



Capability Report – Islamic Global Equities

January 2010 (data as at 31 December 2009)

1 Economic review

Global economy

During the fourth quarter, economic news was very much that of recovery, with further strength in purchasing manager indices and more signs that unemployment may have peaked in a number of economies. The fourth quarter GDP data is shaping up to be quite strong, not least because the long-awaited inventory rebound did not materialize in the third quarter. News from emerging markets continues to outperform advanced economies, and many investors are now pointing to the better fiscal situations in emerging markets. Despite the improvement, the consensus for advanced economies remains that the recovery will be sub-par relative to past recoveries.

Summary

- Data continues to support a recovery, with the fourth quarter looking strong.
- Central banks are still focused on the risks and maintaining a loose policy

2 Market review

Q4 2009

With economic data releases continuing to be mostly supportive, equity markets continued to rise during the quarter, albeit at a slower pace than earlier in the year. News of financial woes in Dubai in November, led to increased volatility and sell-offs in some riskier assets.

Calendar year 2009 (from inception date of 10 March 2009)

Global equity markets began the year with a decline which was a continuation of the dramatic falls of 2008, only to hit the bottom in March and begin a recovery that has yet to falter. The decline of the first quarter was very steep however, with stocks losing nearly a quarter of their value. By March, signs of some economic stability set off a strong rally. The US Treasury rescue plan, concerted action by other Central Banks and signs of improvement in economic indicators were clearly helpful. Since then, the flow of economic data has been constructive and supportive of higher valuations.

Performance

% Return	Islamic Global Equities*	DJIM Titans Index	Difference
3 months	7.99	7.40	0.59
YTD	31.61	24.66	6.95
1 year	31.61	24.66	6.95
3 years	1.28	-0.37	1.64
5 years	5.11	4.23	0.88
Since inception	-0.11	-0.84	0.74

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

Source: UBS Global Asset Management.

Performance commentary – Q4 2009

- The strategy outperformed for the quarter due to stock selection.
- The biggest positive contributor was stock selection in healthcare, driven by healthcare equipment and services (overweight Medtronic). Positioning in energy and consumer staples also positively contributed.
- The overweight to industrials was the largest detractor. The overweight to basic materials, namely Arcelor Mittal, also detracted.
- From a country perspective, the significant positive contribution from US stock selection was most notable.

Performance commentary – Calendar year 2009

- The strategy outperformed for the calendar year due to stock selection.
- The biggest positive contributor was stock selection in energy driven by oil & gas producers (overweight Total, underweight Chevron, and not holding Exxon Mobile). Significant underweight to the healthcare sector also helped performance.
- The overweight to industrials was the largest detractor. Positioning in utilities (overweight Exelon) further detracted.
- From a country perspective, the significant positive contribution from US stock selection was most notable.

Attribution – Q4 2009

Country contributors & detractors		
Country	Contribution %	Weighting
United States	0.6	UW
France	0.5	OW
Taiwan	0.2	OW
Sweden	0.1	Not Held
Australia	0.1	OW
Total of top contributors	+1.5	
United Kingdom	-0.3	UW
China	-0.2	OW
Germany	-0.1	OW
Finland	-0.1	OW
Netherlands	-0.1	Not Held
Total of top detractors	-0.8	
Sector contributors & detractors		
Sector	Contribution %	Weighting
Healthcare	0.6	UW
Energy	0.4	UW
Consumer Staples	0.3	UW
Information Technology	0.1	OW
Consumer Discretionary	0.1	OW
Total of top contributors	+1.5	
Industrials	-0.2	UW
Materials	-0.2	OW
Utilities	-0.1	OW
Telecomm Services	-0.1	OW
Total of top detractors	-0.6	

Stock contributors & detractors					
Stock	Sector	Country	Weight	Return %	Contribution %
Arcelor Mittal	Basic Materials	Luxembourg	Removed from Index	24.15	0.5
Exxon Mobile	Oil & Gas	United States	Not Held	0.0	0.4
Medtronic	Healthcare	United States	OW	20.2	0.3
Hon Hai Precision	Industrials	Taiwan	OW	18.6	0.2
CVS Corp	Consumer Services	United States	Not Held	-9.7	0.2
Total of top contributors					+1.6
China Mobile	Technology	Hong Kong	OW	-3.7	-0.2
Anglo American	Basic Materials	United Kingdom	Not Held	37.3	-0.2
Cisco	Technology	United States	OW	1.7	-0.2
Shin-Etsu	Basic Materials	Japan	OW	-8.9	-0.2
Oracle	Technology	United States	Not Held	18.0	-0.1
Total of top detractors					-0.9

Attribution – Calendar year 2009

Country contributors & detractors		
Country	Contribution %	Weighting
United States	4.8	UW
Taiwan	1.3	OW
France	1.1	OW
Japan	1.1	OW
Australia	1.0	OW
Total of top contributors	+9.3	
United Kingdom	-0.7	UW
South Korea	-0.5	UW
Switzerland	-0.3	OW
Germany	-0.3	OW
Finland	-0.2	OW
Total of top detractors	-2.0	
Sector contributors & detractors		
Sector	Contribution %	Weighting
Energy	4.5	UW
Healthcare	2.6	UW
Information Technology	1.4	OW
Telecomm Services	0.2	OW
Consumer Staples	0.1	UW
Total of top contributors	+8.8	
Industrials	-0.7	UW
Utilities	-0.5	OW
Consumer Discretionary	-0.4	OW
Materials	-0.1	OW
Total of top detractors	-1.7	

Stock contributors & detractors					
Stock	Sector	Country	Weight	Return %	Contribution %
ExxonMobil	Oil & Gas	United States	Not Held	-12.6	2.9
Hon Hai Precision	Industrials	Taiwan	OW	181.0	1.4
Arcelor Mittal	Basic Materials	Luxembourg	Removed from Index	83.4	1.4
Wyeth	Healthcare	United States	Removed from Index	37.1	0.8
Amgen	Healthcare	United States	Not Held	-2.0	0.5
Total of top contributors					+7.0
IBM	Technology	United States	Not Held	58.6	-0.7
Exelon	Utilities	United States	OW	-8.4	-0.6
China Mobile	Technology	Hong Kong	OW	-2.9	-0.5
UPS	Industrials	United States	OW	7.8	-0.5
Anglo American	Basic Materials	United Kingdom	Not Held	97.0	-0.4
Total of top detractors					-2.7

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

Source: UBS Global Asset Management

Stock performance commentary – Q4 2009

Positive contributors

- **Arcelor Mittal**
- The portfolio benefited from not holding a position in **ExxonMobil**. We will continue to monitor the company as it is the dominant player among the other oil giants. At this time we believe there are better values in the sector at the current price levels.
- **Medtronic**
- Taiwan Technology stock, **Hon Hai Precision** surged on expectations of strong cost synergies from site transitions that would impact the bottomline in 2009 / 2010.
- **CVS Corp**

Negative contributors

- Heavy investment in next generation networks, intense competition, and slowing earnings growth remain challenging for **China Mobile**.
- **Anglo American**
- **Cisco**

- **Shin-Etsu**
- **Oracle**

Stock performance commentary – Calendar year 2009

Positive contributors

- The portfolio benefited from not holding a position in **ExxonMobil**. We will continue to monitor the company as it is the dominant player among the other oil giants. At this time we believe there are better values in the sector at the current price levels.
- Taiwan Technology stock, **Hon Hai Precision** surged on expectations of strong cost synergies from site transitions that would impact the bottomline in 2009 / 2010.
- **Arcelor Mittal**
- **Wyeth**
- **Amgen**

Negative contributors

- **IBM**
- Shares of **Exelon** detracted as the sector under performed during the period. Utilities have performed poorly recently as there is a lack of catalysts in the sector. We believe the company is well managed and can properly navigate the current economic downturn.
- Heavy investment in next generation networks, intense competition, and slowing earnings growth remain challenging for **China Mobile**.
- **UPS**
- **Anglo American**

3 Current positioning (data as at 31 December 2009)

Active positions by country			
Positive/Overweights		Negative/Underweights	
Luxembourg	3.7%	United Kingdom	-5.0%
Hong Kong	2.7%	United States	-2.8%
Taiwan	2.6%	Korea	-1.0%
Australia	1.7%	Sweden	-0.9%
Japan	1.0%	France	-0.7%
Active positions by sector			
Positive/Overweights		Negative/Underweights	
Telecommunications	3.8%	Consumer Goods	-4.2%
Consumer Services	2.6%	Healthcare	-4.0%
Utilities	1.5%	Oil & Gas	-2.4%
Technology	1.4%		
Basic Materials	0.8%		
Active positions by stock			
Positive/Overweights		Negative/Underweights	
Arcelor Mittal	3.7%	ExxonMobil	-5.3%
Cisco	3.4%	IBM	-2.9%
Lowe's	2.9%	GlaxoSmithKline	-1.8%
AT&T	2.8%	Oracle	-1.6%
Medtronic	2.8%	Coca Cola	-1.5%

Strategy

The largest sector bet in the portfolio is in telecommunications, due to the overweight to AT&T and China Mobile. The portfolio also has a significant overweight to consumer services, due to sizable holdings in general retailers Lowe's and Wal-Mart. The portfolio's overweight to utilities is based on the holding in Exelon, and within technology, we like hardware and equipment, namely Cisco and Hewlett-Packard. We are finding select opportunities in industrials, with overweights in UPS, Hon Hai Precision and Siemens.

The largest sector underweight is consumer goods, driven by the underweight to personal and household goods. However, we do see value in Panasonic within the leisure goods industry. Within the broad sector, we like food producers, namely Monsanto, and Denso, the autos & parts company. The portfolio is also notably underweight healthcare, due to positioning in pharma and biotech, although we are finding opportunities including Pfizer and Roche.

From a country perspective, the largest overweight is to Luxembourg and the largest underweight is to the United Kingdom based on bottom up stock selection.

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

Trade activity – Rationales

Largest purchases & sales – Q4 2009				
Trade	Stock	Sector	Country	Rationale
Purchases				
Model Change	Woodside	Oil & Gas	Australia	Added to attractive valuation through rights offering
Sales				
Withdrawal	Cisco	Technology	United States	Trimmed to adjust for outperformance
Withdrawal	Microsoft	Technology	United States	Trimmed to adjust for outperformance
Withdrawal	Pfizer	Healthcare	United States	Trimmed to adjust for outperformance
Withdrawal	Johnson & Johnson	Healthcare	United States	Trimmed to adjust for outperformance
Withdrawal	UPS	Industrials	United States	Trimmed to adjust for outperformance

4 Outlook

Overall, equities remain attractive relative to other assets, valuation spreads are still wide and we continue to find compelling stock-picking opportunities in all sectors. However, we anticipate that macroeconomic data will continue to present mixed signals, as is typical in the trough of a cycle, and markets will need to digest the prospect of tighter monetary conditions ahead, and so further volatility is to be expected.

Portfolio characteristics

UBS risk model:	
Active risk	3.20%
Beta	1.04

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