



# Capability Report – Islamic Global Equities

(data as of 31 March 2009: report since inception of 10 March 2009)

## 1 Economic review

### Global economy: Global recession

The global downturn intensified in the last quarter of 2008, and incoming data suggest that the economic contraction in the major economies continued in the first quarter of 2009. After shrinking at the fastest rate among the G-4 countries in the fourth quarter of last year, Japan returned to a deflationary environment. While moderating in most other countries, inflation rose unexpectedly in the UK in February. Global industrial production is in free-fall, but the downward pressure on the outlook has eased somewhat as evidenced by improvement in some survey data. There was also some relief in the dismal US housing data. The scope of monetary and fiscal policy responses has expanded – particularly in the USA – but there is bound to be a painful lag before these measures gain traction.

### Summary

- Recession has gripped all the major economies, and export-oriented economies are suffering the most.
- Monetary policy has been loosened to unprecedented levels, and massive fiscal expansions are planned or underway, but these will take some time to gain traction.

## 2 Market review

Global equity markets rallied strongly in March. The improvement was initially triggered by revelations of a better start to the year at troubled Citigroup, but was soon followed through, particularly in the financials sector, as seeds of optimism began to take root more widely, and small pieces of good news began to be seen among the negative headlines. There were signs of sector rotation, with cyclical industries outperforming defensive. Hopes that monetary and fiscal stimulus would stave off global recession also buoyed the markets. However, investors remained cautious overall, questioning the sustainability of the rally. Emerging markets, led by Asia, outperformed developed markets by a significant margin, and all regions posted double-digit returns.

## Performance commentary – March 2009

- The fund outperformed for the month due to both positive sector allocation, as well as stock selection.
- The biggest positive contributor was stock selection in energy (not holding Exxon Mobil, overweight Marathon Oil) and technology, driven by technology hardware & equipment (overweight Canon and Cisco). Healthcare also contributed positively with both pharma & biotech (overweight Roche and Merck) and healthcare equipment & services (overweight Medtronic) performing well. Overweight to consumer discretionary stocks also helped performance. Positioning in industrials, namely transportation (overweight UPS), and materials (overweight Bhp Billiton) further helped performance.
- Stock selection in utilities detracted.
- From a country perspective, the significant positive contribution from US stock selection was most notable.

## Attribution – March 2009

Country contributors & detractors		
Country	Contribution %	Weighting
United States	1.4	UW
Japan	0.6	OW
Australia	0.2	OW
Switzerland	0.1	OW
Sweden	0.1	UW
<b>Total of top contributors</b>	<b>+2.4</b>	
South Korea	-0.2	UW
France	-0.1	OW
United Kingdom	-0.1	UW
Taiwan	0.0	UW
Netherlands	0.0	OW
<b>Total of top detractors</b>	<b>-0.4</b>	
Sector contributors & detractors		
Sector	Contribution %	Weighting
Energy	0.6	UW
Healthcare	0.4	UW
Information Technology	0.3	OW
Consumer Discretionary	0.2	OW
Industrials	0.2	OW
<b>Total of top contributors</b>	<b>+1.7</b>	

Utilities			-0.1		OW
Telecomm Services			0.0		UW
<b>Total of top detractors</b>			<b>-0.1</b>		
<b>Stock contributors &amp; detractors</b>					
<b>Stock</b>	<b>Sector</b>	<b>Country</b>	<b>Weight</b>	<b>Return %</b>	<b>Contribution %</b>
Exxon Mobil	Oil & Gas	United States	Not Held	1.1	0.6
Canon	Technology	Japan	OW	31.6	0.3
Lowes	Cons. Services	United States	OW	24.7	0.3
UPS	Industrials	United States	OW	19.4	0.3
Medtronic	Healthcare	United States	OW	18.2	0.2
<b>Total of top contributors</b>					<b>+1.7</b>
Total	Oil & Gas	France	OW	3.7	-0.2
Wyeth	Healthcare	United States	Sold in the period	3.5	-0.2
Oracle	Technology	United States	Not Held	19.2	-0.1
Samsung	Technology	South Korea	Not Held	23.1	-0.1
Schlumberger	Oil & Gas	United States	OW	2.8	-0.1
<b>Total of top detractors</b>					<b>-0.7</b>

Attribution and Weights based on: UBS (Lux) Equity Fund – Islamic Global Equities (USD) P (00581293)

Source: UBS Global Asset Management

## **Stock performance commentary**

### **Positive contributors**

- **Exxon Mobil**
- **Canon**
- **Lowes**
- **UPS**
- **Medtronic**

### **Negative contributors**

- **Total**
- **Wyeth**
- **Oracle**
- **Samsung**
- **Schlumberger**

### 3 Current positioning

<b>Active positions by country</b>			
<b>Positive/Overweights</b>		<b>Negative/Underweights</b>	
Japan	1.8%	United States	-4.3%
Taiwan	1.7%	United Kingdom	-2.5%
Hong Kong	1.5%	Germany	-0.9%
Switzerland	1.4%	Korea	-0.8%
Australia	1.1%	Sweden	-0.5%
<b>Active positions by sector</b>			
<b>Positive/Overweights</b>		<b>Negative/Underweights</b>	
Industrials	3.1%	Consumer Goods	-4.5%
Technology	2.6%	Healthcare	-1.4%
Utilities	0.9%	Oil & Gas	-1.1%
Consumer Services	0.8%	Telecommunications	-0.4%
		Basic Materials	-0.1%
<b>Active positions by stock</b>			
<b>Positive/Overweights</b>		<b>Negative/Underweights</b>	
Cisco	3.6%	Exxon Mobil	-6.2%
Lowe's	3.3%	IBM	-2.8%
Total	2.7%	GlaxoSmithKline	-1.9%
Pfizer	2.7%	AT&T	-1.7%
UPS	2.7%	Abbott Labs	-1.5%

## Strategy

The largest sector bet in the portfolio is in industrials, driven by the overweight in industrial transportation, namely Ups. The portfolio also has a significant overweight in technology hardware primarily due to holdings in Cisco and Intel. We believe that the current downturn in the industry will not impair Cisco's market leadership. We expect the company to be able to maintain premium pricing due to their advanced technology, broad product portfolio and high level of service and support. Intel has re-established its leadership vs. AMD and continues to take market share. In our view, management has improved product planning and pipeline and long-term revenue growth and profitability is not reflected in the current market price.

The largest sector underweight is in consumer goods, driven by underweights to food and beverage and to personal and household goods. Within the sector, we like automobiles and parts, namely Japanese company Denso, which is the world's largest listed auto parts maker. The portfolio is also underweight healthcare, due to positioning in pharma and biotech.

From a country perspective, the largest underweight is to the US market and the largest overweight is to Japan, based on bottom up stock selection.

The fund remains focused on Sharia-compliant equities taking into consideration factors including the company's quality of management, income, growth potential and market position.

## Trade activity

Largest purchases & sales – March 2009				
Trade	Stock	Sector	Country	Rationale
<b>Purchases</b>				
Addition	Pfizer	Healthcare	United States	Market underestimates potential for bottom-line growth through rationalization and cost-cutting. Merger with Wyeth will provide opportunity for rationalization of costs across the board. Improvement in ability to market product pipeline will underscore potential.
New purchase	United Technologies	Industrials	United States	Attractive valuation, excellent management and broad exposure to a combination of aerospace and industrial components that will benefit from cyclical improvement.
Addition	Arcelormittal	Materials	France	Low cost, global integrated steel producer. At bottom of the cycle, considerable operating leverage as economies improve provides significant potential for earnings improvement that market does not discount.
Addition	Lowes	Consumer Discretionary	United States	High quality retailer of building products, strong market position, should benefit from economic cycle.
Addition	Cisco Systems	Technology	Taiwan	Provider of a broad array of routers, gateways and related products. Strong market position should benefit as IT spending picks up.
<b>Sales</b>				
Reduction	Shin-Etsu Chemical	Materials	Japan	Stock has risen sharply as it is discounting semi and PVC recovery.
Reduction	BHP Billiton	Materials	Australia	Rebound as materials prices improve.
Reduction	Denso	Consumer Discretionary	Japan	Sharp rise as Japanese auto makers have come off bottom of cycle.
Reduction	Procter & Gamble	Consumer Staples	United States	Reduction of staples which have held up extremely well in market downturn, valuation less attractive.
Complete Sale	Wyeth	Healthcare	United States	Acquired by Pfizer. See purchases above.

## Portfolio characteristics

<b>UBS risk model:</b>	
<b>Active risk</b>	2.76%
<b>Beta</b>	1.02

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