

# Capability Report

## *Islamic Global Equities*

### **Economic review – March 2011**

Markets and economists refer to exogenous shocks as those that are outside of the system, and are in essence not predictable. The terrible natural disaster in Japan and the escalation of the civil conflict in Libya are two such exogenous shocks, and investors struggled to understand the implications. As often happens after an exogenous shock, equity markets fell sharply but then recovered quite quickly. The view in the market appears now to be that the humanitarian cost of the earthquake will be far worse than the economic cost, especially from a global perspective. There are good reasons to support this view. Firstly, as a net exporter Japan actually takes in demand from the rest of the world, rather than acting as a source of demand for other exporters. Secondly, the supply chain impacts of disruptions to Japanese production are more likely to affect the timing of output than the overall level of output over the next year. The conflict in Libya combined with the wider unrest in the Middle East and North Africa is likely to have a bigger global impact through the ever-rising price of oil. Higher oil prices generate inflation and slow growth, adding yet another complication for central banks looking for the right time to tighten.

### **Summary**

- The economic implications of the Japanese earthquake for the global economy are likely to be supply chain disruptions that affect timing of output.
- Rising oil prices could pose a significant challenge to growth and inflation in developed markets.

### **Market review**

#### **First quarter 2011**

Markets were up in the first quarter with all sectors in positive territory. Oil & gas, technology and healthcare were among the sectors finishing the period ahead, while utilities, telecoms and consumer services were laggards.

## Performance

Performance			
% return	Islamic Global Equities*	DJIM Titans Index	Difference
3 months	+4.47	+4.34	+0.13
YTD	+4.47	+4.34	+0.13
1 year	+6.19	+11.07	-4.88
3 years	+2.08	+1.85	+0.23
5 years	+3.97	+3.71	+0.26
Since inception	+0.50	+0.34	+0.16

\*UBS (Lux) Equity Fund – Islamic Global Equities (USD) (00581293) and DJ Islamic Market Titans 100 Index Daily in USD. Annualized p.a. returns gross of fees for periods longer than 1 year. All data is calculated in USD.

Results for individual client accounts may vary.

Source: UBS Global Asset Management.

### Performance review: First quarter 2011 (based on local currency returns)

- The fund outperformed the benchmark in Q1.
- At the sector level, stock selection in healthcare delivered the strongest performance, and stock selection in information technology detracted most from performance.
- On a country level, stock selection in Germany and the United States contributed most, while stock selection in Taiwan was the biggest detractor.
- On a stock level, Marathon Oil (OW, United States) was the biggest positive contributor and Hon Hai Precision (N/A, Taiwan) detracted most.

### Performance attribution

#### Stock attribution

Stock contributors & detractors – First quarter 2011				
Company name	Country	Return %	Contribution %	Over/underweight
Marathon Oil	USA	+44.70	+0.53	Overweight
UnitedHealth Group	USA	+25.52	+0.34	Removed from index
Pfizer	USA	+17.21	+0.23	Overweight
SAP Ag	Germany	+19.94	+0.21	Overweight
Johnson & Johnson	USA	-3.34	+0.21	Not Held
<b>Total of top five contributors</b>			<b>+1.52</b>	
Hon Hai Precision	Taiwan	-11.77	-0.41	Removed from index
Chevron Corp	USA	+18.61	-0.23	Underweight
IBM	USA	+11.55	-0.20	Not Held
Intel	USA	-3.28	-0.15	Overweight
Microsoft	USA	-8.63	-0.15	Overweight
<b>Total of top five detractors</b>			<b>-1.14</b>	

\* Attribution and Weights based on: UBS (Lux) Equity Fund – Islamic Global Equities (USD) P (00581293)  
Results for individual client accounts may vary.  
Source: UBS Global Asset Management.

## Sector attribution

Sector contributors & detractors – First quarter 2011		
Sector	Contribution %	Over/underweight
Healthcare	+0.86	Overweight
Materials	+0.25	Underweight
Utilities	+0.02	Not Held
<b>Total of top 5 contributors</b>	<b>+1.13</b>	
IT	-0.63	Overweight
Industrials	-0.16	Underweight
Telecoms	-0.10	Overweight
Consumer discretionary	-0.02	Overweight
Oil & Gas	-0.02	Overweight
<b>Total of top 5 detractors</b>	<b>-0.93</b>	

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 Results for individual client accounts may vary.  
 Source: UBS Global Asset Management.

## Country attribution

Country contributors & detractors – First quarter 2011		
Country	Contribution %	Over/underweight
Germany	0.29	Overweight
United States	0.15	Overweight
Finland	0.14	Not Held
United Kingdom	0.13	Underweight
France	0.06	Underweight
<b>Total of top 5 contributors</b>	<b>+0.77</b>	
Taiwan	-0.37	Overweight
China	-0.07	Overweight
Switzerland	-0.06	Underweight
Denmark	-0.06	Not Held
Norway	-0.05	Not Held
<b>Total of top 5 detractors</b>	<b>-0.61</b>	

\* Attribution and Weights based on: UBS (Lux) Equity Fund – Islamic Global Equities (USD) P (00581293)  
 Results for individual client accounts may vary.  
 Source: UBS Global Asset Management.

## Portfolio activity – First quarter 2011

No trade activity.

## Islamic Global Equity – data as at 31 March 2011

Active positions by stock (top 5/bottom5)			
Positive/overweights		Negative/underweights	
Lowes	+3.02	IBM	-2.97
Posco	+2.69	Johnson & Johnson	-2.42
UnitedHealth Group	+2.61	Coca Cola	-2.11
UPS	+2.47	Chevron Corp	-1.73
Medtronic	+2.27	Rio Tinto	-1.48
Active positions by sector			
Positive/overweights		Negative/underweights	
Telecoms	+2.03	Basic materials	-3.17
Consumer services	+1.70	Consumer goods	-1.08
Healthcare	+1.10	Industrials	-0.50
Technology	+0.20	Utilities	-0.41
Oil & Gas	+0.13		
Active positions by country (top 5/bottom 5)			
Positive/overweights		Negative/underweights	
Germany	+2.56	United Kingdom	-5.68
Taiwan	+2.04	Sweden	-1.06
Korea	+1.80	France	-0.93
China	+1.64	Denmark	-0.78
United States	+1.29	Australia	-0.52

Source: Summit 00581293, UBS Global Asset Management

\* Positioning based on: UBS (Lux) Equity Fund – Islamic Global Equities (USD) P (00581293)  
Positioning for individual client accounts may vary.  
Source: UBS Global Asset Management.

### Portfolio characteristics

Source: Global Equity Model 00581293. Global Equity Risk System

<b>Active risk (UBS model)</b>	+3.27%
<b>Beta (UBS model)</b>	+0.95

### Outlook & strategy

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.



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