83	22.76	6	281	0.36	0.06
2009	34.48	33.21	34.47	26.47	26.12	3	128	0.37	0.03
2010	38.72	37.41	29.09	29.40	28.81	2	156	0.03	0.03
2011	-0.06	-1.03	-2.91	22.08	24.35	2	146	0.40	0.03
2012	17.22	16.10	14.59	20.36	20.77	2	143	0.33	0.03
2013	47.84	46.45	43.30	16.51	17.36	2	206	1.11	0.04
2014	8.25	7.21	5.60	14.84	13.93	2	219	0.31	0.04
2015	-2.15	-3.09	-1.38	15.67	15.11	3	322	0.39	0.06
2016	7.84	6.80	11.32	19.05	16.99	4	719	0.06	0.12
2017	20.53	19.38	22.17	16.73	14.90	4	814	0.20	0.11
2018	-3.83	-4.53	-9.31	19.86	17.12	3	634	0.11	0.09
2019	31.28	30.34	28.48	19.30	16.85	3	794	0.03	0.10

* Performance Presented for Aug, 1994 through Dec, 1994. No statistics are annualized.
** 3 yr standard deviations are based on the gross returns

1. A composite of accounts that invests in stocks of small US companies with excellent growth prospects. The composite consists of the US domiciled constituents of the broader US Small Capitalization Growth Composite. Effective May 1, 2000, the benchmark is the Russell 2000 Growth. Prior to May 1, 2000 the benchmark was the Russell 2000, since inception. The Russell 2000 Growth Index more appropriately reflects the investment style. The Composite Creation Date is 31 Jul 2014.

2. The Firm is defined as all actively and passively managed institutional and retail accounts of UBS Asset Management ("the Firm") throughout the world. The Firm was incepted in January 01, 2002 following the reorganisation of the asset management divisions of UBS AG under a single Asset Management brand. The performance record prior to 2002 is that of the local asset management division which managed the composite, and has been prepared in compliance with GIPS from the inception date of this composite. Each of the entities comprising the Firm definition is an affiliate of UBS AG. Policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.

3. Composites consisting of more than one portfolio are asset weighted by beginning-of-period asset values. Investment results are time-weighted performance calculations representing total return. Returns are calculated using geometric linking of monthly returns. Composites are valued at least monthly, taking into account cash flows. All realized and unrealized capital gains and losses, as well as all dividends and interest from investments and cash balances, are included. Interest income from fixed income securities is accrued, and equity dividends are accrued as of the ex-dividend date. Investment Transactions are accounted for on a trade date basis. Where applicable, returns are shown net of non-recoverable witholding tax.

4. Results include all actual fee-paying, discretionary client portfolios including those clients no longer with the Firm. Portfolios are included in the composite beginning with the first full month of performance to the present or to the cessation of the client's relationship with the Firm. Terminated accounts are included through the last full month in which they were fully invested, and no alterations of composites have occurred due to changes in personnel.

5. The rates of return are presented both net and gross of investment management fees. Net of fee performance typically reflects the deduction of the highest fee charged, as described in Part II of Form ADV. Due to the graduated nature of fees, as account size increases, the annual percentage fee will decline. Net of fee returns are calculated by geometrically deducting the de-annualized highest annual management fee from each monthly gross return and geometrically linking the monthly returns for each period. Gross of fee returns are calculated net of transaction fees and other trading expenses. Certain investments in this strategy are initial public offerings and may have caused the performance of the Composite to be higher than could have been achieved without such investments, which are of limited availability. The highest fee charged for accounts of this type is 0.73% since January 2018, 0.97% from January 2006 to December 2017 and 1.00% prior to January 2006.

6. Composite dispersion represents the consistency of the Firm's composite performance results with respect to the individual portfolio returns within the composite. Presented is the asset weighted dispersion (standard deviation) of the portfolios within the composite. Only portfolios in the composite for each full time period are included in the dispersion calculation and no dispersion is presented for composites consisting of only a single portfolio. The 3 year annualized ex-post standard deviations are based on monthly returns, shown starting with the first full 3 year calendar period.

7. A complete list of all Firm composite descriptions is available upon request. The composite's past performance is not necessarily an indication of how it will perform in the future.

UBS Asset Management (the Firm) claims compliance with the Global Investment Performance Standards (GIPS) and has prepared and presented this report in compliance with the GIPS standards. UBS Asset Management has been independently verified for the periods January 1, 2002 through December 31, 2018. The verification reports are available upon request. Verification assesses whether (1) the Firm has complied with all the composite construction requirements of the GIPS standards on a Firm-wide basis and (2) the Firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

Performance : UBS Equity Switzerland Small Cap
May 01, 1996 Through December 31, 2019
Amounts and returns expressed in CHF (SWISS FRANC)

Year	Gross Asset-Weighted Return (%)	Net Asset-Weighted Return (%)	Benchmark Return (%)	Composite 3-Yr St Dev (%)	Benchmark 3-Yr St Dev (%)	# of Portfolios End of Period	Total Composite Assets End of Period (millions)	Asset Weighted Dispersion (%)	Composite Assets as % of Firm Assets
1996*	1.48	0.47	-0.44	N/A	N/A	1	191	N/A	0.15
1997	33.33	31.34	29.26	N/A	N/A	1	264	N/A	0.17
1998	14.49	12.79	13.92	N/A	N/A	1	136	N/A	0.08
1999	53.07	50.79	35.83	21.98	16.67	1	229	N/A	0.11
2000	23.40	21.56	20.17	22.28	17.45	1	476	N/A	0.24
2001	-30.62	-31.85	-29.07	20.21	19.02	1	281	N/A	0.14
2002	-24.52	-25.87	-20.86	20.48	20.70	1	186	N/A	0.04
2003	38.99	36.51	41.55	20.91	21.76	1	236	N/A	0.04
2004	20.61	17.46	18.05	17.18	16.91	1	281	N/A	0.05
2005	34.30	31.90	31.48	12.79	12.82	1	345	N/A	0.05
2006	40.02	37.52	33.25	11.75	11.15	1	405	N/A	0.05
2007	8.72	6.78	12.01	13.50	12.13	1	399	N/A	0.05
2008	-38.69	-39.79	-36.78	21.19	18.86	1	189	N/A	0.04
2009	30.99	28.66	28.29	24.20	21.90	1	235	N/A	0.05
2010	33.15	30.77	20.31	24.31	21.86	1	383	N/A	0.08
2011	-24.98	-26.32	-23.11	20.85	18.12	1	317	N/A	0.07
2012	18.66	16.55	9.42	16.82	13.58	1	318	N/A	0.06
2013	33.67	31.27	29.06	15.26	12.44	1	377	N/A	0.07
2014	11.88	9.89	12.32	9.37	8.20	1	348	N/A	0.06
2015	14.33	12.30	13.07	12.26	10.48	1	269	N/A	0.05
2016	13.02	11.00	12.90	13.15	10.74	1	266	N/A	0.05
2017	30.65	28.32	26.31	13.74	11.06	1	339	N/A	0.05
2018	-17.63	-19.11	-19.10	12.00	10.31	1	266	N/A	0.04
2019	30.53	28.20	20.05	11.82	10.68	1	320	N/A	0.04

* Performance Presented for May, 1996 through Dec, 1996. No statistics are annualized.

** 3 yr standard deviations are based on the gross returns

1. Actively managed equity composite investing in Swiss small-cap companies. Investments are predominantly made in companies with a market capitalization of less than CHF 3 billion. When selecting stocks, the asset management team focuses on companies' flexibility and their ability to innovate. The composite is diversified across various industry sectors. The Composite Creation Date is 30 Apr 1996. The actual benchmark for this composite always reflects the best match to the investment strategy. Benchmark changes over time are necessary to underline this fact. The benchmark is ZKB Swiss Small Cap Index. On 1 April 2020 the benchmark was rebranded from Vontobel Small Caps (VSCI) Index to ZKB Swiss Small Cap Index.
2. The Firm is defined as all actively and passively managed institutional and retail accounts of UBS Asset Management ("the Firm") throughout the world. The Firm was incepted in January 01, 2002 following the reorganisation of the asset management divisions of UBS AG under a single Asset Management brand. The performance record prior to 2002 is that of the local asset management division which managed the composite, and has been prepared in compliance with GIPS from the inception date of this composite. The composites are administrated out of UBS Asset Management Basel office. The firm, UBS Asset Management - Fund Management Switzerland has complete discretion for all investment activities within the fund. As per January 1st, 2010 the three Firms: UBS Global Asset Management Switzerland - Retail Fund Management, UBS Global Asset Management Switzerland - Institutional Fund Management and UBS Global Asset Management Switzerland - AST Fund Management were merged into UBS Global Asset Management - Fund Management Switzerland. The Firm includes all traditional UBS branded Wholesale, Institutional and AST Funds domiciled in Switzerland or Luxembourg. Policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request. As per October 5th, 2015 the company name was changed from UBS Global Asset Management to UBS Asset Management. This change of the firm's name does not impact the definition and scope of the GIPS firm or the composites.
3.

Year	Total Risk (%)	Derivative Risk (%)
2014	98.0	0.00
2015	99.0	0.00
2016	98.0	0.00
2017	95.0	0.00
2018	97.6	0.00
2019	98.9	0.00

Explanation of the table above: All figures presented are fully in-line with the KKV-FINMA guideline on the use of derivative instruments for collective investments. The Total Risk is the sum of the direct investment exposure and the derivative risk. The direct investment exposure is calculated as the market value of all direct investments, excluding cash and other liquid assets. The derivative risk is the sum of the net credit-, currency- and market-risk. The market risk consists of equity-, interest- and commodity-risk. Derivative financial instruments are only used in the course of ordinary management of portfolio assets and to hedge the currency risk exposure. Leverage in the sense of short sales may not be used. Investment Transactions are accounted for on a trade date basis.

4. Performance is calculated on a time-weighted return basis, taking into account the accrued interests and dividends. Where applicable, returns are shown net of non-recoverable withholding taxes.
5. The performance is calculated net-of-fees. The gross-of-fee returns are calculated based on all fee components excluding transaction costs. This composite has a 100% flat fee of max. 180 bps p.a. (this represents the highest possible standard fee for this composite). Due to the varying client segmentation the charged fee for this composite can differentiate. The bundled fee includes all charges for portfolio management, custody, and other administrative fees. The only costs not covered are transaction costs incurred in the administration of the fund's assets (brokerage fees in line with the market, fees, duties, etc. as well as any applicable taxes).
6. Composite dispersion represents the consistency of the Firm's composite performance results with respect to the individual portfolio returns within the composite. Presented is the asset-weighted dispersion (standard deviation) of the portfolios within the composite. Only portfolios in the composite for each full time period are included in the dispersion calculation and no dispersion is presented for composites consisting of only a single portfolio. The 3 year annualized ex-post standard deviations are based on monthly returns, shown starting with the first full 3 year calendar period.
7. A complete list of all Firm composite descriptions is available upon request. The composite's past performance is not necessarily an indication of how it will perform in the future.

UBS Asset Management (the Firm) claims compliance with the Global Investment Performance Standards (GIPS) and has prepared and presented this report in compliance with the GIPS standards. UBS Asset Management has been independently verified for the periods January 1, 2002 through December 31, 2018. The verification reports are available upon request. Verification assesses whether (1) the Firm has complied with all the composite construction requirements of the GIPS standards on a Firm-wide basis and (2) the Firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

Performance : UBS Equity Small Cap Europe
January 01, 2003 Through December 31, 2019
Amounts and returns expressed in EUR (EURO)

Year	Gross Asset-Weighted Return (%)	Net Asset-Weighted Return (%)	Benchmark Return (%)	Composite 3-Yr St Dev (%)	Benchmark 3-Yr St Dev (%)	# of Portfolios End of Period	Total Composite Assets End of Period (millions)	Asset Weighted Dispersion (%)	Composite Assets as % of Firm Assets
2003*	28.75	26.30	34.96	N/A	N/A	1	147	N/A	0.04
2004	21.71	19.40	23.66	N/A	N/A	1	184	N/A	0.05
2005	45.37	42.66	37.60	12.60	13.82	2	291	N/A	0.06
2006	35.04	32.76	29.92	12.71	11.64	2	336	0.07	0.07
2007	-3.80	-5.40	-7.51	15.07	14.14	2	277	0.77	0.06
2008	-56.61	-57.30	-51.87	26.20	23.34	3	94	0.29	0.03
2009	72.14	69.68	59.50	28.72	26.90	3	143	1.02	0.04
2010	35.88	33.72	29.91	29.64	27.54	3	276	1.04	0.07
2011	-16.27	-17.65	-17.45	19.84	19.92	4	208	0.28	0.05
2012	28.76	26.82	26.98	16.81	16.10	4	234	0.70	0.06
2013	32.63	30.64	33.41	14.42	14.36	4	378	1.23	0.09
2014	8.54	6.80	5.69	10.32	10.82	4	484	1.28	0.10
2015	23.69	21.53	24.35	11.21	11.62	4	685	0.82	0.13
2016	-3.82	-5.52	0.86	14.14	13.82	5	482	1.08	0.09
2017	23.61	21.92	19.03	13.94	13.67	5	692	0.83	0.11
2018	-14.72	-15.70	-15.86	13.51	13.01	5	540	0.37	0.09
2019	35.00	33.50	31.44	12.12	12.17	3	628	1.29	0.08

* 3 yr standard deviations are based on the gross returns

1. Actively managed equity composite investing in European small-cap companies. The composite invests in equities of smaller sized companies domiciled or chiefly active in Europe. When selecting stocks, the portfolio management team focuses on companies' flexibility and their ability to innovate. The strategy is diversified across various countries and sectors. The performance figures shown before the firm merger of 1.1.2010 reflect the track-record of the composite of the firm UBS Global Asset Management Switzerland - Retail Fund Management. The Composite Creation Date is 31 Dec 2002. The actual benchmark for this composite always reflects the best match to the investment strategy. Benchmark changes over time are necessary to underline this fact. The benchmark is MSCI Small Cap Europe (r); Up to 31.1.2006, MSCI benchmark with gross dividends reinvested, from 1.2.2006 with net dividends reinvested.

2. The Firm is defined as all actively and passively managed institutional and retail accounts of UBS Asset Management ("the Firm") throughout the world. The Firm was incepted in January 01, 2002 following the reorganisation of the asset management divisions of UBS AG under a single Asset Management brand. The performance record prior to 2002 is that of the local asset management division which managed the composite, and has been prepared in compliance with GIPS from the inception date of this composite. Each of the entities comprising the Firm definition is an affiliate of UBS AG. Policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.

3. Performance is calculated on a time-weighted return basis, taking into account the accrued interests and dividends. The monthly composite return is presented asset-weighted using beginning-of-period weights. Multi-period returns are calculated by geometric linking of monthly composite returns. Investment Transactions are accounted for on a trade date basis. Where applicable, returns are shown net of non-recoverable withholding tax.

4. The composite aims to deliver a consistent performance with a limited downside risk. Derivatives can be used to increase returns and to limit the risk of losses. They are only used in the course of ordinary management of portfolio assets and to hedge the currency risk exposure. The maximum leverage which can be applied is limited to an exposure up to 200% of the underlying portfolio values. Leverage in the sense of short sales may not be used.

5. The rates of return are presented both net and gross of fees. Due to the graduated nature of fees, as account size increases, the annual percentage fee may decline. The calculation of net and gross returns as well as the nature of fee may differ across the regional performance offices. a) Return values are calculated net of fees. The gross returns are calculated based on all fee components excluding transaction costs by adding the daily fee components to the underlying net return. b) The rates of return are presented both gross and net of investment management and custody fees. Portfolio Management Fee agreements do cover the portfolio management fee, bundled fee contracts do cover portfolio management and custody fee. Both fee agreements do not cover transaction costs. c) The rates of return are presented both net and gross of investment management fees. Net of fee performance reflects the eduction of the highest fee charged, as described in Part II of Form ADV. Net of fee returns are calculated by geometrically deducting the deannualized highest annual management fee from each monthly gross return and geometrically linking the monthly returns for each period. d) The performance results are presented gross of management and custodian fees but after all trading expenses. Where a net return is also presented, this is calculated net of management fees and all trading expenses. This composite has a max. flat fee of 250 bps p.a. (this represents the highest possible standard fee for this composite). Due to the varying client segmentation the charged fee for this composite can differentiate. The flat fee includes all charges for portfolio management, custody, and other administrative fees. The only costs not covered are transaction costs incurred in the administration of the fund's assets (brokerage fees in line with the market, fees, duties, etc. as well as any applicable taxes). The mandates using the flat fee concept represent 47% (2018: 45%, 2017: 48%, 2016: 81%, 2015: 88%, 2014: 85%, 2013: 65%, 2012: 66%, 2011: 70%, 2010: 82%, 2009: 62%, 2008: 65%, 2007: 81%, 2006: 81%, 2005: 87%, since inception to 2004: 100%) of the total composite assets as per 31.12.2019.

6. Composite dispersion represents the consistency of the Firm's composite performance results with respect to the individual portfolio returns within the composite. Presented is the asset-weighted dispersion (standard deviation) of the portfolios within the composite. Only portfolios in the composite for each full time period are included in the dispersion calculation and no dispersion is presented for composites consisting of only a single portfolio. The 3 year annualized ex-post standard deviations are based on monthly returns, shown starting with the first full 3 year calendar period.

7. A complete list of all Firm composite descriptions is available upon request. The composite's past performance is not necessarily an indication of how it will perform in the future.

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Americas
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