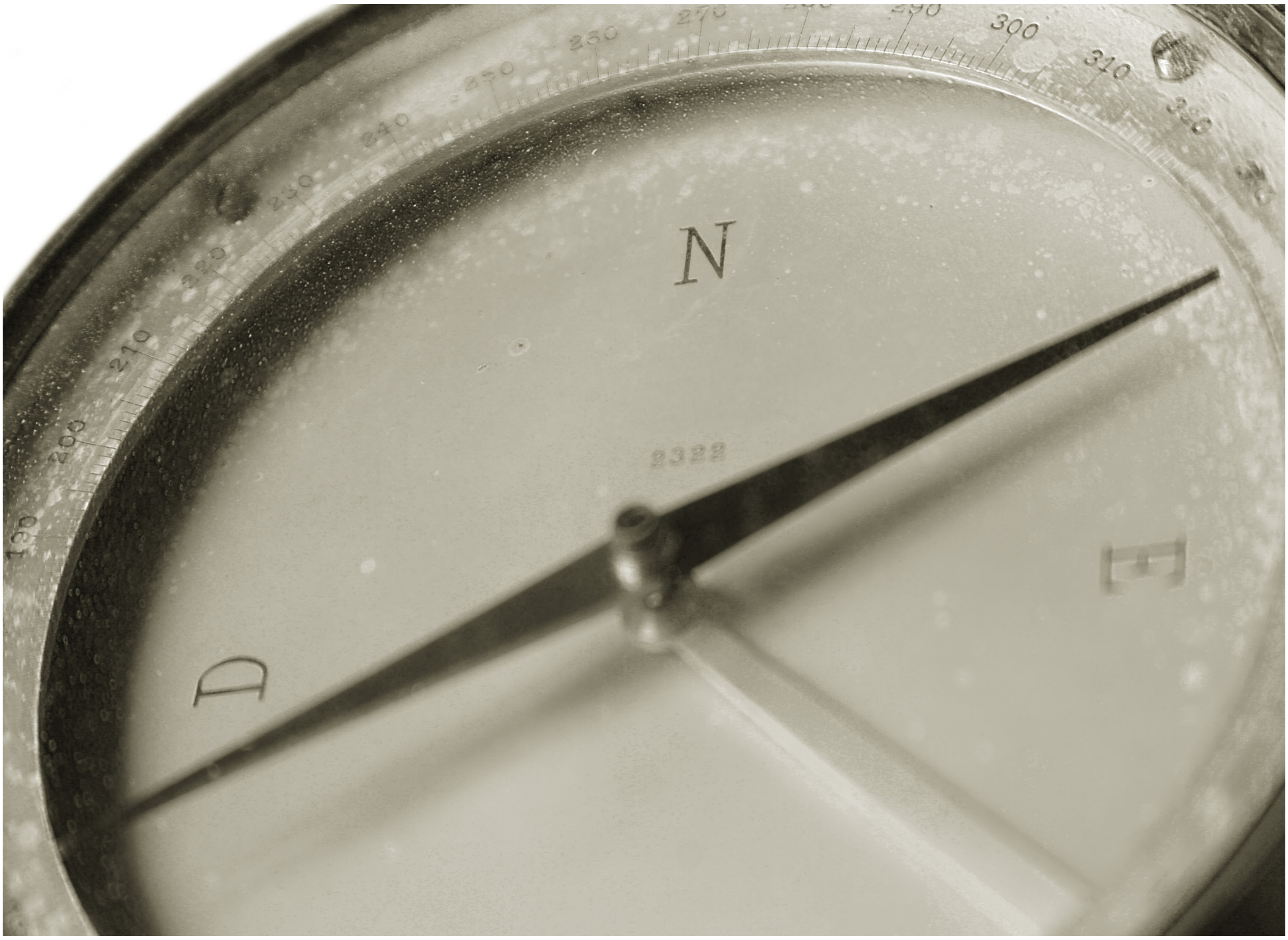
Monthly pointing the way to our favorite equity recommendations

UBS Equity Compass

Chief Investment Office WM — March 2016



Topsy-turvy

UK

Upgraded to neutral

Eurozone

Overweight trimmed

Emerging markets

Stay underweight

UBS

Contents

UBS Equity Compass

This report has been prepared by UBS AG, UBS Switzerland AG, UBS Deutschland AG and UBS Menkul Degerler AS. Please see the important disclaimer at the end of the document.

Editor-in-Chief
Bert Jansen, Equity Strategist

Editors
CLS Communication AG, Basel

Editorial deadline
26 February 2016

Project Management
Virender Negi*

Desktop Publishing
CIO Digital & Print Publishing

Translation
CLS Communication AG, Basel

Cover picture
dreamstime

Languages
Published in English and German

Contact
ubs-cio-wm@ubs.com
UBS homepage: www.ubs.com

*We would like to thank Virender Negi, an employee of Cognizant Group, for his assistance in preparing this report. Cognizant staff provide support services to UBS.

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Topsy-turvy

- The unprecedented negative interest rate environment and exceptionally low bond yields are not particularly supportive for equities.
- Inflation expectations need to go up and/or credit spreads need to shrink for equity markets to reverse their downward trend.
- In our global asset allocation, we maintain a neutral stance on equities. Within equities, we have upgraded the UK to neutral and reduced our overweight on Eurozone equities.
- At a sector level, we have raised Eurozone industrials to neutral and US consumer discretionary to overweight, and reduced US materials to underweight.

I have over 15 years of experience as an equity strategist. After two long stays in London and Paris, and a short stint in Singapore in between, I joined UBS in Zurich in 2014 as European equity strategist. I have a Master's degree in economics from the University of Amsterdam, and an MBA from the University of Washington.

Bert Jansen, strategist

The most dangerous words in investing are "This time it's different." Nevertheless, the current market environment is unprecedented. The five main central banks in the developed countries have injected more than USD 7 tn (USD 7,000,000,000,000) into the system over the past eight years to feed inflation. And yet inflation expectations are at a seven-year low; US bond markets expect inflation to be no more than 1% over the next 10 years.

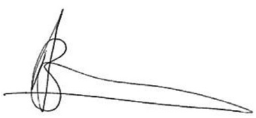
The Eurozone, Japan, Switzerland, Denmark and Sweden have negative interest rates, while USD 6 tn of government bonds are trading at negative yields. According to a recent article in the Financial Times, a Danish entrepreneur signed a three-year business loan last year for which she gets paid about DKr 7 (USD 1) a month. A topsy-turvy world indeed.

All of this creates problems for equity investors. How do you calculate the value of a share with a negative discount rate and falling earnings? The mathematical outcome is a positive number, but totally meaningless for an investor.

This exceptionally low interest rate environment is either a reflection of structural deflationary pressures, or the result of asset price manipulation by central banks. Neither can be a positive for equities. For equity markets to resume their upward trend, inflation expectations need to go up and/or credit spreads need to shrink. The market doubts that additional policy easing by central banks will achieve this.

The bottom line is that it is too early to raise equity exposure in our tactical asset allocation. We have raised UK equities to neutral, from underweight. Corporate earnings should see a revival, helped by a weak pound and a diminished share of commodities within the index. As a source of funds, we have reduced our overweight position in Eurozone equities.

At a sector level, we have upgraded Eurozone industrials to neutral in anticipation of positive base-effects in H2 2016. In the US, we have upgraded consumer discretionary to overweight because of above-average earnings growth, while we downgraded US materials to underweight.



Bert Jansen, Equity Strategist
UBS Chief Investment Office WM

From the Editor's desk:
- The next issue of *UBS Equity Compass* will be published on 29 March 2016.

UK equities upgraded to neutral

- As uncertainty remains high, we continue to recommend a neutral position in global equities in our tactical asset allocation.
- We prefer Eurozone over emerging market equities, as the former show stronger earnings development.
- We have upgraded our stance on UK equities to neutral. The recent significant weakening of the GBP removed a key headwind to the UK stock market.

I have more than 10 years of experience as an equity strategist, and joined UBS in 2008. I hold a PhD in economics from the University of Bonn, and am also a CFA charterholder.

Markus Irngartinger, CFA, strategist

Global uncertainty is still high and equity markets remain sensitive to negative news. By contrast, equity prices have adjusted, and we expect earnings growth to remain positive in 2016. We recommend a neutral allocation to global equities, while we hold an overweight in Eurozone equities against emerging markets. The recent significant weakening of the GBP has removed a key headwind for the UK stock market. We have therefore closed our underweight position in UK equities, recommending a neutral stance.

We are neutral on UK equities
The GBP has weakened about 10% against both the USD and the EUR in the past six months. Further volatility in the pound sterling is likely ahead of the UK referendum on EU membership on 23 June. The weaker GBP has removed a currency headwind for the FTSE 100. Nevertheless, the 30% fall in the crude oil price since the start of the fourth quarter of 2015 will be a burden for UK trailing earnings, but analysts have largely adjusted their numbers for this in recent weeks.

We prefer Eurozone over EM equities
We are overweight in Eurozone equities. The domestic recovery has been resilient so far, supported by improving employment figures. Still, most recent leading indicators for manufacturing activity indicate that the Eurozone is being impacted by the global manufacturing slowdown. Solid top-line growth and gradually rising net profit margins should result in higher company profits, with mid-single-digit growth expected in 2016. Emerging market equities are still experiencing earnings erosion amid low corporate competitiveness, falling profitability, and weak domestic revenue growth.

We are **neutral on Swiss stocks**. With the Swiss franc relatively strong – although below last year's peak – we expect moderately positive earnings growth to resume this year.

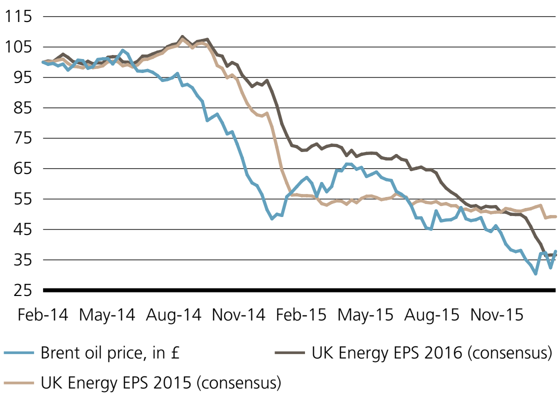
Equity markets – preferences and performance

		Market returns in %	
Regions/Countries	**Positioning**	**1-month**	**YTD**
Australia	→	–2	–8
Canada	→	4	–2
Emerging markets	↘	5	–7
Eurozone	↗	–3	–10
Japan	→	–4	–15
Switzerland	→	–4	–9
United Kingdom	→ (↘)	4	–2
United States	→	2	–5

Arrow indicates our preference relative to global equity markets over a 3- to 12-month horizon.
Note: Arrow in brackets indicates last month's positioning.
Source: Thomson Reuters UBS, as of 26 February 2016

Analysts' expectations for energy EPS have adjusted

Consensus EPS forecasts in GBP and Brent oil price in GBP, normalized to 100 on 28 February 2014



Source: Thomson Reuters, UBS, as of 24 February 2016

Past performance is no indication of future performance. The market prices provided are closing prices on the respective principal exchange.

Value bias

- We have a value bias in our European sector allocation, reflected in our overweight stance on financials and energy. The lower P/Es in these structurally challenged sectors should be less vulnerable to rising US interest rates than for higher-rated growth stocks. Valuations look attractive historically, although they are not as extreme as in early 2009 or early 2012.
- Among growth sectors, we prefer healthcare and technology. Healthcare offers relatively stable earnings growth, healthy balance sheets, and better value than other defensive sectors, such as consumer staples, in our view. Information technology provides solid earnings growth, and should benefit from an expected pick-up in capex in the semiconductor industry and self-help.
- We are underweight in sectors exposed to emerging markets and/or commodity-related plays, including materials and utilities. Stretched valuations explain our underweight stance on consumer staples.

I have over 15 years of experience as an equity strategist. After two long stays in London and Paris, and a short stint in Singapore in between, I joined UBS in Zurich in 2014 as European equity strategist. I have a Master's degree in economics from the University of Amsterdam, and an MBA from the University of Washington.

Bert Jansen, strategist

Energy (↗)
The sector looks attractive, in our view, following its significant underperformance in 2015. The recent recovery in oil prices, if sustained, should provide support. Encouragingly, the sector has outperformed since mid-January. The outlook for earnings growth in 2016 is muted, but aggressive cuts in capex and opex should lead to an improvement in free cash flows. If oil prices stay low over the long term, the risk of dividend cuts will increase.

Financials (↗)
The significant setback in Eurozone banks is overdone, in our view, reflected in valuations which are close to distressed levels. We believe that the risk of additional, dilutive capital raisings is limited. The main risk is that the sector is a value trap, where attractive valuations lack a trigger for an imminent rerating amid pressure on interest margins because of negative interest rates and a flat yield curve, as well as lackluster loan growth.

Healthcare (↗)
Companies offer good returns on capital, strong balance sheets, and generally stable earnings growth. We see little chance of a meaningful change in US drug price regulations, but the rhetoric may continue ahead of the US presidential election. This may weigh on sector multiples, but the sector's valuation compares favorably to other defensive sectors, such as telecoms and consumer staples.

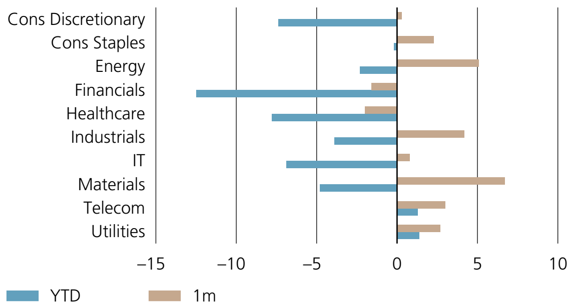
Information Technology (↗)
The sector offers an attractive combination of solid earnings in software (recurring revenues make up nearly two-thirds of total revenues), rising capex in semiconductors and self-help. Valuations in the sector are attractive, in our view, reflected in a below-average premium rating.

Regional sector preferences

Sectors	Global	US	EMU
Consumer Discretionary	→	↗ (→)	→
Consumer Staples	↘	↘	↘
Energy	↗	↗	↗
Financials	→	→	↗
Healthcare	↗	↗	↗
Industrials	→	→	→ (↘)
Information Technology	↗	↗	↗
Materials	↘	↘ (→)	↘
Telecoms	↘	↘	→
Utilities	↘	↘	↘

Arrow indicates our preference relative to global equity markets over a 3- to 12-month horizon.
Note: Arrow in brackets indicates last month's positioning.

Performance of global equity sectors
In %



Source: Thomson Reuters, UBS, as of 26 February 2016

Past performance is no indication of future performance. The market prices provided are closing prices on the respective principal exchange.

Switzerland

Preference
Neutral

Strategy
We are neutral on Swiss stocks. With the Swiss franc relatively strong – although below last year's peak – we expect moderately positive earnings growth to resume this year. This is based on ongoing robust sales growth in local currencies, excluding M&A effects. We see a modest positive currency impact on earnings as likely this year due to the base effect relative to the USD and EUR from 2015.

Our positioning within the region
We expect this year to provide medium single-digit earnings growth, after two years of stagnation. We prefer quality dividend payers and mid caps.

I earned a Master of Science in business administration from the University of Berne, and have worked as an equity analyst for UBS for over 20 years. After two long stays in Asia, I am now based in Zurich and cover Swiss equities.

Stefan R. Meyer, analyst

Similar to last year, **2016 saw a rough start** for Swiss equities. This year it was rising global uncertainty, primarily out of China, that lead to early price corrections.

Nonetheless, currency losses from developed markets peaked in the second quarter 2015, and those from emerging markets in the third quarter. As a result, the **currency impact** will turn more favorable in 2016. Actually, we have a fair chance of modest currency gains.

In addition, we expect **organic growth**, i.e. sales growth in local currencies and excluding acquisition or divestment effects, to stay robust in 2016 at 3–4%. This is supported by positive economic growth in Europe and globally, and stabilization in many emerging markets.

The current consensus expects average **earnings growth** of 4% in 2016. We view this as an achievable target. The price-to-earnings (P/E) ratio for the Swiss Performance Index based on estimated corporate earnings for the next 12 months is just above 16x. While the P/E-based **valuation** is somewhat high by historical standards, the dividend yield is attractive; at 3% it is currently above the average of 2.3% since 2000. Together with an attractive dividend yield, an equity market recovery in the coming months appears likely.

Overall, we continue to **favor high-quality dividends and mid caps**. Sustainable dividend payers are particularly attractive in view of the record low interest rates and bond yields. We also expect dividends to increase overall again this year, despite modest corporate earnings growth in Swiss francs last year. Mid caps offer the strongest balance sheets and continue to achieve superior organic growth versus large caps.

Most Preferred		Least Preferred	
Aryzta AG	CHF	Adecco	CHF
Baloise-Holding	CHF	Alpiq Holding	CHF
Belimo	CHF	Bucher Industries AG	CHF
Forbo	CHF	Burckhardt Compression	CHF
gategroup Holding AG	CHF	Dorma+Kaba	CHF
Lindt & Sprüngli	CHF	Ems-Chemie	CHF
Logitech	CHF	Intershop Holding AG	CHF
Novartis	CHF	Panalpina World Transport (Holding)	CHF
Pargesa Holding	CHF	Schindler	CHF
Rieter	CHF	Sulzer	CHF
Roche	CHF	Temenos	CHF
SGS	CHF		
Sonova	CHF		
Valora	CHF		
Zurich Insurance Group	CHF		

Source: UBS

As our selections may change over time, please always consult the underlying Equity Preference List (EPL) for our up-to-date equity preferences. The respective EPL (which also lists the analyst(s) responsible for the selections and the thematic benchmark) can be found on the UBS CIO portal that can be accessed via the e-banking platform or via Quotes.

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Eurozone

Preference

Overweight

Strategy
We are overweight in Eurozone equities. Corporate earnings growth is improving, while ongoing monetary easing enhances the prospects of a continued economic recovery. Leading economic indicators – especially for manufacturing activity – have weakened recently but remain in expansionary territory. Domestic demand, in particular, will drive economic growth and corporate revenue generation.

I have over 15 years of experience as an equity strategist. After two long stays in London and Paris, and a short stint in Singapore in between, I joined UBS in Zurich in 2014 as European equity strategist. I have a Master's degree in economics from the University of Amsterdam, and an MBA from the University of Washington.

Bert Jansen, strategist

Sectors

Our positioning within the sectors
We have a value bias in our sector allocation, reflected in our overweight stance on financials and energy. We are also overweight technology. We are cautious on sectors exposed to emerging markets and commodities, except for energy. We are underweight consumer staples, materials and utilities.

After four consecutive years of P/E expansion Eurozone equities will have to rely more on EPS growth this year, which we expect to be in the mid-single digits. Unlike 2015, we do not expect meaningful support from a weaker euro. **The main risk is a shrinking market P/E.** Valuations have become more reasonable after the sharp declines since the start of the year, but Eurozone equities are still not cheap by historical measures.

The negative impact on valuations from tightening US financial conditions and ongoing deflationary pressures should be mitigated by the ECB's exceedingly loose monetary policy. The combination of single-digit EPS growth and shrinking P/Es implies that equity returns this year are likely to be modest.

We are overweight in financials and energy, both of which are considered value investments. Valuations relative to the wider market look more attractive following the market declines year-to-date. Decelerating growth is usually associated with value underperforming, but value sectors have been disproportionately penalized during the recent sell-off. As a consequence, current valuations should provide support, in our view.

We are also overweight in technology and healthcare. Valuations in both sectors compare favorably to non-cyclicals such as consumer staples and telecoms. Healthcare offers steady earnings growth, while technology offers an attractive combination of solid growth in software, rising capex in IT hardware and self-help. We are underweight commodity-related plays, such as utilities and materials. High valuations are the main reason behind our underweight stance on consumer staples.

Most Preferred		Least Preferred	
Andritz	EUR	Air Liquide	EUR
Anheuser-Busch InBev	EUR	Danone	EUR
ASML	EUR	Fielmann AG	EUR
BMW	EUR	Nokian Tyres	EUR
Carrefour	EUR	Proximus	EUR
Deutsche Lufthansa AG	EUR	Publicis Groupe SA	EUR
Essilor International	EUR	Verbund AG	EUR
EUTELSAT Communications	EUR		
Fiat Chrysler	EUR		
Iberdrola	EUR		
KPN Telecom	EUR		
Safran SA	EUR		
Societe Generale	EUR		
Symrise	EUR		
TOTAL	EUR		
Unibail-Rodamco	EUR		
UniCredit	EUR		
ZUMTOBEL AG	EUR		

Source: UBS

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Back to Contents page

Eurozone

Countries

Our positioning within the region
We rate Italy Most Preferred. Underperformance here has been driven by the country's banks, but concerns about capital requirements are overdone, in our view. The Netherlands and Belgium are Least Preferred because of their significant weighting in consumer staples (U/W in our sector allocation.

As a reminder, our Eurozone country preferences are not implemented in our global tactical asset allocation. Our country comments are for investors who would like a more granular CIO view of the Eurozone region at the country level.

Italy is rated Most Preferred. The sharp declines in Italian banking stocks are overdone, in our view. The Italian banking sector as a whole is well-capitalized. Although the NPL resolution process will be slow, we do not expect capital increases to be triggered by non-performing loan disposals. All of the major Italian banks' capital ratios at the end of 2015 already exceed the levels required by the ECB in 2019.

The main risks for Italy further underperforming include 1) a lack of credit growth, 2) ongoing deflationary fears that will keep the yield curve flatter for longer and/or 3) a further widening of corporate credit spreads in anticipation of deteriorating economic conditions.

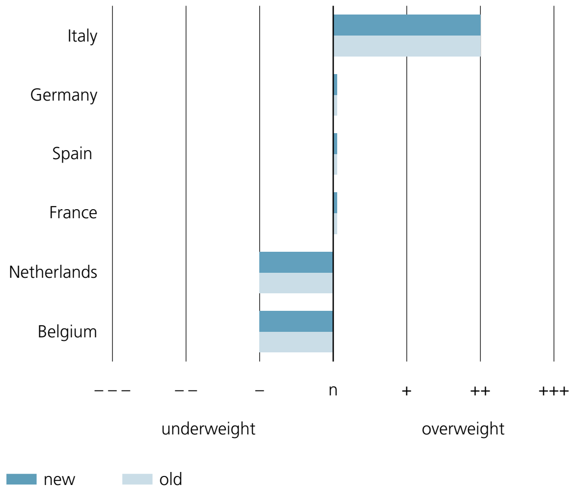
The Netherlands and Belgium are rated Least Preferred because of these markets' above-average exposure to consumer staples, rated underweight in our sector allocation. Both equity markets are among the beneficiaries of a weak euro, which is unlikely to provide the same support as it did in 2015.

We have a neutral stance on France because the country's sector weightings are similar to those of MSCI EMU. As a result, the performance of France has been highly correlated with that of the Eurozone as a whole and we see no reason for this to change.

Germany is rated neutral. Valuations look attractive relative to MSCI Eurozone, but the low P/E is largely the result of a high 'E' (margins are relatively high by historical standards), rather than a low 'P'. This is in contrast with most other Eurozone markets, where profit margins are still well below their peak levels reached at the top of the credit bubble in 2007.

Finally, Spain is rated neutral because the positive domestic economic backdrop is offset by mediocre economic conditions in Latin America, to which the Spanish market has significant exposure, notably in banks and telecoms.

Eurozone – Country preferences



Note: Our Eurozone country preferences are not implemented in our global tactical asset allocation.
Source: UBS, as of 25 February 2016

For further reading:
- Italy – Value and recovery potential; Update, published on 29 February 2016.

Germany

Preference

—

Strategy
We expect German equities to perform in line with MSCI EMU. Germany has above-average exposure to weak emerging markets, which is largely offset by resilient consumer spending. This should support consumer discretionary, which has a significant market weighting. The market P/E (12-month forward) is more or less in line with the average of the six largest Eurozone countries, which leaves little potential for rerating.

Our positioning within the region
The approaching dividend season should increase demand for a more defensive dividend investing style; interest rates hovering around all-time lows also give support. Slowing emerging market growth makes us cautious on names exposed here; we prefer a domestic and Eurozone tilt.

The German stock market remains highly volatile and share prices have performed poorly; this has been one of the worst starts to a year since the inception of the DAX. In addition to concerns around emerging markets and US economic growth, risks related to the Eurozone banking sector are also driving uncertainty. We believe these concerns are legitimate but think that markets have broadly priced them in. As long as uncertainties prevail, however, we **expect volatility to remain high**. German equities are trading at a **12-month forward P/E of around 12x**, which is far from excessive, and we advocate using market weakness to buy selectively.

The dividend season will start in April and average historical seasonality speaks in favor of dividend investing. We like stocks with **good quality dividends, solid yields** and, ideally, **attractive dividend growth potential**, such as Allianz, Alstria Office, BMW, Daimler, Hugo Boss, and Talanx. Despite emerging market weakness we expect the global economy to grow moderately. We **like cyclical stocks** such as Airbus, BMW, Daimler, and Infineon. Emerging market weakness also makes us a positive on names with **relatively high German and Eurozone exposure**. In general, **German mid-caps** tend to have less emerging market exposure. Our preferred domestic names are mid-caps like Alstria Office, United Internet, and Zalando.

German equities face higher relative emerging market risk than the Eurozone as a whole. Germany equities would suffer if financials or energy stocks recover strongly, as these sectors are underrepresented in Germany. A strong recovery of the euro also poses a risk.

Based in Frankfurt, my primary area of responsibility is German equities. Prior to joining UBS in 2009, I worked as a fund manager for European and German equities and have more than 15 years of experience in the industry. I graduated from the Frankfurt School of Finance and Management.

Andre Schuetz, analyst

Most Preferred		Least Preferred	
Airbus Group NV	EUR	Fielmann AG	EUR
Allianz	EUR	GEA Group	EUR
alstria office REIT	EUR	Hannover Re	EUR
BMW	EUR	Klöckner	EUR
Continental AG	EUR	Puma	EUR
Daimler AG	EUR	RWE	EUR
Deutsche Lufthansa AG	EUR		
Evonik	EUR		
Fraport AG	EUR		
Fresenius SE & Co KGaA	EUR		
Hugo Boss	EUR		
Infineon Technologies AG	EUR		
Salzgitter AG	EUR		
Talanx	EUR		
United Internet	EUR		
Zalando	EUR		

Source: UBS

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United Kingdom

Preference
Neutral

Strategy
We are neutral on UK equities. The sharp drop in the crude oil price since fall 2015 will be a burden for UK trailing earnings, but analysts have largely adjusted their numbers for this. The recent weakening of the GBP means the currency will no longer be a drag on UK earnings. Further volatility in GBP is likely ahead of the UK referendum on EU membership on 23 June.

Our positioning within the region
Investing in large-cap value stocks is our preferred way of taking exposure to the UK market. Value outperforms in periods before interest rate rises.

An equity strategist specializing in UK equities, I'm based in London. I have a background as a UK consumer analyst, and was a fund analyst before joining UBS in 2004. A University of Oxford graduate, I hold the CFA charter, the Financial Planning Certificate, and the Investment Management Certificate.

Caroline Simmons, CFA, strategist

Commodities continue to rule the day for UK equities
Consensus earnings expectations for the MSCI UK have been revised down again, due to the decline in commodities, which account for 18% of market cap. This leaves the consensus now expecting –4% eps growth in 2016. Excluding energy and mining, however, the other sectors are still expected to show positive earnings growth this year, and we think this is achievable. If commodities end the year higher (as we believe they will), UK earnings would likely move out of negative territory. That would be the strongest earnings outlook since 2011, but still looks weak when compared with other regions.

The other factor which has been weighing on UK earnings in recent years has been strong sterling. However following the pound's 9% fall in the last three months, currency is no longer a drag on the FTSE 100. With 75% of sales derived outside the UK, if the pound remains weak it could even start to become a benefit for FTSE 100 earnings.

We are at the mid-point of the earnings season, and fourth-quarter results so far have been slightly worse than expectations. On average they are missing at the profit level by 4%, whilst year-on-year growth for the quarter is –36%. Oil and gas continues to disappoint, as do miners. However healthcare has met expectations and consumer stocks and telecoms have on average beaten expectations.

So whilst the earnings season has not been sparkling, the outlook is better than recent market moves imply. However we expect commodities to continue to rule the day in terms of UK equities and earnings.

The MSCI UK trades on 15X P/E 2016, which is slightly above its long run average. Risks to the UK include Brexit (though the large cap index would see some mitigating effects from a weaker pound in that scenario) and changes to the outlook for commodities.

Most Preferred		Least Preferred	
AstraZeneca	GBP	Associated British Foods	GBP
Aviva	GBP	Cobham	GBP
Barclays	GBP	National Grid	GBP
BAT UK	GBP	Standard Chartered	GBP
Compass Group	GBP		
Lloyds Banking Group	GBP		
Next	GBP		
Prudential	GBP		
Reckitt Benckiser	GBP		
Royal Dutch Shell	GBP		
Shire	GBP		
Sky	GBP		
Vodafone Group	GBP		

Source: UBS

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United States

Preference

Neutral

Strategy
We are neutral on US equities. Economic growth and momentum are sluggish and the domestic economy remains highly bifurcated, with weak manufacturing trends offset by stronger consumer and services end-markets. S&P 500 EPS growth remains elusive, however, as the primary drivers of flat earnings growth in 2015 – falling oil prices and a strong USD – continue to weigh on results.

Our positioning within the region
We expect US economic growth dynamics and underlying profit growth to benefit cyclical sectors. Furthermore, US corporates are cash-rich and in a position to return capital to shareholders via share buybacks and dividends.

I began working in equity research covering telecoms in the mid-90s and joined UBS in 2001. My sector responsibilities evolved over time: besides the European telecom sector, I also follow the media sector. I graduated from the University of Aachen and am a Certified European Financial Analyst (CEFA) charterholder.

Marcus Baeumer, analyst

We have a neutral allocation to US equities. Equity market volatility has picked up due to concerns about a sharp slowdown in China, plummeting commodity prices and concern that the Fed may be making a policy mistake by further raising interest rates. As a result of some of these pressures, a number of leading indicators – such as high-yield spreads, bank lending standards and the ISM Manufacturing Index – have turned less favorable. The good news is that other indicators are still supportive. Consumer confidence is solid, new claims for unemployment insurance are near multi-decade lows and housing market activity continues to grow. As a result, we believe S&P 500 EPS growth can re-accelerate to 6% in 2016.

We prefer sectors that 1) are leveraged to the ongoing US economic expansion (information technology, consumer discretionary), 2) have favorable earnings momentum (consumer discretionary, healthcare) or 3) are attractively valued with potential upside catalysts (consumer discretionary, energy). In our latest change to sector allocation we moved consumer discretionary to moderate overweight (favorable valuation, strong earnings momentum) and downgraded materials to moderate underweight (high valuation, weak earnings outlook). **Information technology remains our most preferred sector** given secular growth drivers and strong relative earnings growth. We are overweight healthcare based on favorable growth versus the market. Energy sector valuations are compelling and oil prices appear to be unsustainably low. We are underweight consumer staples as relative valuations look expensive. Finally, we are also underweight telecom and utilities, which are vulnerable to rising interest rates and face challenging fundamentals.

Our US stock selections in the following sector Equity preferences lists

	Sector preference	Link*
US Consumer Discretionary	↗ (→)	
US Consumer Staples	↘	
US Energy	↗	
US Financials	→	
US Healthcare	↗	
US Industrials	→	
US Telecoms	↘	
Information Technology	↗	
Real Estate	–	

Arrow indicates our preference relative to US equity market over a 3- to 12-month horizon.
Note: Arrow in brackets indicates last month's positioning.
*Document links are UBS-internal only.

Japan

Preference

Neutral

Strategy
We are neutral on Japanese equities. Japanese companies' earnings growth is slowing down. The JPY has strengthened by about 5% year-to-date and is likely to hurt corporate earnings going forward. Uncertainty about the growth outlook for the Chinese economy and more mixed data out of Japan are also weighing on the market, which is strongly geared to cyclical sectors.

Our positioning within the region
We believe the next few quarters will be a transitional period for Japanese stocks, as the market moves from high earnings growth to low, from 14% net profit growth in FY2015 to 1% growth in FY2016. With interest rates negative, we expect Japanese companies to increase share buybacks.

Investors' concerns about the global economic slowdown and risk-off sentiment have dominated the Japanese equity market. But the main reason for the market weakness has been the USDJPY, which fell below 115 despite the BoJ's additional measures on 29 January. For the stock market to recover, a weaker yen is vital. Despite negative interest rates (–0.1%), investor concerns about the global economic slowdown have made the yen the strongest currency against the dollar over the last six months. Given this strength in the yen and slower emerging market growth, we have cut our corporate earnings growth forecasts further. We now expect 14%, 1% and –3% net profit growth in the March 2016, 2017 and 2018 fiscal years, respectively. The expected drop in profits in 2018 is mainly due to a VAT hike.

For the next 2–3 months corporate earnings could be disappointing and the stock market could fall further depending on the stability of the USDJPY and the BoJ's monetary policy. TOPIX is now trading at 13x our 12-month forward EPS estimate, which is near its historical low of 12.5x in 2012. Given the 2%-plus dividend yield (J-REITs now yield 3%), we believe downside is limited.

Once asset impairment and restructuring losses are booked in the March 2016 results, we think investors will regain confidence in Japanese corporates' steady earnings and the positive effects of the negative interest rate policy. In the meantime we prefer the share buyback theme, as we expect negative interest rates to make these an attractive choice for cash-rich companies.

Based in Tokyo, I'm responsible for interpreting Japan's economy, corporate earnings, political changes, and providing investment insights. I was senior investment manager at another asset management firm before joining UBS in 2006. I have an MBA from the Goizueta Business School at Emory University in Atlanta, Georgia, and am a chartered member of the Securities Analysts' Association of Japan.

Toru Ibayashi, analyst

Most Preferred		Least Preferred	
Aisin Seiki Co Ltd	JPY	Kintetsu Corporation	JPY
Alps Electric	JPY	Odakyu Electric Railway	JPY
Denso	JPY		
GLP REIT	JPY		
Honda Motor	JPY		
Mitsubishi Estate	JPY		
Mitsubishi UFJ Financial Group	JPY		
Murata Manufacturing	JPY		
NH Foods	JPY		
Nippon Steel&Sumitomo Metal	JPY		
Nippon Yusen	JPY		
Nissan Motor	JPY		
Onward Holdings	JPY		
Orix JReit	JPY		
Shin-Etsu Chemical	JPY		
Sony	JPY		
Sumitomo Metal Mining	JPY		
Toray	JPY		
Toyota Motor	JPY		
Yahoo Japan	JPY		

Source: UBS

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Asia ex Japan

Preference

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- We believe investors are currently unduly bearish on Asia ex-Japan equities.
- Long-term investors will be rewarded by selectively adding exposure in the region.
- Due partly to the social and political uncertainty, we expect Hong Kong to fall by single digits and find support at lower levels.

We believe investors are currently unduly bearish on Asia ex-Japan equities. **The regional price-to-book ratio is 1.2x – approaching the troughs of the two-month trailing average in both the 2008 global financial crisis and the 1997 Asian financial crisis,** while return on equity (ROE) is still at a healthy level of around 11%. Hence we maintain our positive stance on Asia ex-Japan equities relative to Asia ex-Japan bonds in our regional tactical allocation. We believe long-term investors will be rewarded by selectively adding exposure to quality stocks trading at attractive valuations with a high and sustainable ROE in industries like insurance, telecoms and technology. We have updated the list of quality ideas in the region after solid performance in the past five months.

During the Chinese New Year holiday Hong Kong saw the worst street violence since the Umbrella movement in 2H14. The market is concerned that additional social disturbances could adversely impact the local economy. Due partly to the social and political uncertainty, we expect the MSCI Hong Kong index to fall by single digits and find support at lower levels. The MSCI Hong Kong's forward price-to-earnings (PE) ratio is 12x, which is not demanding but still above the 2008/09 low of below 9x. That said, **earnings downgrades are likely in property, banks, retail and Macau gaming, driven by falling Hong Kong housing prices, China's economic slowdown and weak domestic demand**. The coming elections should continue to bring Hong Kong's political and social issues into the public eye. Tourist arrivals, retail sales, housing property prices and office rents could reflect the unfavorable consumer and business sentiment in the next few months.

An equity analyst specializing in Asia, I was an Asian banking and insurance analyst at a US investment bank before joining UBS in 2006. I was a lecturer at a Hong Kong university before entering investment banking. I hold a Master's degree in economics, and a CFA charter.

Patrick Ho, CFA, analyst

Asia ex Japan Focus 20 EPL

Most Preferred	
China: Overweight	
Alibaba	USD
Bank of China	HKD
China Mobile (HK) Ltd	HKD
Lenovo Group Ltd	HKD
Ping An Insurance (Group)	HKD
Tencent Holdings	HKD
Hong Kong: Neutral	
AIA Group	HKD
Dah Sing Banking	HKD
India: Neutral	
Cognizant Technology	USD
HDFC Bank*	INR
Indonesia: Neutral	
Gudang Garam	IDR
Malaysia: Neutral	
Astro Malaysia Holdings	MYR
Philippines: Neutral	
SM Prime Holdings	PHP
Singapore: Overweight	
ComfortDelgro	SGD
Singapore Telecom	SGD
South Korea: Neutral	
KEPCO*	KRW
Samsung Electronics*	KRW
SK Telecom*	KRW
Taiwan: Underweight	
Taiwan Semiconductor Manufacturing*	TWD
Uni-President Enterprises*	TWD
Thailand: Underweight	

Sundeep Gantori, CFA, analyst
*Potential trading restrictions
Source: UBS

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Back to Contents page

Global Emerging Markets

Preference

Underweight

Strategy

We are underweight in emerging market (EM) equities in our global portfolio. EM corporate earnings growth is lagging that of other regions amid the recent drop in commodity prices. Economic weakness is inhibiting domestically generated top-line growth. The consensus expects 12-month earnings growth of 6–7% over the coming 12 months. We are more cautious and expect about 0–5% earnings growth.

Our positioning within the region

Our Most Preferred markets are China (oversold on growth worries) and Turkey (high EPS growth, attractive valuation), while our Least Preferred markets are Mexico, Thailand, Taiwan and South Africa. We will add Brazil to this group based on the deteriorating political situation as well as increased macro and earnings risk, and demanding valuation.

I have been covering emerging markets for over 15 years, working as an economist, equity strategist and analyst for a wide range of sectors including financials, consumer and retail. I joined UBS in 2010. I hold an MBA degree from the University of Illinois at Champaign-Urbana.

Serhan Gok, analyst

The MSCI Emerging Markets Index had declined 6% year-to-date as of 23 February in US dollar terms and 5% in local currency terms. By region, Latin America and EMEA have been more resilient than Asia, having lost 2% each compared to Asia's 7.7% decline. The recent shift in expectations for continued Fed rate hikes to one or none this year may cap USD appreciation against EM currencies. This may bring back the appeal of the FX carry in EM. However, we do not see any additional catalysts to support this driver, such as a bottoming out in profitability, pickup in growth, or structural reforms to ensure that these improvements are sustainable. Beside the carry trade dynamics, the key drivers of performance in 2016 will likely be the pace of US interest rate hikes, China's growth, and commodity price trends.

Our stock selection focuses on defensive sectors (healthcare, infrastructure, retail, real estate, consumer staples), attractive valuations, and relatively high dividend yields in the higher beta markets. In **Brazil,** we limit our stock exposure to defensive names. Our preferred exposures to **Russia** and **South Africa** are through solid structural growth stories, high-dividend yielders, and companies that offer developed market exposure. Our Asia stock selection favors technology and consumer staples. We prefer selective exposure to **China**, concentrating on stocks that are oversold and may rebound from recent lows. In **India,** we prefer healthcare and selected financial stocks. Our Least Preferred names are financials in Russia and South Africa.

Most Preferred		Least Preferred	
Asia ex-Japan		**Asia ex-Japan**	
China State Construction	HKD		
Glenmark Pharmaceuticals*	INR		
HDFC Bank*	INR		
Huaneng Renewables	HKD		
Lenovo Group Ltd	HKD		
Singapore Telecom	SGD		
Taiwan Semiconductor Manufacturing*	TWD		
Tencent Holdings	HKD		
Uni-President Enterprises*	TWD		
Emerging Europe, Middle East & Africa		**Emerging Europe, Middle East & Africa**	
Discovery	ZAc	Capitec Bank Holdings Limited	ZAc
Emaar Malls	AED	VTB	RUB
Investec	GBP		
Magnit OJSC	RUB		
Norilsk Nickel	USD		
Old Mutual Plc	GBP		
RMI Holdings	ZAc		
Tupras Turkiye Petrol Rafinerileri AS*	TRY		
Latin America		**Latin America**	
AmBev	BRL		

*Potential trading restrictions
Source: UBS

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Back to Contents page

European
Automobiles

Preference

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Strategy

The sector is benefitting from positive volume trends in Europe, helped by lower oil prices and falling unemployment. Nevertheless, the economic slowdown in China remains a cause for concern, although a tax incentive on small cars, set to run until the end of this year, should provide some support to Chinese car sales. With slowing top-line growth globally (US car sales are close to a 40-year high) and limited potential for margin expansion, the scope for a sector rerating is limited, in our view.

Our positioning within the European sector

We continue to believe a diversified selection of European premium and mass manufactures, tire manufacturers and selected suppliers with a strong technology focus make sense. A recovering European and a stable US car market, and some volume recovery in China, bodes well for all of them.

I am a CFA charterholder, with a Master's degree in finance from a US university. I have been with UBS since 1999, and have worked in both credit and equities. Nowadays, I focus as an equity analyst on the auto sector.

Rolf Ganter, CFA, analyst

Most Preferred		Least Preferred	
BMW	EUR	Nokian Tyres	EUR
Continental AG	EUR		
Daimler AG	EUR		
Fiat Chrysler	EUR		
NORMA Group	EUR		
Renault SA	EUR		
Valeo	EUR		
Volkswagen Preference	EUR		

Source: UBS

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Over the last four weeks markets in general and automobile stocks specifically have enjoyed a roller coaster ride. Several European auto companies reported their full-year 2015 results, which were overall very decent. Unsurprisingly, in the current volatile market environment, companies' 2016 guidance for end-markets, sales and margin trends was more mixed - but certainly not as bad as the stock price reaction turned out in some instances.

We believe the auto sector will remain volatile, and during risk-off phases in the markets it will suffer disproportionately. Conversely, if markets turn out to be more reasonable, we would expect some sector rerating. After a nearly 20% correction in European auto stocks year-to-date, several (high-quality) auto stocks are trading at too-cheap-to-ignore valuation multiples. With robust balance sheets, access to ECB funding, strong free cash flow generation, and good dividends, we believe this is not justified in the current global car market environment.

Potential 3% global volume growth, an ongoing weak euro, and cost restructuring efforts should ensure decent earnings growth, driving stock price performance. Daimler is our sector favorite. VW is the stock within our universe that offers the highest upside, thanks to the beaten-down valuation and self-help triggers, **but risks and volatility remain elevated and finding an acceptable solution in the US is key**. Other sector risks are renewed euro strength, economic and financial market shocks leading to rising unemployment and falling consumer confidence globally, with the current volatility in the stock market certainly not helpful.

Back to Contents page

European
Consumer Discretionary

Preference
Neutral

Strategy
Consumer spending is being boosted by lower oil prices, falling unemployment, and improving credit conditions. But real wage growth remains lackluster in the advanced economies, while the sector no longer benefits from a weak euro, as was the case in 2015.

Our positioning within the European sector
Luxury goods should benefit from improved disposable income, but the recent set-back and weakness in China will hurt confidence near term. Economics are supportive for advertising agencies. In general retail, we prefer fashion firms with global expansion potential and a strong multi-channel offer.

Luxury
The **performance** of the luxury goods sector has been robust so far this year and follows the good performance that EMU luxury companies exhibited in 2015. This comes despite expectation that **consumer confidence** will likely be hit by the terrorist attacks in Paris and the wealth effect from the most recent market turmoil, as well as increased worries about the strength from China.

In fact, the slowdown in China continues to weigh on the sector's overall growth outlook, even though, **Chinese tourism** seems to be holding up. Nevertheless, **growth** is expected to **remain resilient** despite these worries, along with fears about waning pricing power and lower new store openings. While **de-stocking** seems to be continuing, it should be close to trough levels and comparables should also become easier.

The **key driver** of the top-line remains intact: a **rising middle class in Asia**, albeit growth has been slowing down towards single-digit annual increases in sales. This has been witnessed over several years now, with the introduction of anti-bribery laws in China impacting the watch industry in particular. Overall, the lower sector growth rates seem more than reflected in lower premium valuation levels versus the market compared to historic premia.

Media
We continue to believe that the **advertising agencies should do well in an environment of moderate economic growth** but would advocate staying selective. The reporting season for the advertising agencies so far has revealed solid organic growth. Another feature of the reporting season is fairly **violent share price reactions in companies that report unexpected results**. The sharp moves would suggest that positioning is fairly concentrated and valuation dispersion is high. We would be therefore careful about reading swings in share prices as an indication of changes in the underlying business. While satellite companies are not being spared from the high market volatility, we believe **operators like Eutelsat are interesting** due to the high barriers to entry and good visibility of cash generation. The absolute valuation of the subsector has moderated to 17x 12-month-forward P/E but remains elevated relative to the wider market (premium of 22% vs. 10-year average of 8%) and its own history (10-year average forward P/E of 14x). While sector valuation is not yet a concern to us, it does warrant close monitoring.

I began working in equity research covering telecoms in the mid-90s and joined UBS in 2001. My sector responsibilities evolved over time: besides the European telecom sector, I also follow the media sector. I graduated from the University of Aachen and am a Certified European Financial Analyst (CEFA) charterholder.

Marcus Baeumer, analyst

With around 15 years of experience covering the insurance sector at various global brokerage houses and banks in London and Zurich, I rejoined UBS in 2014 and am responsible for the global insurance and luxury industries. I graduated from the London School of Economics with a degree in Philosophy and Economics and am a CFA charterholder.

Michael Klien, CFA, analyst

An equity analyst specializing in consumer staples, I am based in Zurich. Before joining UBS in June 2014, I covered the global consumer sector at another Swiss bank. I graduated from the University of Applied Sciences Chur in 2003 and I am a CFA charterholder.

Andreas Tomaschett, CFA, analyst

For further reading:
- Investing in Luxury: Pressure from China is nothing new, published on 9 September 2015.

European

Consumer Discretionary

General Retail

The consumer **environment should remain positive for European general retailers**. Consumer confidence in Europe and the US has stabilized at a high level. In combination with low interest expenses, lower oil costs have led to higher disposable income through cheaper fuel and heating costs. However, weather will remain a key driver. For example, reported weak sales number in December due to unseasonably warm weather could lead to high markdowns at the beginning of the year. In addition, currency movements will continue to impact gross margins, for example due to US dollar sourcing costs, in particular for H&M. In general, underlying growth rates in apparel are close to the level of GDP growth. Therefore, a general acceleration in economic activity would lead to a faster rate of like-for-like growth. A potential downturn in Europe and more pressure on emerging markets sales pose the highest risk for European retailers. European general retailers H&M and Inditex are still trading at high earnings multiples. Despite the share price corrections in January/February, there is a risk of a further de-rating. However, space growth will remain a stable sales growth contributor for both Inditex and H&M. **We prefer fashion retailers with global expansion potential and a strong multi-channel offer.** We expect these companies to continue to gain market share. In addition, companies with local sourcing can adjust more rapidly to changing fashion trends and are less vulnerable. Further, currency headwinds and costs for imports should soften due an economic slowdown in emerging markets like China.

Most Preferred		Least Preferred	
Compagnie Financiere Richemont SA	CHF	Fielmann AG	EUR
Compass Group	GBP	InterContinental Hotels Group	GBP
EUTELSAT Communications	EUR	Publicis Groupe SA	EUR
Havas	EUR		
Inditex SA	EUR		
Next	GBP		
Whitbread	GBP		

Source: UBS

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European
Consumer Staples

Preference
Underweight

Strategy
The sector offers stable cash generation, which should provide support. Lower oil prices are also a positive factor, but the potential boost to profit margins should be limited, as lower input costs are likely to be passed on to consumers. We are underweight in the sector mainly because of valuation considerations.

Our positioning within the European sector
We prefer companies that are well positioned in faster-growing regions such as the US. Those benefiting from efficiency improvements or M&A synergies feature better earnings growth. Companies offering attractive and sustainable dividend yields due to their ability to generate cash also appeal to us.

An equity analyst specializing in consumer staples, I am based in Zurich. Before joining UBS in June 2014, I covered the global consumer sector at another Swiss bank. I graduated from the University of Applied Sciences Chur in 2003 and I am a CFA charterholder.

Andreas Tomaschett, CFA, analyst

Consumer staples companies are one of the main beneficiaries of a declining oil price, which provides a margin tailwind. Companies do not expect an improvement in the current economic environment. We expect the sector to **grow organic earnings per share by mid to high single digits in 2016**. In contrast to 2015, we expect the impact of euro weakness and low bond yields to remain positive, but to fade. Companies will continue to optimize their portfolios, leading to further M&A activity.

We recommend focusing on the following investment areas. First, we like **European companies with high exposure to the US**, which should benefit from high consumer confidence and a positive, but fading, currency impact. Second, companies with **efficiency improvement opportunities offer better earnings growth**. Third, owing to their highly cash-generative business models, **tobacco companies offer attractive dividend yields**. In addition, as mentioned before, the whole consumer sector should **continue to benefit from potential M&A activity**. Robust balance sheets, low financing costs and a strong focus on portfolio optimization could lead to further corporate transactions. If not, companies' strong financial positions also offer the opportunity to increase cash returns to investors. In our view, a strong re-acceleration of growth in emerging markets offers the greatest upside surprise potential due to the sector's high exposure to these markets.

However, historically high absolute and relative valuations limit further upside potential. In our view, rising **interest rates pose a risk to the valuation of the sector**, in particular for high dividend yield stocks. A downturn in economic growth, accompanied by a decline in consumer spending, is the greatest risk to sales growth.

Most Preferred		Least Preferred	
Ahold	EUR	Associated British Foods	GBP
Anheuser-Busch InBev	EUR	Coca-Cola Hellenic	GBP
Aryzta AG	CHF	Danone	EUR
BAT UK	GBP		
Beiersdorf	EUR		
Carrefour	EUR		
Imperial Brands	GBP		
Kerry Group	EUR		
Reckitt Benckiser	GBP		
Unilever NV	EUR		

Source: UBS

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European
Energy

Preference

Overweight

Strategy
The sector looks attractive, in our view, following its significant underperformance in 2015. The recent recovery in oil prices, if sustained, should provide support. Encouragingly, the sector has outperformed since mid-January. The outlook for earnings growth in 2016 is muted, but aggressive cuts in capex and opex should lead to an improvement in free cash flows. If oil prices stay low over the long term, the risk of dividend cuts will increase.

Our positioning within the European sector
Cost deflation and a focus on profit over volume is helping the sector and we expect an oil price recovery in 2H 2016. We do not think it is advisable to be aggressive, so prefer more defensive stocks. We favor companies with strong balance sheets, low cost operations or differentiated offerings.

The longer oil stays low, the greater the urgency to cut costs, reduce capex and optimize returns. This supports cost deflation, which is sharp and acts as a tailwind to getting leaner – so profitability is set to improve. Hence, the setting remains tough, but measures are having even more impact. We also expect some support from an oil price recovery in the second half of 2016 thanks to a better balance between solid demand and ample supply.

However, we think investing in the sector already gives ample exposure to this rebound potential. **Hence, we do not recommend adding a lot of company-specific or commodity risk within the sector, and prefer more defensive stocks.**

Integrated companies not only have strong (albeit deteriorating) finances, they also have more leeway to lower costs further. They have already shown they can tackle the cost and investment challenge, and they also pay attractive dividends. **Only in a scenario of low oil prices beyond 2017 do we see a risk of dividend cuts** for our Most Preferred companies Galp, Royal Dutch Shell and Total. OMV is less attractively valued and Least Preferred.

Energy services are on the receiving end of cost and investment cuts, unless they have some protection under long-term contracts or from pricing power. We select Transocean as Least Preferred.

In exploration and production, the pool of European companies with sufficiently robust balance sheets and attractive acreage is fairly limited. We think Tullow offers a compelling risk-return opportunity, even if more aggressive than other Most Preferreds.

I have covered stocks since 1998 across various sectors, regions and company sizes in Zurich, London and Singapore. The energy sector has been my focus since 2006. I studied economics and business administration in Switzerland and the Netherlands and I am a Certified European Financial Analyst (CEFA).

Rudolf Leemann, analyst

Most Preferred		Least Preferred	
Galp Energia	EUR	OMV	EUR
Royal Dutch Shell	GBP	Transocean Ltd.	USD
TOTAL	EUR		
Tullow Oil	GBP		

Source: UBS

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For further reading:
- US energy Equity Preferences List, continually updated.
- Investment theme "US energy stocks: time to refuel" (latest RbA one-pager published on 22 February 2016).
- Energy commodities: Don't count on OPEC yet, published on 19 February 2016.

European
Financials

Preference
Overweight

Strategy
The significant setback in Eurozone banks is overdone, in our view, reflected in valuations which are close to distressed levels. We believe that the risk of additional, dilutive capital raisings is limited. The main risk is that the sector is a value trap, where attractive valuations lack a trigger for an imminent rerating amid pressure on interest margins because of negative interest rates and a flat yield curve, as well as lackluster loan growth.

I lead our banking industry analysis. Previously, I was a fund manager at a leading Italian investment fund. I am a chartered public accountant and have a degree in economics from Bocconi University in Milan.

Fabio Trussardi, analyst

Banks

Our positioning within the European sector
We have a positive stance on the Eurozone banks as we see fundamentals improving and compelling valuations. These have suffered very high volatility in recent weeks, as several concerns affected their performance: commodity exposure, fears about Italian banks' non-performing loans, the impact of the flattening yield curve, risks of capital increases, and possible losses caused by spread widening.

Most Preferred		Least Preferred	
Barclays	GBP	Credit Agricole	EUR
BBVA	EUR	Handelsbanken	SEK
DnB ASA	NOK	Natixis	EUR
Erste Bank	EUR	Nordea	SEK
Intesa SanPaolo	EUR	Standard Chartered	GBP
Societe Generale	EUR		
UniCredit	EUR		

Source: UBS

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While some market concerns are legitimate, we think that banks' current share prices imply large capital increases across all major banks, which is not our base case. The majority of banks already have higher capital ratios than they are meant to achieve by 2019.

The Eurozone banking sector is trading at a price-to-book value of 0.6x, which in our view already discounts most of the concerns listed. Such valuations hark back to the period 2008–2012, when banks' capital positions were weaker and economic prospects worse. Today banks meet current regulatory capital requirements or new requirements are manageable, non-performing loans have peaked, dividends are being distributed and the economy is not in recession.

The last quarterly reporting season confirmed that capital positions are improving. Early signs of loan growth are materializing and should turn into a tailwind for the sector, becoming a key driver in helping to offset the pressure from the current low interest rate environment.

The emerging pressure on the lending spread, deriving from a protracted period of very low interest rates, and possible disappointment on credit growth, **could prevent banks from matching earning expectations**. **However we argue that such a scenario is already priced into current valuations, with the price-to-tangible book value ratio well below 1x.** Further economic recovery should help improve asset quality, supporting earnings.

We will continue monitoring the situation, and may review our theme if muted credit growth and continued lending margin deterioration have a serious negative impact on bank profitability. Unexpected capital increases could also trigger a review of our sector stance.

For further reading:
- Eurozone banks: Some concerns legitimate but already discounted, published 10 February 2016.
- Eurozone banks: Trends & expectations. Attractiveness in a global context, published on 5 January 2016.

Back to Contents page

European

Financials

Insurance

Our positioning within the European sector
With the introduction of new solvency rules in Europe, we expect an uptick in M&A activity and higher returns of capital to shareholders. This, along with low valuation multiples and attractive dividend yields, should support performance. Our general preference is for well-capitalized insurers.

With around 15 years of experience covering the insurance sector at various global brokerage houses and banks in London and Zurich, I rejoined UBS in 2014 and am responsible for the global insurance and luxury industries. I graduated from the London School of Economics with a degree in Philosophy and Economics and am a CFA charterholder.

Michael Klien, CFA, analyst

The **European insurance sector** has underperformed the overall market year-to-date, reflecting worries about a slowdown in China impacting the global economy, widening credit spreads with potential defaults from the energy and materials sectors, and likely peak earnings. Within the sector, **property & casualty** and **reinsurers** have performed relatively well, confirming their perceived defensive character, while **life insurers** have fared worst.

With **the introduction of new solvency** rules in Europe and the presentation of preliminary solvency ratios by individual insurers, the sector's **comfortable capital situation seems underpinned**. This in turn bodes well for more aggressive capital management, either in the form of M&A or higher dividends and buybacks. **M&A** was already increasingly evident in 2015, in particular at Lloyd's of London. We expect this to continue.

The low interest rate environment remains a **key challenge** for the sector, **in particular for life insurers**. A rise in rates should be broadly positive for the sector, but especially for life companies. Nevertheless, other sectors are likely to benefit more from a hike in interest rates. Intense **price competition** has continued for reinsurers, but results are likely to remain strong, as companies are benefitting from a relatively light year for natural catastrophes for 2015 and continued releases of reserves.

At individual **stock level**, there is a wide divergence of risk/return profiles. Our **preference** is for well-capitalized insurers with limited dependence on market returns for earnings generation, as well as companies undergoing major restructuring and turnarounds. Additionally, we prefer high dividend yields and strong growth in capital return. The sector's high dividend yield should underpin near-term performance.

Most Preferred		Least Preferred	
Allianz	EUR	Hannover Re	EUR
Baloise-Holding	CHF	SCOR SE	EUR
Prudential	GBP	UnipolSai	EUR
Talanx	EUR		
Zurich Insurance Group	CHF		

Source: UBS

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For further reading:
- Investing in Insurance: Dividend and solvency in focus, published on 7 April 2015.

Back to Contents page

European Healthcare

Preference

Overweight

Strategy
Companies offer good returns on capital, strong balance sheets, and generally stable earnings growth. We see little chance of a meaningful change in US drug price regulations, but the rhetoric may continue ahead of the US presidential election. This may weigh on sector multiples, but the sector's valuation compares favorably to other defensive sectors, such as telecoms and consumer staples.

Our positioning within the European sector
Healthcare companies typically offer consistent earnings growth, high returns on capital and growing dividends. Pharma constitutes the core of our sector recommendations: we prefer companies where pipeline and sales execution risks are positively biased. We also favor selected medtech companies.

I have covered the healthcare sector for over 10 years. Before joining UBS in 2015, I worked as a sell-side analyst and specialist salesperson covering the pharma, biotech and medtech sectors. I graduated with a Master's degree from the University of Nottingham and am a CFA charterholder.
Lachlan Towart, analyst

Most Preferred		Least Preferred	
AstraZeneca	GBP	Bayer	EUR
Essilor International	EUR	William Demant	DKK
Roche	CHF		
Sanofi	EUR		
Shire Pharmaceuticals	GBP		
Sonova	CHF		

Source: UBS

As our selections may change over time, please always consult the underlying Equity Preference List (EPL) for our up-to-date equity preferences. The respective EPL (which also lists the analyst(s) responsible for the selections and the thematic benchmark) can be found on the UBS CIO portal that can be accessed via the e-banking platform or via Quotes.

After five years of outperformance driven by improving fundamentals, the situation is now more finely balanced for the European healthcare sector. Despite a disappointing Q415 reporting season, the sector's earnings outlook for 2016 remains better than the broader market. However, there are several macro and newsflow headwinds that complicate the picture. Valuations are now back below historical averages and the sector's superior earnings visibility, strong cash generation, and growing dividends continue to appeal.

A major near-term focus for investors in the sector is the impact of the US presidential election in November, although historically performance has varied in election years. The debate over drug pricing in the US continues, with both leading Democratic candidates proposing measures to reduce drug price inflation. We believe these measures are unlikely to pass in the foreseeable future, but expect the ongoing media scrutiny of the industry to result in some self-policing of price rises. Equally, we view the outright repeal of the Affordable Care Act ("Obamacare") as unlikely, even though it is still opposed by Republicans.

Historically, the healthcare sector's performance has been negatively correlated with bond yields. Despite modestly tightening financing conditions, gearing is generally low and we expect M&A to continue in the sector.

Other drivers of sector performance will include several bellwether drug launches and clinical trial readouts; solid results will be needed to maintain sector sentiment. We expect the impact of FX on the sector to weaken compared to 2015.

For further reading:
- Zika virus: More headlines than investment implications, published on 17 February 2016.
- Investing in healthcare: Pricing rhetoric caps near-term multiples, published on 2 October 2015.

European
Industrials

Preference

Neutral

Strategy
The environment remains challenging for companies exposed to emerging markets and commodity-related sectors, but quite a bit of bad news is priced in, while positive base effects should kick in from H2 2016. Valuations are not particularly attractive, but the sector's P/E premium to the wider market is line with its historical average.

Our positioning within the European sector
Sector fundamentals have not changed at all over the last few weeks; both commodity-linked capital expenditure and Chinese demand remain weak for industrial equipment. Despite this muted outlook, we see good value in several stocks that suffered disproportionally in the recent sell-off.

After graduating in economics, I started my career as an analyst for renewable energy stocks (solar, wind and biofuels). In early 2009, I joined UBS and have covered industrials and renewables since. I am a CFA charterholder.

Alexander Stiehler, CFA, analyst

In a weak market, European industrials have outperformed the broader market year-to-date. It is important to note, though, that absolute performance has been very weak.

In the fourth quarter earnings season, investor positioning and intra-sector rotation were the dominant themes. Investors sold quality names and added exposure to early cycle companies to benefit from the European recovery and, potentially, the end of destocking in North America. In January, early data points indicated stabilization in the US. From the industrials perspective, we expect the end of destocking in the first half of 2016. This generates easy year-over-year comparisons in the second half of 2016, creating potential for positive surprises later in the year. Weak data points from China are no longer impacting the sector, as the industrial recession has been well known since the second half of 2015.

A clear risk for the sector is the performance of the euro against other currencies, in particular the dollar. In our view, the currency is increasingly a headwind. The market has not yet reflected this properly in share prices, as companies that suffer from a weaker dollar have not underperformed so far. We expect the theme to become more topical by the second quarter earnings season at the latest.

After the sharp correction we would recommend investments that are heavily oversold and now very attractive from a valuation perspective. In particular we like Andritz and Zumtobel, both very attractively valued. We rank Schindler and Kone as Least Preferred; both stocks are relatively expensive and ongoing pricing pressure and tough competition in China make us cautious.

Most Preferred		Least Preferred	
Airbus Group NV	EUR	Adecco	CHF
Andritz	EUR	Cobham	GBP
Assa Abloy	SEK	Kone	EUR
Deutsche Lufthansa AG	EUR	Schindler	CHF
Forbo	CHF	Smiths Group	GBP
Georg Fischer	CHF	Sulzer	CHF
Hexagon	SEK		
Koninklijke Philips N.V	EUR		
National Express	GBP		
Rieter	CHF		
Safran SA	EUR		
ZUMTOBEL AG	EUR		

Source: UBS

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Information Technology

Preference
Overweight

Strategy
The sector looks attractive because of secular growth drivers and above-average cash flow generation. Valuations are attractive, in our view, reflected in a below-average premium rating.

Our positioning within the global sector
We continue to recommend diversified investment across companies with structural and cyclical growth opportunities. The structural opportunities come from leaders in fast-growing industries like the internet or the cloud, while the cyclical upside is driven by companies with exposure to a macro recovery or restructuring opportunities.

I began my career as an IT sector analyst in early 2006, and expanded coverage to include the Taiwan market and other thematic ideas. I am a CFA and a CAIA charterholder, and studied commerce at university.

Sundeep Gantori, CFA, analyst

With a mixed earnings season globally, tech stocks have come under pressure year-to-date, raising the question of whether the sector's multi-year outperformance will come to an end. While we see some growth risks we believe the sector's current par valuation, compared to a historical 10–15% premium, is attractive, especially when coupled with rising cash distribution in 2016. Despite a **slowdown in 2016, at 6–8% earnings growth the sector is still outpacing the broader market**. Hence we maintain our positive view on the technology sector.

That being said, we recommend investors **diversify across "old" and "new" technology** groups when investing in the sector. "Old tech" refers to legacy IT companies, largely in the hardware and semiconductor industries. These have been reporting low single-digit revenue growth but trade at attractive valuations and enjoy solid balance sheets. "New tech" refers to companies in emerging industries, mostly software and internet companies. These have been reporting solid double-digit growth but generally trade at expensive valuations. Thanks to its solid growth, "new tech" has been a key driver of the overall tech sector's performance over the past few years. Recently growth cracks have started to appear for some of them, resulting in a shift in sentiment away from "new tech" towards "old tech". While such shifts are common every year, with an overall weak macro outlook in 2016 investors need to diversify their portfolios.

Within "new tech" we still like companies with **resilient earnings in the cloud and internet industries** where valuations are attractive in a historical context. In the "old tech" group we recommend companies that can surprise on **cash distribution or offer potential turnaround opportunities**.

Most Preferred		Least Preferred	
Accenture PLC-CL A	USD	Asustek Computer Inc.*	TWD
Adobe Systems Inc.	USD	Hon Hai Precision*	TWD
Alibaba	USD	Infosys Ltd*	INR
Apple Inc.	USD	International Business Machines Corp.	USD
ASML	EUR	Temenos	CHF
Cognizant Technology	USD		
Facebook	USD		
Intel Corp.	USD		
Paypal	USD		
Qualcomm Inc.	USD		
Tencent Holdings	HKD		

*Potential trading restrictions
Source: UBS

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For further reading:
- Longer Term Investments: Digital Data, published on 3 February 2016.

Back to Contents page

European Materials

Preference

Underweight

Strategy

Several commodity plays continue to suffer from oversupply amid weak demand in emerging markets. Companies are focusing on cost-cutting and reduced capex in order to improve free cash flow generation. Valuations have come down further following the recent market sell-off, but are not yet attractive enough, in our view.

Our positioning within the European sector

As commodity prices remain volatile, defensive consumer chemicals and industrial gas companies remain our preference, given the innovative products, earnings resilience and strong balance sheets in that sector. We remain cautious on metals and mining as sector fundamentals continue to weaken.

I have a PhD from the University of Geneva and have covered the chemicals sector since 2002, along with various other sectors including materials. Prior to joining UBS, I worked as a financial analyst and portfolio manager for Swiss private banking and global asset management firms in Geneva and Zurich.

Ju Lee, analyst

Most Preferred		Least Preferred	
CRH	GBP	Air Liquide	EUR
Givaudan	CHF		
LafargeHolcim	CHF		
Linde	EUR		
Symrise	EUR		

Source: UBS

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The 2016 growth outlook remains cautious as companies do not see strong rebound potential. Commodity prices have limited room to re-rate in a low growth environment and fundamentals continue to worsen for European metals & mining companies.

We continue to like **innovative and niche market** players such as **Givaudan and Symrise**, that offer mid-single digit top line growth and mid- teens free cash flow-to-sales. Companies with a **strong regional footprint** and pricing power such as CRH are among our favorites. In a low-growth environment, materials companies are likely to search for value-enhancing deals. This explains the recent acquisition of Airgas by Air Liquide and the Cytec acquisition by Solvay, both at high multiples.

In metals & mining, **headwinds like the US Fed rate hike, lower demand from China and oversupply** continue to persist. Supply cuts by large producers and improving global construction activity could be positive for the sub-sector. However, indicators are still weak for now and commodity prices remain volatile. **Pre-emptive action is being taken** by Anglo American, Glencore and Rio Tinto to protect their credit ratings. **We remain cautious as new equity issues** cannot be ruled out in the short term, which would be earnings dilutive.

In terms of valuation, the European materials sector has substantially underperformed during these past few months. **The sector now trades in line with MSCI EMU**. We believe the downside risk looks limited given favorable seasonality and a gradual oil price recovery in sight, while earnings revision are possible. Selectivity will be key while growth and visibility both remain low.

Back to Contents page

Real Estate

Preference

—

Strategy
Global listed real estate is mildly cheap compared to its own history, expensive compared to equities, and fairly valued compared to the direct market. We see a risk of derating against equities should the correlation with high-yield credit spreads remain high. Market fundamentals remain robust but show clear signs of being at peak levels, while divergences are increasing rapidly. Supply remains limited but is set to increase and could encounter softening demand.

Our positioning within the global sector
We favor Continental Europe, the UK and the US based on relatively robust fundamentals; we also like Japanese developers and REITs for the ongoing favorable monetary environment. We least prefer Hong Kong and Singapore developers and REITs due to weakening fundamentals and elevated interest rate volatility.

I studied economics at the University of St. Gallen, and have covered global real estate markets since 2009. Before joining UBS, I worked as a portfolio manager with an independent asset manager and as a sector analyst at another global bank.

Thomas Veraguth, analyst

Capitalization rates for physical real estate in prime locations have compressed to levels last seen in 2007 or below, suggesting that the market recovery is very far advanced. Initial prime property yields are currently low, which is why listed companies seldom acquire new properties and are prioritizing redevelopments or internal growth through more active portfolio management. We expect new supply to only gradually increase this year and into 2017, which will **become an increasing drag on values and rental incomes**. Global leasing volumes appear healthy but divergences between markets are growing and we believe global value and rental growth have already peaked. The current real estate up-cycle that began 2009 may extend towards 2017 at best.

Debt markets show good but decreasing liquidity, which is less supportive for refinancing. Risk spreads are on the rise. The **cycle is maturing faster than expected,** with growing divergences between markets. Implied yields remain very low. Companies are increasingly being challenged to strengthen balance sheet quality.

Listed real estate had a poor start to the year but showed its defensive attributes by slightly outperforming equities. The universe is trading well below its peak of March 2015 and the last September trough. As **real estate stocks are expensive compared to equities** they are at risk of derating more due to widening high-yield credit spreads. These remain slightly supportive in the US and Europe but not in Asia. Dividend payments should sustain a yield over 4%, which is attractive.

Most Preferred		Least Preferred	
ADO Properties	EUR	Agile Property Holdings	HKD
Allreal	CHF	Evergrande Real Estate Group	HKD
alstria office REIT	EUR	Gecina	EUR
American Tower Corporation	USD	GPT Group	AUD
British Land	GBP	Intershop Holding AG	CHF
Capital & Counties Properties	GBP	Macerich REIT	USD
General Growth Properties	USD	Shaftesbury	GBP
Global Logistic Properties	SGD	UEM Sunrise	MYR
Great Portland Estates	GBP		
Hammerson	GBP		
Icade	EUR		
Indiabulls Housing Finance*	INR		
Mitsui Fudosan	JPY		
Orix JReit	JPY		
ProLogis	USD		
Swiss Prime Site	CHF		
Unibail-Rodamco	EUR		

*Potential trading restrictions
Source: UBS

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European
Telecoms

Preference

Neutral

Strategy
The sector has shown more earnings downgrades than upgrades over the last month, but earnings momentum has been resilient in relative terms. There are indications of a more stable pricing environment, while in mobile there are tentative signs that certain operators are managing to monetize some of the ongoing strong data usage growth. However, valuations are still not particularly attractive. A large part of the benefits of sector consolidation and rationalization is priced in, in our view.

Our positioning within the European sector
Given the growth potential in mobile data usage, we like companies that have either high exposure to this area or whose market structure allows for decent visibility of data growth being monetized. Companies operating in a benign regulatory and/or competitive environment also appeal to us.

A common feature in the reporting season so far has been that companies have typically guided for higher capex than the market expected. We continue to hold the view that network and capacity expansion remains a key upside risk to capex. **Higher investments** in the business makes sense from a strategic point of view but have **led to some very meaningful cuts to cash flow forecasts and resets of dividends**. Unsurprisingly, these have been met with sharply negative reactions and also call the relative attractiveness of the dividend yield of the telecom sector into question. Another factor to consider is that the **sector is carrying more financial leverage** (net debt/EBITDA 16E is 2.3x for telecom vs. 1.3x for the wider market). While in itself not an issue, pressure on cash flows is not helpful in an environment where credit markets are struggling, as is evident in the performance of Telecom Italia this year.

Revenue trends on the mobile and fixed line side are **broadly improving and cost cutting is helping profitability** but we can't fail to notice that trends across Europe are not uniform. We therefore continue to favor markets that offer decent visibility on improving sales trends. In the meantime, consolidation between fixed and mobile players rolls on. These combinations are due to the synergies for the parties involved, but the implications for the sector are limited. As the sector trades on 18x 12-month forward P/E and a premium of 30% to the market (10-year average –1%), **valuation remains a concern** to us. Nevertheless, earnings **forecasts are likely to be more resilient** relative to the wider market, which speaks in favor of the sector.

I began working in equity research covering telecoms in the mid-90s and joined UBS in 2001. My sector responsibilities evolved over time: besides the European telecom sector, I also follow the media sector. I graduated from the University of Aachen and am a Certified European Financial Analyst (CEFA) charterholder.
Marcus Baeumer, analyst

Most Preferred		Least Preferred	
Iliad	EUR	Elisa Corporation	EUR
KPN Telecom	EUR	Orange	EUR
NOS	EUR	Proximus	EUR
TDC	DKK	Telecom Italia	EUR
Telefonica	EUR		
Telenor	NOK		
Vodafone Group	GBP		

Source: UBS

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For further reading:
- Investing in telecoms: Time to deliver, published on 12 January 2016.

European
Utilities

Preference
Underweight

Strategy
With a weak outlook for power demand and low power prices, the operating environment remains challenging. The sector no longer trades at a premium to the market following significant underperformance in 2015, and offers no meaningful EPS growth in 2016. An upturn in commodity prices would provide support, but we would prefer energy in such a scenario, where there is less political uncertainty.

Our positioning within the European sector
While fundamentals for utilities are likely to remain challenging, we believe the sector offers selected attractive opportunities. We like 1) integrated utilities in benign power markets, 2) Eurozone companies with a strong international footprint, and 3) companies with a regulated focus.

I began working as an equity analyst in the late-90s and have covered several sectors. In 2005 I joined UBS, where I'm currently responsible for the utility sector and the equity sector strategy. I studied business administration at universities in Germany and the US, and am a Certified European Financial Analyst charterholder.
Carsten Schlufter, analyst

Most Preferred		Least Preferred	
Enel	EUR	National Grid	GBP
Energias de Portugal	EUR	Verbund AG	EUR
Iberdrola	EUR		
Snam	EUR		
Suez Environnement	EUR		

Source: UBS

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Year-to-date, European utilities are down in absolute terms but have outperformed. This was helped by a shift towards non-cyclical sectors, which are seen as safe havens in times when uncertainty about future global economic and earnings growth is rising.

Fundamentals for European utilities have deteriorated further. Wholesale power prices, still one of the major earnings drivers for integrated companies and power producers, continue their multi-year downtrend. Driven by the price weakness in global commodities (oil, coal and gas), power prices are down between 10% in the Nordics and 25% in Germany since the start of 2016. Prices in other markets like Spain (–13%), Italy (–18%), and France (–23%) have also declined heavily, while the UK was down only slightly (–4%). As a consequence, we think earnings risk is skewed to the downside, as companies tend to sell a large part of their power production on forward contracts. **We expect earnings growth for European utilities to be negative in 2016 and 2017**.

Political risks in most European countries are growing again. The outcome of last year's elections in Spain and Portugal and potential new energy policies could bring additional risks to earnings. In the UK, the CMA investigation into energy supply could result in lower tariffs and/or higher churn. Moreover, in Germany, the outcome of the German constitutional court ruling on the nuclear fuel tax and a government decision on a potential transfer of current nuclear provisions to an external fund are still unclear. Positive surprises appear possible for the latter, as expectations are very low.

Regionally, **we continue to prefer Italy,** where the regulatory environment is stable and fundamentals are better. Commodity-exposed companies still have greater risks.

Back to Contents page

Sustainable investing

In our Sustainability section, we present thematic ideas that address a range of environmental, social and governance (ESG) concerns. We also provide our Sustainable Investing (SI) single stock list, which takes into account ESG aspects. All investment themes and SI stock selections are researched on a risk/return basis that aims to achieve outperformance relative to global equity markets.

By directing assets to identifiable themes, investors can pursue return opportunities and express their values in their portfolio.

Currently, we recommend companies with exposure to water infrastructure.

On 15 February, we closed our "Oncology" theme, which we opened in August 2015 and promoted since then in this section. Given the recent underperformance of listed biotechnology stocks, we have reviewed the outlook for this portion of the oncology theme. As we had previously noted, performance of biotech stocks is highly sensitive to risk appetite in the capital markets, even though clinical data, and companies' financial performance, are not.

In the current market, we feel that selectivity is important. We believe volatility will remain high, in particular among smaller stocks and those with no earnings history, as investors move to assets perceived as safer. While this can create opportunities for longer-term investors, over our six-month tactical horizon we judge the risk-reward ratio of a mixed portfolio of listed pharma and biotech equities to be less attractive.

We are therefore closing the "Oncology" theme, although our confidence in the longer-term outlook for companies developing cancer drugs remains solid. Investors wishing to retain tactical listed exposure to the theme can obtain this via lower-beta, more diversified large-cap pharma stocks. For investors interested in sustainable investing, we recommend our "Water: Thirst for Investments" theme.

Cancer remains a leading cause of death worldwide and ranks among the highest costs to healthcare systems. Improvements in the understanding of cancer cell biology and the immune system have led to new treatments emerging over the past few years, a trend we expect to continue. We recommend investing in our longer term investment theme on the topic.

Alexander Stiehler, CFA, analyst
Lachlan Towart, analyst

Source: getty images

Sustainable investing EPL

Most Preferred	
Accenture PLC-CL A	USD
Allianz	EUR
American Tower Corporation	USD
AmerisourceBergen Corp.	USD
ASML	EUR
Colgate-Palmolive	USD
DnB ASA	NOK
Estée Lauder	USD
Galp Energia	EUR
Georg Fischer	CHF
Gilead Sciences	USD
Givaudan	CHF
Global Logistic Properties	SGD
Huaneng Renewables	HKD
Kering	EUR
Minor International	THB
Next	GBP
ProLogis	USD
Prudential	GBP
Roper Technologies Inc.	USD
Sonova	CHF
Taiwan Semiconductor Manufacturing*	TWD
Toray	JPY

Rudolf Leemann, analyst
*Potential trading restrictions
Source: UBS

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For further reading:
- Longer-Term Investments: Oncology, published 20 November 2015.

Investment themes

Eurozone bank recovery – shifting gear

- Several concerns have affected banks' share prices: commodity exposure, fears about non-performing loans, impact from low rates, risks of capital increases and possible losses caused by spread widening.
- While some concerns are legitimate, like the lack of earning momentum, current share prices imply large capital raises across the sector, which is not our base case.
- Using the current and mid-cycle achievable profitability as inputs for fair valuation, we see considerable room for upside.

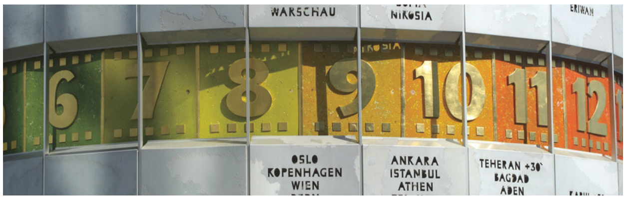
Read more*

Eurozone value: Investing in style

- Historically, value outperforms during periods of economic expansion and rising bond yields.
- Value stocks are less sensitive to rising bond yields than growth stocks because they are trading at lower earnings multiples.
- After significant underperformance over the past eight years, we expect the MSCI EMU Value index to outperform in the coming months.

Read more*

Eurozone dividend growth



- The dividend season is approaching, the interest rate environment is supportive, and we expect all-time high Eurozone dividend cash flows. In this environment, we advocate investing in a dividend style.
- We like stocks of companies that are attractively valued, that have attractive and good quality dividends, and where dividends are expected to grow.
- On average, MSCI EMU companies carry a very attractive expected dividend yield of 4.0%. Our selected stocks carry even higher yields.

Read more*

High quality dividend yielders in EM

- Although the Federal Reserve raised interest rates in December, global rates are likely to remain low.
- In the current environment with lackluster earnings growth and no major catalysts for a re-rating of emerging market equities, a basket of defensive stocks with high dividend yields, earnings growth, and superior ROE should outperform MSCI EM.

Read more*

***Document links are UBS-internal only. The equity investment themes presented in this publication are only a selection of the themes we offer.
For a complete overview and/or more information on the individual investment themes, please visit us via the e-banking platform, via quotes or by asking your client advisor.**

Italy – Value and recovery potential

- Italy should be a main beneficiary of the Eurozone recovery, given the market's domestic sector bias.
- Financials (42%), energy (16%) and utilities (17%) make up 75% of the Italian equity market.
- Following years of falling corporate earnings, we expect superior EPS growth, mainly driven by banks.

Read more*

Profit from US share buyback and dividends

- On average, S&P 500 companies returning cash to shareholders offer a total yield of 5–6% (when combining share buyback and dividend yields).
- Companies that return large amounts of cash to shareholders via dividends and/or share repurchases should offer outperformance over the long term.
- The strong balance sheets and reasonable free cash flows bode well for this trend to continue, making this theme attractive in the current environment, in our view.

Read more*

Japanese companies ready for share buybacks

- We believe Japan Inc. has reached a historical turning point in terms of corporate governance. The Japanese government, pension funds, banks, and institutional investors are acting to make corporate managers more accountable to shareholders and responsive to their concerns.
- We view the new Corporate Governance Code and Stewardship Code as game-changers in the way Japanese companies are run. Japanese companies are ready to buy back more shares, in our view.

Read more*

Restructuring to increase value

- We recommend companies in the Eurozone that are restructuring their businesses to increase in value.
- We define attractive restructuring companies as enterprises undertaking cost-cutting and/or disposing of underperforming units to improve their operating margin and trigger strong earnings.
- We believe our selection of restructuring stocks will outperform the broader Eurozone equity market, since above-average earnings growth remains a key focus for investors.

Read more*

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Swiss high quality dividends

- Swiss dividend-paying equities offer an attractive yield over the average yield in the Swiss-franc fixed-income market.
- This yield gap is particularly attractive if investors focus on companies with sustainable dividend levels.
- Companies that deliver sustainable and steadily growing dividends tend to outperform their peers over the long term. Thus, we suggest favoring companies with high-quality dividends over those that just have high dividend yields.

Read more*

UK equities: Value ahead of interest rate rises

- Value as a style of investing relates to focusing on companies that have an intrinsic value.
- Historically, Value tends to outperform in periods before interest rate rises. As the recovery broadens there is less of a need to pay up for Growth when you can also achieve this from Value stocks.
- Valuation is not currently prohibitive and there is increased scope for corporate actions in the Value space. We expect the MSCI UK Value index to outperform the MSCI UK index in the coming months.

Read more*

Swiss mid caps favored

- We favor Swiss mid caps, followed by large caps, over small caps.
- Swiss mid caps offer the best value for growth. While the growth gap was minimal from 2006 to 2012, it has been wide again since 2013. Meanwhile, the deserved valuation premium of mid caps versus the overall market is currently too low, despite a recovery in recent months.
- Swiss mid caps have the strongest balance sheets, sheltering them from capital cost increases and allowing timely investments.

Read more*

US energy stocks: Time to refuel

- The US energy sector's risk-reward appears attractive due to low valuations, aggressive cost management, strong large-cap balance sheets, and an appealing dividend yield.
- While the oil markets remain oversupplied, we believe there is some light at the end of the tunnel. Production is falling in the US and OPEC has limited scope to further increase output. Meanwhile, demand remains resilient. Oil markets should be in better balance by the end of the year, driving oil prices higher.

Read more*

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US equities: Pockets of vulnerability

- Recent strong outperformance by defensive sectors looks unsustainable in our base case whereby the US expansion remains intact.
- Higher yielding defensives look particularly unappealing if the Fed continues with its rate hiking program, as we expect, and interest rates rise.
- Within defensives, we believe utilities as well as food and staples retailing look most vulnerable due to higher-than-average valuations and fundamental headwinds.

Read more*

Water: Thirst for investments

- The supply of clean water is constrained by insufficient infrastructure in emerging markets and aging infrastructure in developed markets. Climate change, urbanization, and the emerging markets' stronger focus on the industrial sector are also having a negative impact on water supply.
- Companies exposed to these trends are an ideal way to benefit from this development, in our view.
- We advise investing in a well-diversified vehicle that gives global exposure to the entire value chain.

Read more*

US technology: Secular growth, on sale

- The US tech sector's P/E is the same as the overall US market a low valuation relative to the sector's 22% average P/E premium over the last 25 years.
- We believe this lower-than-normal valuation is unjustified given strong product cycles and continued growth in enterprise tech demand.
- Below-average aggregate sector earnings volatility, strong balance sheets and a focus on increasing dividends and share repurchases are all attributes that should propel sector valuations higher.

Read more*

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Investing in Switzerland is a cross-asset investment guide for those interested to invest in the Swiss financial markets, covering equities, bonds, real estate, currency and more.
Available in: English, German, French, Italian

UBS House View Investor's Guide

The CIO flagship report, it includes the full *CIO Monthly Letter*, an economic outlook, a complete asset-class overview and investment ideas extracted from the CIO Monthly Extended. It is regionalized and available in print.
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Appendix

Rating history changes (past 12 months)

Company	Release date	Current selection
Adecco	24/08/15	Least Preferred
Adecco	05/03/15	Not Listed
Alpiq Holding	02/02/16	Least Preferred
Alpiq Holding	03/09/15	Not Listed
Alpiq Holding	18/03/15	Least Preferred
Aryzta AG	06/08/15	Most Preferred
Aryzta AG	03/06/15	Not Listed
Ascom	13/05/15	Not Listed
Baloise-Holding	16/07/15	Most Preferred
Banque Cantonale Vaudoise	08/01/16	Not Listed
Barry Callebaut	05/11/15	Not Listed
Barry Callebaut	25/03/15	Most Preferred
Belimo	16/10/15	Most Preferred
Belimo	10/08/15	Not Listed
Belimo	29/06/15	Least Preferred
Bucher Industries AG	15/10/15	Least Preferred
Burckhardt Compression	10/11/15	Least Preferred
Clariant	30/03/15	Not Listed
Dorma+Kaba	16/10/15	Least Preferred
Dorma+Kaba	01/05/15	Not Listed
Dufry	11/03/15	Not Listed
EFG International	16/10/15	Not Listed
Emmi AG	07/10/15	Not Listed
Ems-Chemie	06/08/15	Least Preferred
Forbo	11/12/15	Most Preferred
GAM Holding Ltd	29/04/15	Not Listed
Galenica	06/07/15	Not Listed
Geberit	16/10/15	Not Listed
Geberit	17/06/15	Least Preferred
Georg Fischer	21/10/15	Not Listed
Gurit	17/06/15	Not Listed
Kudelski	06/08/15	Not Listed
LafargeHolcim	24/09/15	Not Listed
LafargeHolcim	13/05/15	Most Preferred
LafargeHolcim	18/03/15	Not Listed
Leonteq	02/02/16	Not Listed
Leonteq	10/08/15	Least Preferred
Lindt & Sprüngli	08/07/15	Most Preferred
Logitech	15/02/16	Most Preferred
Lonza Group AG	10/08/15	Not Listed
Nestle	12/02/16	Not Listed
Novartis	12/02/16	Most Preferred
OERLIKON	21/08/15	Not Listed
OERLIKON	04/06/15	Most Preferred
PSP Swiss Property	15/10/15	Not Listed
PSP Swiss Property	05/03/15	Least Preferred
Panalpina World Transport	07/10/15	Least Preferred
Pargesa Holding	01/05/15	Most Preferred
Phoenix Mecano	04/12/15	Not Listed
Phoenix Mecano	05/03/15	Most Preferred
Rieter	26/01/16	Most Preferred
SGS	30/04/15	Most Preferred
Schindler	20/04/15	Least Preferred
St Galler Kantonalbank	25/09/15	Not Listed

Company	Release date	Current selection
Sulzer	29/09/15	Least Preferred
Sulzer	05/08/15	Not Listed
Sulzer	18/03/15	Least Preferred
Swiss Life	27/01/16	Not Listed
Temenos	08/01/16	Least Preferred
Valora	04/12/15	Most Preferred
Vontobel	12/02/16	Not Listed
Vontobel	25/09/15	Least Preferred
Vontobel	16/07/15	Not Listed
Zurich Insurance Group	07/09/15	Most Preferred
Zurich Insurance Group	04/06/15	Not Listed
gategroup Holding AG	10/11/15	Most Preferred
ASML	17/03/15	Most Preferred
Adidas AG	02/07/15	Not Listed
Adidas AG	19/03/15	Least Preferred
Air Liquide	20/11/15	Least Preferred
Akzo Nobel	16/02/16	Not Listed
Akzo Nobel	20/05/15	Least Preferred
Akzo Nobel	16/03/15	Not Listed
Alcatel-Lucent	17/03/15	Not Listed
Anheuser-Busch InBev	30/11/15	Most Preferred
Anheuser-Busch InBev	10/03/15	Not Listed
BMW	22/10/15	Most Preferred
Banco Popular Espanol	25/02/16	Not Listed
Banco Popular Espanol	23/03/15	Most Preferred
Carrefour	10/03/15	Most Preferred
Daimler AG	17/03/15	Not Listed
Deutsche Lufthansa AG	06/01/16	Most Preferred
Deutsche Wohnen	09/07/15	Not Listed
EUTELSAT Communications	21/05/15	Most Preferred
Essilor International	21/12/15	Most Preferred
Fiat Chrysler	26/02/16	Most Preferred
FinecoBank Spa	24/03/15	Not Listed
Hannover Re	30/07/15	Not Listed
Hannover Re	24/06/15	Least Preferred
ING Bank	24/03/15	Not Listed
Kering	19/05/15	Not Listed
Legrand	08/06/15	Not Listed
Metso	17/07/15	Not Listed
Michelin	16/09/15	Not Listed
Natixis	13/04/15	Not Listed
Nokia	02/02/16	Not Listed
Nokia	02/12/15	Most Preferred
Nokian Tyres	08/01/16	Least Preferred
Outotec	30/07/15	Not Listed
Peugeot SA	01/10/15	Not Listed
Peugeot SA	31/07/15	Least Preferred
Peugeot SA	17/03/15	Not Listed
Puma	14/12/15	Not Listed
Puma	07/08/15	Least Preferred
RELX NV	12/06/15	Not Listed
RWE	18/09/15	Not Listed
RWE	24/04/15	Least Preferred
Randstad Holding	06/08/15	Not Listed

Appendix

Rating history changes (past 12 months)

Company	Release date	Current selection
Safran SA	08/05/15	Most Preferred
Saipem	29/04/15	Not Listed
Sampo	15/04/15	Not Listed
Siemens	08/05/15	Not Listed
Societe Generale	10/12/15	Most Preferred
Societe Generale	20/10/15	Not Listed
Verbund AG	28/09/15	Least Preferred
Zodiac Aerospace	26/02/16	Not Listed
Zodiac Aerospace	15/10/15	Most Preferred
alstria office REIT	18/12/15	Not Listed
alstria office REIT	05/10/15	Most Preferred
Adidas AG	02/07/15	Not Listed
Adidas AG	18/03/15	Least Preferred
BMW	26/01/16	Most Preferred
Brenntag	14/05/15	Not Listed
Daimler AG	17/12/15	Most Preferred
Daimler AG	17/03/15	Not Listed
Deutsche Lufthansa AG	06/01/16	Most Preferred
Deutsche Wohnen	22/09/15	Not Listed
Evonik	14/05/15	Most Preferred
Evonik	10/03/15	Not Listed
Fraport AG	12/10/15	Most Preferred
Fresenius SE & Co KGaA	11/02/16	Most Preferred
Fresenius SE & Co KGaA	02/06/15	Not Listed
Hannover Re	23/10/15	Least Preferred
Hannover Re	30/07/15	Not Listed
Hochtief	23/10/15	Not Listed
Hochtief	02/06/15	Least Preferred
Hugo Boss	23/12/15	Most Preferred
K+S	29/06/15	Not Listed
K+S	29/05/15	Most Preferred
Klöckner	12/02/16	Least Preferred
Klöckner	15/10/15	Not Listed
Klöckner	25/03/15	Most Preferred
Linde	07/05/15	Not Listed
Porsche Automobile Holding	02/03/15	Not Listed
Puma	07/08/15	Least Preferred
RWE	16/07/15	Least Preferred
Salzgitter AG	07/08/15	Most Preferred
Siemens	08/05/15	Not Listed
ThyssenKrupp	16/10/15	Not Listed
ThyssenKrupp	11/03/15	Least Preferred
Volkswagen Preference	30/07/15	Not Listed
Vonovia	15/10/15	Not Listed
Zalando	03/09/15	Most Preferred
alstria office REIT	05/10/15	Most Preferred
Anglo American	08/12/15	Not Listed
Anglo American	18/05/15	Least Preferred
Anglo American	27/04/15	Not Listed
Associated British Foods	17/08/15	Least Preferred
Aviva	31/03/15	Most Preferred
BAT UK	11/12/15	Most Preferred
BAT UK	30/10/15	Not Listed
BG Group	15/02/16	Not Listed
BG Group	17/08/15	Most Preferred
BG Group	09/04/15	Not Listed
BP	17/08/15	Not Listed
Burberry	22/01/16	Not Listed
Burberry	21/05/15	Least Preferred
Centrica	24/04/15	Not Listed
Coca-Cola Hellenic	10/08/15	Not Listed
Compass Group	29/02/16	Most Preferred
Diageo	09/06/15	Not Listed
Lloyds Banking Group	11/05/15	Most Preferred
Lloyds Banking Group	13/03/15	Not Listed
National Grid	21/05/15	Least Preferred
RSA Insurance Group	27/04/15	Not Listed
Rio Tinto Plc	21/12/15	Not Listed
Royal Dutch Shell	15/02/16	Most Preferred
Shire Pharmaceuticals	29/02/16	Most Preferred
Standard Chartered	29/02/16	Least Preferred
Aisin Seiki Co Ltd	06/11/15	Most Preferred
Alps Electric	29/02/16	Most Preferred
Dena	23/03/15	Not Listed
Dena	18/03/15	Most Preferred
Denso	06/11/15	Most Preferred
GLP REIT	25/03/15	Most Preferred
H.I.S.	09/10/15	Not Listed
H.I.S.	25/08/15	Most Preferred
Hitachi	19/01/16	Not Listed
Hitachi Chemical	28/01/16	Not Listed
Hitachi Chemical	06/11/15	Most Preferred
Honda Motor	15/10/15	Most Preferred
Honda Motor	24/03/15	Not Listed
Kintetsu Corporation	02/09/15	Least Preferred
MITSUI MINING	18/05/15	Not Listed
Mazda Motor	21/04/15	Not Listed
Mitsubishi Heavy Industries	12/02/16	Not Listed
Mitsubishi UFJ Financial	24/08/15	Most Preferred
Mizuho Financial Group	02/02/16	Not Listed
Mori Hills REIT	07/01/16	Not Listed
Mori Hills REIT	14/07/15	Most Preferred
Murata Manufacturing	29/01/16	Most Preferred
Murata Manufacturing	09/11/15	Not Listed
Murata Manufacturing	05/08/15	Most Preferred
NGK Spark Plug	11/02/16	Not Listed
NGK Spark Plug	06/11/15	Most Preferred
NH Foods	11/02/16	Most Preferred
NH Foods	07/08/15	Not Listed
NH Foods	30/06/15	Most Preferred
Nintendo	09/11/15	Not Listed
Nintendo	27/08/15	Least Preferred
Nippon Building Fund	09/10/15	Not Listed
Nippon Building Fund	14/07/15	Most Preferred
Nippon Steel&Sumitomo	25/08/15	Most Preferred
Nippon Yusen	14/04/15	Most Preferred
Nissan Motor	15/10/15	Most Preferred
ORIX	11/05/15	Not Listed

Appendix

Rating history changes (past 12 months)

Company	Release date	Current selection
Odakyu Electric Railway	03/09/15	Least Preferred
Okumura Corporation	23/10/15	Not Listed
Okumura Corporation	06/07/15	Most Preferred
Onward Holdings	30/06/15	Most Preferred
Oriental Land	18/02/16	Not Listed
Oriental Land	14/09/15	Most Preferred
Rohm	18/12/15	Not Listed
Rohm	06/11/15	Most Preferred
SUMCO	25/05/15	Not Listed
Shin-Etsu Chemical	24/07/15	Most Preferred
Softbank	18/02/16	Not Listed
Sony	18/01/16	Most Preferred
Sumitomo Metal Mining	16/02/16	Most Preferred
Tokyo Electron	28/10/15	Not Listed
Tokyo Electron	30/04/15	Most Preferred
Toray	06/11/15	Most Preferred
Toshiba	11/05/15	Not Listed
Toyota Motor	06/11/15	Most Preferred
Toyota Motor	12/05/15	Not Listed
Yahoo Japan	22/10/15	Most Preferred
ASE	03/08/15	Not Listed
ASE	24/04/15	Most Preferred
Alibaba	24/04/15	Most Preferred
Astro Malaysia Holdings	29/01/16	Most Preferred
Axiata	29/01/16	Not Listed
Axiata	22/01/16	Most Preferred
Catcher Technology	25/09/15	Not Listed
Catcher Technology	21/09/15	Most Preferred
Chicony Electronics	22/01/16	Not Listed
Chicony Electronics	03/08/15	Most Preferred
China Life Insurance	24/04/15	Not Listed
China Merchants Holdings	08/07/15	Not Listed
China Merchants Holdings	24/04/15	Most Preferred
China Mobile (HK) Ltd	24/04/15	Most Preferred
Cognizant Technology	11/11/15	Most Preferred
ComfortDelgro	22/05/15	Most Preferred
Dah Sing Banking	24/04/15	Most Preferred
Datang International Power	24/04/15	Not Listed
Dr. Reddy's Labs	11/11/15	Not Listed
Dr. Reddy's Labs	24/04/15	Most Preferred
Fosun International	11/12/15	Not Listed
Fosun International	20/11/15	Most Preferred
Gudang Garam	24/04/15	Most Preferred
ITC	22/05/15	Not Listed
ITC	24/04/15	Most Preferred
KEPCO	25/09/15	Most Preferred
L & T	20/11/15	Not Listed
Lenovo Group Ltd	08/07/15	Most Preferred
Lenovo Group Ltd	20/04/15	Not Listed
Nan Ya Plastics	24/08/15	Not Listed
Nan Ya Plastics	24/04/15	Most Preferred
Novatek Microelectronics	04/05/15	Not Listed
Ping An Insurance (Group)	24/04/15	Most Preferred
Power Assets	13/04/15	Not Listed

Company	Release date	Current selection
SK Telecom	26/06/15	Most Preferred
SM Prime Hldgs	24/04/15	Most Preferred
Siliconware	21/09/15	Not Listed
Siliconware	24/08/15	Most Preferred
Singapore Telecom	17/02/16	Most Preferred
TPK Holding	20/07/15	Not Listed
TPK Holding	04/05/15	Most Preferred
Tencent Holdings	11/12/15	Most Preferred
Uni-President Enterprises	20/07/15	Most Preferred
United Overseas Bank	17/02/16	Not Listed
United Overseas Bank	24/07/15	Most Preferred
Universal Robina	24/07/15	Not Listed
Universal Robina	24/04/15	Most Preferred
AmBev	07/01/16	Most Preferred
Capitec Bank Holdings	18/02/16	Least Preferred
China Merchants Holdings	16/10/15	Not Listed
China State Construction	07/01/16	Most Preferred
Coca Cola Icecek	22/04/15	Not Listed
Discovery	05/01/16	Most Preferred
Emaar Malls	27/08/15	Most Preferred
FIBRA UNO	20/01/16	Not Listed
FIBRA UNO	17/12/15	Most Preferred
First Gulf Bank	03/02/16	Not Listed
FirstRand Ltd	05/01/16	Not Listed
FirstRand Ltd	19/06/15	Most Preferred
Gamuda	21/10/15	Not Listed
HDFC Bank	09/03/15	Most Preferred
Huaneng Renewables	01/02/16	Most Preferred
Investec	27/08/15	Most Preferred
Keppel Corporation	03/09/15	Not Listed
Lenovo Group Ltd	07/01/16	Most Preferred
Lenovo Group Ltd	20/04/15	Not Listed
Naspers	01/09/15	Not Listed
Norilsk Nickel	02/06/15	Most Preferred
Old Mutual Plc	30/06/15	Most Preferred
PKO BP	10/11/15	Not Listed
PKO BP	19/10/15	Least Preferred
RMI Holdings	05/01/16	Most Preferred
Rosneft	11/02/16	Not Listed
Rosneft	10/09/15	Least Preferred
Sanlam Limited	15/12/15	Not Listed
Sanlam Limited	21/10/15	Least Preferred
Sberbank	20/11/15	Not Listed
Sberbank	12/10/15	Most Preferred
Singapore Telecom	03/09/15	Most Preferred
Taiwan Semiconductor	08/01/16	Most Preferred
Tencent Holdings	14/12/15	Most Preferred
Tupras Turkiye Petrol	14/12/15	Most Preferred
Uni-President Enterprises	08/01/16	Most Preferred
VAKIFBANK	05/11/15	Not Listed
VAKIFBANK	17/04/15	Most Preferred
VTB	15/10/15	Least Preferred
Wal-Mart de Mexico	12/10/15	Not Listed
AGCO Corporation	19/06/15	Not Listed

Appendix

Rating history changes (past 12 months)

Company	Release date	Current selection
BMW	22/10/15	Most Preferred
BorgWarner Inc.	20/08/15	Not Listed
BorgWarner Inc.	03/08/15	Least Preferred
Daimler AG	17/12/15	Most Preferred
Daimler AG	17/03/15	Not Listed
Delphi Automotive	18/12/15	Not Listed
Fiat Chrysler	26/02/16	Most Preferred
Fiat Chrysler	08/06/15	Not Listed
Guangzhou Automobile	02/04/15	Not Listed
Harley-Davidson Inc.	22/10/15	Not Listed
Hero MotoCorp	04/08/15	Not Listed
Hero MotoCorp	24/06/15	Least Preferred
Honda Motor	01/04/15	Not Listed
Michelin	16/09/15	Not Listed
Nissan Motor	18/12/15	Not Listed
Nissan Motor	20/03/15	Most Preferred
Nokian Tyres	08/01/16	Least Preferred
Nokian Tyres	25/09/15	Not Listed
Nokian Tyres	13/08/15	Least Preferred
Peugeot SA	01/10/15	Not Listed
Peugeot SA	31/07/15	Least Preferred
Peugeot SA	17/03/15	Not Listed
Toyota Motor	18/12/15	Not Listed
Volkswagen Preference	26/11/15	Most Preferred
Volkswagen Preference	30/07/15	Not Listed
Adidas AG	02/07/15	Not Listed
Adidas AG	18/03/15	Least Preferred
Bed Bath & Beyond Inc.	12/10/15	Not Listed
Burberry	22/01/16	Not Listed
Chipotle Mexican Grill	09/03/15	Not Listed
Choice Hotels Intern. Inc	23/12/15	Not Listed
Daimler AG	17/03/15	Not Listed
Dunelm Group	31/08/15	Not Listed
EUTELSAT Communications	21/05/15	Most Preferred
ITV plc	25/01/16	Not Listed
ITV plc	28/08/15	Most Preferred
Kering	19/05/15	Not Listed
McDonalds Corp.	23/12/15	Not Listed
RELX NV	12/06/15	Not Listed
The TJX Companies, Inc.	23/12/15	Not Listed
Toyota Motor	23/12/15	Not Listed
Toyota Motor	26/08/15	Most Preferred
Under Armour, Inc.	12/08/15	Not Listed
Volkswagen Preference	30/07/15	Not Listed
Volkswagen Preference	27/03/15	Most Preferred
Whitbread	31/08/15	Most Preferred
Altria Group	11/02/16	Not Listed
Anheuser-Busch InBev	30/11/15	Most Preferred
Anheuser-Busch InBev	12/11/15	Not Listed
Aryzta AG	06/08/15	Most Preferred
Associated British Foods	17/08/15	Least Preferred
BAT UK	10/12/15	Most Preferred
BAT UK	30/10/15	Not Listed
Barry Callebaut	11/08/15	Not Listed

Company	Release date	Current selection
Barry Callebaut	25/03/15	Most Preferred
CVS Health	11/02/16	Not Listed
Campari	13/04/15	Not Listed
Carrefour	10/03/15	Most Preferred
Clorox	11/02/16	Not Listed
Coca-Cola Hellenic	18/12/15	Least Preferred
Coca-Cola Hellenic	10/08/15	Not Listed
Colgate-Palmolive	11/02/16	Not Listed
Diageo	09/06/15	Not Listed
Emmi AG	07/10/15	Not Listed
Estée Lauder	11/02/16	Not Listed
Kerry Group	11/08/15	Most Preferred
Nestle	12/02/16	Not Listed
PepsiCo Inc.	11/02/16	Not Listed
PepsiCo Inc.	05/05/15	Most Preferred
PepsiCo Inc.	28/04/15	Not Listed
Pernod Ricard	12/08/15	Not Listed
Philip Morris International	05/01/16	Not Listed
Procter & Gamble	01/02/16	Not Listed
Unilever NV	16/02/16	Most Preferred
Unilever Plc	12/02/16	Not Listed
Walgreens Boots Alliance	29/10/15	Not Listed
Walgreens Boots Alliance	11/06/15	Most Preferred
Anadarko Petroleum Corp.	17/12/15	Not Listed
Apache Corporation	17/12/15	Not Listed
BG Group	15/02/16	Not Listed
BG Group	17/08/15	Most Preferred
BG Group	09/04/15	Not Listed
BP	17/08/15	Not Listed
Diamond Offshore Drilling	17/12/15	Not Listed
EOG Resources	17/12/15	Not Listed
ExxonMobil Corp.	17/12/15	Not Listed
Galp Energia	23/11/15	Most Preferred
Halliburton Co.	17/12/15	Not Listed
OMV	01/02/16	Least Preferred
Petrobras (ON)	23/07/15	Not Listed
Petrobras (PN)	17/12/15	Not Listed
Petrobras (PN)	24/07/15	Most Preferred
Rowan Companies Inc.	13/11/15	Not Listed
Royal Dutch Shell	15/02/16	Most Preferred
Saipem	29/04/15	Not Listed
Schlumberger Ltd.	17/12/15	Not Listed
Transocean Ltd.	13/11/15	Least Preferred
Tullow Oil	26/11/15	Most Preferred
Weatherford International	17/12/15	Not Listed
AFLAC Inc.	17/12/15	Not Listed
AFLAC Inc.	11/09/15	Most Preferred
Allstate Corp.	17/12/15	Not Listed
Allstate Corp.	25/06/15	Least Preferred
Aviva	10/08/15	Not Listed
Aviva	31/03/15	Most Preferred
Baloise-Holding	05/06/15	Most Preferred
Baloise-Holding	30/03/15	Not Listed
Banco do Brasil	29/10/15	Not Listed

Appendix

Rating history changes (past 12 months)

Company	Release date	Current selection
Banco do Brasil	24/07/15	Most Preferred
Banco do Brasil	18/05/15	Not Listed
Banco do Brasil	14/04/15	Most Preferred
Beazley	07/08/15	Not Listed
FinecoBank Spa	24/03/15	Not Listed
Hannover Re	19/10/15	Least Preferred
Hannover Re	30/07/15	Not Listed
Lancashire	18/09/15	Not Listed
Natixis	13/04/15	Not Listed
Northern Trust	13/11/15	Not Listed
Ping An Insurance (Group)	17/12/15	Not Listed
Ping An Insurance (Group)	07/07/15	Most Preferred
Progressive Corporation	01/05/15	Not Listed
RSA Insurance Group	27/04/15	Not Listed
SCOR SE	27/05/15	Least Preferred
Sampo	15/04/15	Not Listed
Samsung Life Insurance	17/12/15	Not Listed
Samsung Life Insurance	22/10/15	Most Preferred
St Galler Kantonalbank	25/09/15	Not Listed
St. James Place	26/02/16	Not Listed
Standard Life	13/01/16	Not Listed
Swiss Life	27/01/16	Not Listed
UnipolSai	30/06/15	Least Preferred
W. R. Berkley Corporation	21/07/15	Not Listed
W. R. Berkley Corporation	03/07/15	Most Preferred
Zurich Insurance Group	07/09/15	Most Preferred
Zurich Insurance Group	04/06/15	Not Listed
Aviva	10/08/15	Not Listed
Aviva	31/03/15	Most Preferred
BBVA	28/01/16	Most Preferred
Baloise-Holding	30/03/15	Not Listed
Banco Popular Espanol	25/02/16	Not Listed
Banco Popular Espanol	23/03/15	Most Preferred
Banco do Brasil	29/10/15	Not Listed
Banco do Brasil	24/07/15	Most Preferred
Banco do Brasil	18/05/15	Not Listed
Banco do Brasil	14/04/15	Most Preferred
Bank Central Asia	17/12/15	Not Listed
Bank of America Corp.	17/12/15	Not Listed
Bank of America Corp.	12/10/15	Most Preferred
Banque Cantonale Vaudoise	08/01/16	Not Listed
Beazley	07/08/15	Not Listed
Citigroup	17/12/15	Not Listed
Credit Agricole	25/01/16	Least Preferred
Credit Agricole	12/01/16	Not Listed
Credit Agricole	10/12/15	Least Preferred
Credit Agricole	30/10/15	Not Listed
Credit Agricole	28/07/15	Least Preferred
FinecoBank Spa	24/03/15	Not Listed
Hannover Re	30/07/15	Not Listed
ING Bank	12/02/16	Not Listed
Intesa SanPaolo	22/01/16	Most Preferred
JPMorgan Chase & Co.	17/12/15	Not Listed
Lancashire	18/09/15	Not Listed

Company	Release date	Current selection
Natixis	15/02/16	Least Preferred
Natixis	13/04/15	Not Listed
Nordea	12/02/16	Least Preferred
Northern Trust	13/11/15	Not Listed
Progressive Corporation	01/05/15	Not Listed
RSA Insurance Group	27/04/15	Not Listed
Regions Financial Corp	17/12/15	Not Listed
Regions Financial Corp	08/05/15	Least Preferred
Sampo	15/04/15	Not Listed
Societe Generale	10/12/15	Most Preferred
Societe Generale	20/10/15	Not Listed
St Galler Kantonalbank	25/09/15	Not Listed
Standard Chartered	15/02/16	Least Preferred
VTB	17/12/15	Not Listed
VTB	04/06/15	Least Preferred
Vontobel	12/02/16	Not Listed
Vontobel	25/09/15	Least Preferred
W. R. Berkley Corporation	21/07/15	Not Listed
W. R. Berkley Corporation	03/07/15	Most Preferred
Zurich Insurance Group	04/06/15	Not Listed
Allergan Plc	21/12/15	Not Listed
Bayer	11/09/15	Least Preferred
Celgene Corporation	21/12/15	Not Listed
Essilor International	21/12/15	Most Preferred
Galenica	27/07/15	Not Listed
Gilead Sciences	21/12/15	Not Listed
Johnson & Johnson	24/04/15	Not Listed
Lonza Group AG	10/08/15	Not Listed
Novo Nordisk	10/02/16	Not Listed
Sanofi	02/11/15	Most Preferred
Sanofi	10/09/15	Not Listed
Shire Pharmaceuticals	27/01/16	Most Preferred
Valeant Pharmaceuticals	23/10/15	Not Listed
AGCO Corporation	19/06/15	Not Listed
Adecco	24/08/15	Least Preferred
Adecco	05/03/15	Not Listed
Air Lease Corporation	18/12/15	Not Listed
Air Lease Corporation	27/07/15	Least Preferred
Alfa Laval	09/12/15	Not Listed
Alstom	14/12/15	Not Listed
Ashtead Group	05/08/15	Not Listed
Canadian Pacific Railway	18/12/15	Not Listed
Caterpillar Inc.	24/07/15	Not Listed
Deere & Co.	18/12/15	Not Listed
Delta Air Lines Inc.	21/05/15	Not Listed
Deutsche Lufthansa AG	06/01/16	Most Preferred
Easyjet	21/05/15	Not Listed
FedEx Corp.	18/12/15	Not Listed
Forbo	11/12/15	Most Preferred
GEA Group	10/02/16	Not Listed
Geberit	16/10/15	Not Listed
Geberit	20/07/15	Least Preferred
General Dynamics Corp.	18/12/15	Not Listed
General Dynamics Corp.	28/07/15	Most Preferred

Appendix

Rating history changes (past 12 months)

Company	Release date	Current selection
Georg Fischer	17/04/15	Most Preferred
Hexagon	21/04/15	Most Preferred
Honeywell International Inc.	18/12/15	Not Listed
Ingersoll-Rand Co.	18/12/15	Not Listed
International Airlines Group	13/11/15	Not Listed
International Airlines Group	23/07/15	Most Preferred
Kuehne + Nagel	20/07/15	Not Listed
Legrand	08/06/15	Not Listed
Lockheed Martin Corp.	27/07/15	Not Listed
Metso	17/07/15	Not Listed
Mitsubishi Electric	18/12/15	Not Listed
National Express	17/12/15	Most Preferred
OERLIKON	03/08/15	Not Listed
OERLIKON	04/06/15	Most Preferred
Outotec	30/07/15	Not Listed
Phoenix Mecano	04/06/15	Not Listed
Phoenix Mecano	05/03/15	Most Preferred
Randstad Holding	06/08/15	Not Listed
Rieter	26/01/16	Most Preferred
Rockwell Collins Inc.	18/12/15	Not Listed
Rockwell Collins Inc.	21/05/15	Most Preferred
Sandvik	17/07/15	Not Listed
Sandvik	19/06/15	Least Preferred
Sandvik	19/05/15	Not Listed
Schindler	20/04/15	Least Preferred
Siemens	08/05/15	Not Listed
Southwest Airlines	21/05/15	Not Listed
Sulzer	29/09/15	Least Preferred
Union Pacific	09/11/15	Not Listed
United Continental	18/12/15	Not Listed
United Continental	28/07/15	Most Preferred
United Rentals	24/07/15	Not Listed
Zodiac Aerospace	26/02/16	Not Listed
Zodiac Aerospace	15/10/15	Most Preferred
ARM Holdings Plc	03/08/15	Not Listed
ASML	13/03/15	Most Preferred
Accenture PLC-CL A	26/06/15	Most Preferred
Alcatel-Lucent	13/03/15	Not Listed
Alibaba	04/03/15	Most Preferred
Alphabet Inc	23/12/15	Not Listed
Applied Materials Inc.	19/05/15	Not Listed
Asustek Computer Inc.	19/02/16	Least Preferred
Asustek Computer Inc.	17/04/15	Not Listed
Catcher Technology	13/10/15	Not Listed
Catcher Technology	21/09/15	Most Preferred
Check Point Software	26/06/15	Not Listed
Cheng Uei Precision Industry	17/03/15	Not Listed
Cognizant Technology	11/11/15	Most Preferred
Delta Electronics	12/05/15	Not Listed
Delta Electronics	12/03/15	Least Preferred
Dena	20/03/15	Not Listed
Dena	18/03/15	Most Preferred
HTC Corporation	08/04/15	Not Listed
Hon Hai Precision	13/07/15	Least Preferred
Infosys Ltd	24/07/15	Least Preferred

Company	Release date	Current selection
Inotera Memories	29/04/15	Not Listed
Inotera Memories	07/04/15	Most Preferred
Intel Corp.	29/12/15	Most Preferred
International Business	21/04/15	Most Preferred
International Business	17/03/15	Not Listed
Largan Precision	06/03/15	Not Listed
Lenovo Group Ltd	09/04/15	Not Listed
Micron Technology Inc	27/03/15	Not Listed
Nokia	02/02/16	Not Listed
Nokia	31/07/15	Most Preferred
Nokia	14/04/15	Not Listed
Novatek Microelectronics	04/05/15	Not Listed
Oracle Corporation	19/06/15	Not Listed
Paypal	23/07/15	Most Preferred
Qualcomm Inc.	29/12/15	Most Preferred
SAP AG	07/07/15	Not Listed
Samsung Electronics	06/08/15	Not Listed
Siliconware	21/09/15	Not Listed
Siliconware	24/08/15	Most Preferred
TPK Holding	20/07/15	Not Listed
TPK Holding	04/05/15	Most Preferred
Taiwan Semiconductor	09/03/15	Not Listed
Temenos	08/01/16	Least Preferred
Tencent Holdings	08/07/15	Most Preferred
Tencent Holdings	04/03/15	Not Listed
Twitter	29/07/15	Not Listed
Twitter	04/06/15	Most Preferred
Visa Inc.	02/11/15	Not Listed
Yahoo	09/09/15	Not Listed
Air Liquide	20/11/15	Least Preferred
Akzo Nobel	16/02/16	Not Listed
Akzo Nobel	20/05/15	Least Preferred
Akzo Nobel	13/03/15	Not Listed
Anglo American	08/12/15	Not Listed
Anglo American	18/05/15	Least Preferred
Anglo American	27/04/15	Not Listed
Antofagasta Plc	02/03/15	Not Listed
BHP Billiton Plc	16/11/15	Not Listed
CRH	27/01/16	Most Preferred
Clariant	30/03/15	Not Listed
Dow Chemical	21/12/15	Not Listed
Dow Chemical	09/03/15	Most Preferred
Evonik	02/03/15	Not Listed
First Quantum Minerals Ltd.	13/07/15	Not Listed
First Quantum Minerals Ltd.	11/06/15	Most Preferred
Fortescue Metals Group Ltd	09/04/15	Not Listed
Fortescue Metals Group Ltd	03/04/15	Least Preferred
Frutarom Industries Ltd	21/12/15	Not Listed
Frutarom Industries Ltd	13/05/15	Most Preferred
Givaudan	12/02/16	Most Preferred
Givaudan	05/02/16	Not Listed
Glencore Xstrata	25/09/15	Not Listed
Gurit	17/06/15	Not Listed
Holcim Indonesia	17/08/15	Not Listed
K+S	29/06/15	Not Listed

Appendix

Rating history changes (past 12 months)

Company	Release date	Current selection
K+S	29/05/15	Most Preferred
LafargeHolcim	13/05/15	Most Preferred
Linde	03/02/16	Most Preferred
Linde	07/05/15	Not Listed
Lonza Group AG	10/08/15	Not Listed
Lonza Group AG	09/04/15	Most Preferred
Mosaic Co	21/12/15	Not Listed
Norsk Hydro	08/05/15	Not Listed
Norsk Hydro	06/03/15	Least Preferred
PPG Industries Inc.	21/12/15	Not Listed
PPG Industries Inc.	22/05/15	Most Preferred
Praxair	21/12/15	Not Listed
Praxair	09/04/15	Most Preferred
Sappi Ltd	12/08/15	Not Listed
Sappi Ltd	02/06/15	Least Preferred
Stora Enso	03/04/15	Not Listed
Teck Resources Ltd.	13/07/15	Not Listed
Teck Resources Ltd.	11/06/15	Least Preferred
ThyssenKrupp	18/02/16	Not Listed
Umicore	23/02/16	Not Listed
ADO Properties	21/01/16	Most Preferred
Agile Property Holdings	28/01/16	Least Preferred
Corporacion Inmobiliaria	20/01/16	Not Listed
Corporacion Inmobiliaria	18/03/15	Most Preferred
Deutsche Wohnen	22/09/15	Not Listed
Evergrande Real Estate	14/05/15	Least Preferred
GLP REIT	18/03/15	Not Listed
GPT Group	24/08/15	Least Preferred
General Growth Properties	27/01/16	Most Preferred
Guangzhou R&F Properties	08/05/15	Not Listed
Guangzhou R&F Properties	18/03/15	Least Preferred
Hammerson	26/01/16	Most Preferred
Icade	05/08/15	Most Preferred
Icade	07/05/15	Not Listed
Icade	20/03/15	Most Preferred
Indiabulls Housing Finance	14/05/15	Most Preferred
Kerry Properties	07/05/15	Not Listed
Kerry Properties	18/03/15	Least Preferred
Lend Lease Group	22/07/15	Not Listed
Mah Sing	22/07/15	Not Listed
Orix JReit	09/09/15	Most Preferred
PSP Swiss Property	15/10/15	Not Listed
PSP Swiss Property	05/03/15	Least Preferred
ProLogis	18/03/15	Most Preferred
Simon Property Group	11/08/15	Not Listed
Suntec REIT	19/03/15	Not Listed
Swiss Prime Site	27/08/15	Most Preferred
UEM Sunrise	30/07/15	Least Preferred
Vonovia	15/10/15	Not Listed
Wharf Holdings	10/02/16	Not Listed
Wharf Holdings	22/01/16	Least Preferred
alstria office REIT	05/10/15	Most Preferred
alstria office REIT	17/06/15	Not Listed
alstria office REIT	08/05/15	Most Preferred
AT&T Inc.	22/12/15	Not Listed

Company	Release date	Current selection
AT&T Inc.	16/07/15	Most Preferred
Advanced Info Services	22/12/15	Not Listed
American Tower Corporation	22/12/15	Not Listed
BT Group	15/02/16	Not Listed
CenturyLink, Inc.	26/06/15	Not Listed
Comcast Corporation	22/12/15	Not Listed
Elisa Corporation	18/01/16	Least Preferred
Elisa Corporation	09/07/15	Not Listed
Frontier Communications	22/12/15	Not Listed
Frontier Communications	26/06/15	Most Preferred
HKT Trust	22/12/15	Not Listed
SK Telecom	22/12/15	Not Listed
Singapore Telecom	22/12/15	Not Listed
Softbank	03/07/15	Not Listed
Softbank	16/03/15	Most Preferred
Sprint Corporation	22/12/15	Not Listed
Starhub	22/12/15	Not Listed
Starhub	29/06/15	Least Preferred
TDC	18/01/16	Most Preferred
TIM Brasil	09/12/15	Not Listed
TIM Brasil	19/06/15	Most Preferred
Telecom Italia	19/06/15	Least Preferred
Telefonica	23/12/15	Most Preferred
Telefonica	05/11/15	Not Listed
Telekom Malaysia	22/12/15	Not Listed
Telekom Malaysia	15/07/15	Least Preferred
TeliaSonera	22/12/15	Not Listed
Telkom Indonesia	30/10/15	Not Listed
Telkom Indonesia	15/07/15	Most Preferred
Verizon Communications	22/12/15	Not Listed
Verizon Communications	16/07/15	Least Preferred
Windstream Corporation	16/07/15	Not Listed
Alpiq Holding	16/11/15	Not Listed
Alpiq Holding	22/07/15	Least Preferred
American Electric Power, Inc.	22/12/15	Not Listed
CLP Holdings	22/12/15	Not Listed
Centrica	24/04/15	Not Listed
Duke Energy	22/12/15	Not Listed
Duke Energy	23/07/15	Least Preferred
Energias de Portugal	10/09/15	Most Preferred
Energias de Portugal	25/06/15	Not Listed
KEPCO	22/12/15	Not Listed
NRG Energy Inc.	29/09/15	Not Listed
National Grid	23/06/15	Least Preferred
Nextera Energy Inc.	22/12/15	Not Listed
PPL Corporation	22/12/15	Not Listed
RWE	18/09/15	Not Listed
RWE	24/04/15	Least Preferred
SSE PLC	13/03/15	Not Listed
Snam	22/07/15	Most Preferred
Southern Company	02/10/15	Not Listed
Suez Environnement	13/03/15	Most Preferred
Verbund AG	28/09/15	Least Preferred
Verbund AG	10/09/15	Not Listed

Appendix

If you require information on UBS Chief Investment Office WM and its research products, please contact the mailbox ubs-cio-wm@ubs.com (please note that e-mail communication is unsecured) or contact your client advisor for assistance.

Equity selection system
Analysts provide three equity selections (Most Preferred, Neutral View, Least Preferred).

Equity preference

Most Preferred
Taking into consideration the stock's rating as well as other factors relevant for portfolio management (e.g. risk, diversification), analysts expect the stock to outperform versus the thematic benchmark, i.e. to contribute positively to the overall performance of the relevant Equity Preference List (EPL) in the next 12 months.

Neutral View
Analysts expect the stock to neither contribute positively nor negatively to the performance of the relevant EPL, i.e. to perform in line with the thematic benchmark in the next 12 months.

Least Preferred
Taking into consideration the stock's rating as well as other factors relevant for portfolio management (e.g. risk, diversification), analysts expect the stock to underperform versus the thematic benchmark, which results in a positive contribution to the EPL in the next 12 months.

Suspended
Issuing an analyst's research on a company can be restricted due to legal, regulatory, contractual or best business practice obligations, which are normally caused by UBS Investment Bank's participation in an investment banking transaction involving the company concerned.

Equity selection: An assessment relative to a benchmark
Equity selections in Equity Preference Lists are relative assessments versus a sector/industry, country/regional or thematic benchmark. In the case of sectors/industries and countries/regions, the respective global MSCI benchmarks are used. For thematic research, analysts select a benchmark most representative of the investment idea. The chosen benchmark is disclosed on the front page of each Equity Preferences List and is also used to measure the performance of the individual analyst. Stocks can be selected for several Equity Preference Lists (EPLs). To keep the lists consistent, a stock can only be selected in either Most Preferred or Least Preferred lists, but not both simultaneously. As benchmarks differ between lists, stocks need not be included on every list to which they could theoretically be added. UBS's selection methodology advises investors on how to profit from a specific investment theme/sector/region. Whenever CIO has an investment view on an entire sector/industry or country/region over a 3–12 month horizon, we state our preference relative to global equity markets by using the terms Overweight, Neutral and Underweight. UBS's selection methodology shows private clients how to best invest if they would like to profit from a specific investment theme.

Current UBS CIO global rating distribution (as of last month-end)	
Least Preferred	18%
Most Preferred	82%

Appendix

Terms and abbreviations

Term / Abbreviation	Description / Definition
1H, 2H, etc. or 1H07, 2H07, etc.	First half, second half, etc. or first half 2007, second half 2007, etc.
1Q, 2Q, etc. or 1Q07, 2Q07, etc.	First quarter, second quarter, etc. or first quarter 2007, second quarter 2007, etc.
2007E, 2008E, etc.	2007 estimate, 2008 estimate, etc.
ADR	American depositary receipt
AUM	Assets under management = total value of own and third-party assets managed
bn	Billion (109)
bp or bps	Basis point or basis points (100 bps = 1 percentage point)
BVPS	Book value per share = shareholders' equity divided by the number of shares
CAGR	Compound annual growth rate
Cant Inc/Capita	Cantonal income per capita (Switzerland only)
Capex	Capital expenditures
CFO	1) Cash flow from operations 2) Chief financial officer
CFPS	Cash flow per share
Cost/Inc Ratio (%)	Costs as a percentage of income
CPI	Consumer price index
CR	Combined ratio = ratio of claims and expenses as a percentage of premiums (for insurance companies)
CY	Calendar year
DCF	Discounted cash flow
DDM	Dividend discount model
Dividend Yield (%)	Dividend per share divided by price per share
DPS	Dividend per share
EBIT	Earnings before interest and taxes
EBIT Margin (%)	EBIT divided by revenues
EBIT(D)A	Earnings before interest, taxes, (depreciation) and amortization
EBITDA Margin (%)	EBITDA divided by revenues
EBITDA/Net Interest	EBITDA divided by net interest expense
EBITDAR	Earnings before interest, taxes, depreciation, amortization and rental expense
EFVR	Estimated fair value range

Term / Abbreviation	Description / Definition
EmV	Embedded value = net asset value + present value of forecasted future profits (for life insurers)
EPS	Earnings per share
Equity Ratio (%)	Shareholders' equity divided by total assets
EV	Enterprise value = market value of equity, preferred equity, outstanding net debt and minorities
FCF	Free cash flow = cash a company generates above outlays required to maintain/expand its asset base
FCF Yield (%)	Free cash flow divided by market capitalization
FFO	Funds from operations
FY	Fiscal year / financial year
GDP	Gross domestic product
GF	Grandfathered status
Gross Margin (%)	Gross profit divided by revenues
h/h	Half-year over half-year; half on half
Interest Coverage	Ratio that expresses the number of times interest expenses are covered by earnings
Interest exp	Interest expense
ISIN	International securities identification number
LLP/Net Int Inc (%)	Loan loss provisions divided by net interest income
LLR/Gross Loans (%)	Loan loss reserves divided by gross loans
m/m	Month-over-month; month on month
mn	Million (106)
M&A	Merger & Acquisition
n.a. or NA	Not available or not applicable
NAV	Net asset value
Net Debt	Short- and long-term interest-bearing debt minus cash and cash equivalents
Net Int Margin (%)	Net interest income divided by average interest-bearing assets
Net Margin (%)	Net income divided by revenues

Appendix

Terms and abbreviations	
Term / Abbreviation	**Description / Definition**
n.m. or NM	Not meaningful
NPL	Non-performing loans
Op Margin (%)	Operating income divided by revenues
p.a.	Per annum (per year)
P/BV	Price to book value
P/CFPS	Price/Cash flow per share
P/E	Price to earnings
P/E Relative	P/E relative to the market
P/EmV	Price to embedded value
PEG Ratio	P/E ratio divided by earnings growth
PPI	Producer price index
Prim Bal/Cur Rev (%)	Primary balance divided by current revenue (total revenue minus capital revenue)
Profit Margin (%)	Net income divided by revenues
q/q	Quarter-over-quarter; quarter on quarter
REIT	Real Estate Investment Trust
ROA (%)	Return on assets
ROCE (%)	Return on capital employed = EBIT divided by difference between total assets & current liabilities
ROE (%)	Return on equity
ROAE (%)	Return on average equity
ROIC (%)	Return on invested capital
Solvency Ratio (%)	Ratio of shareholders' equity to net premiums written (for insurance companies)
Tax Burden Index	Swiss tax index; 100 = average tax burden of all cantons
Tier 1 Ratio (%)	Tier 1 capital divided by risk-weighted assets; describes a bank's capital adequacy
tn	Trillion (1012)
Valor	Swiss company identifier
WACC	Weighted average cost of capital
UBS CIO WM	UBS Chief Investment Office WM
y/y	Year-over-year; year on year
YTD	Year-to-date

Appendix

Analyst certification
Each analyst primarily responsible for the content of this report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her per-sonal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that analysis in the report.

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Version 02/2016.