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For marketing purposes

Market outlook for 2019

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23 November 2018

Your mandates with UBS

Mandate	Value (GBPm)
Multi-Asset Passive	1,839.2
Infrastructure	19.2
TOTAL	1,858.4

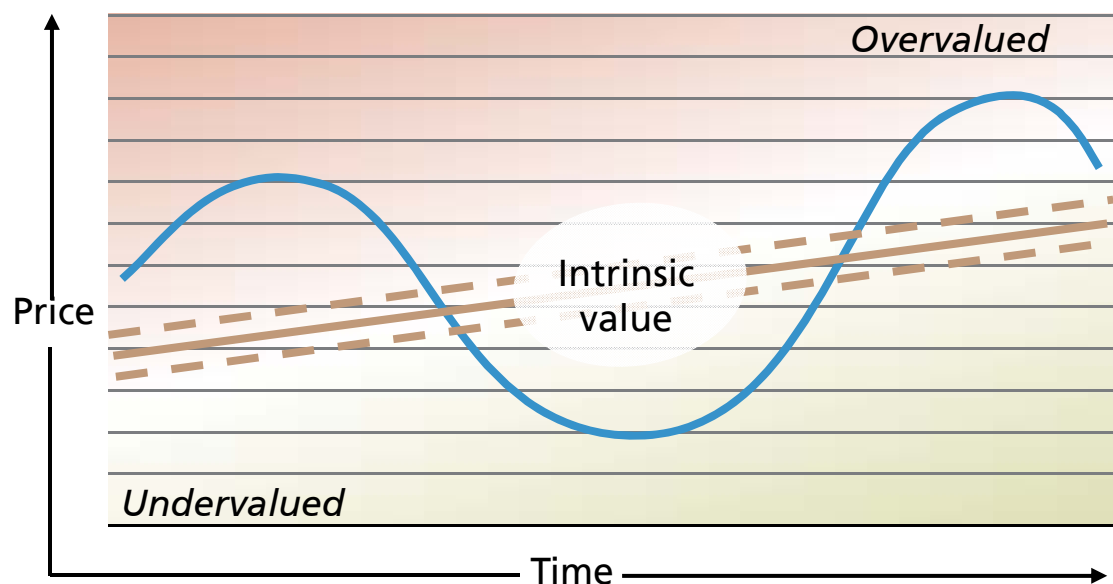
Source: UBS Asset Management as at September 30, 2018

How do we think about multi-asset investing?

Valuation

+

Non-Valuation drivers



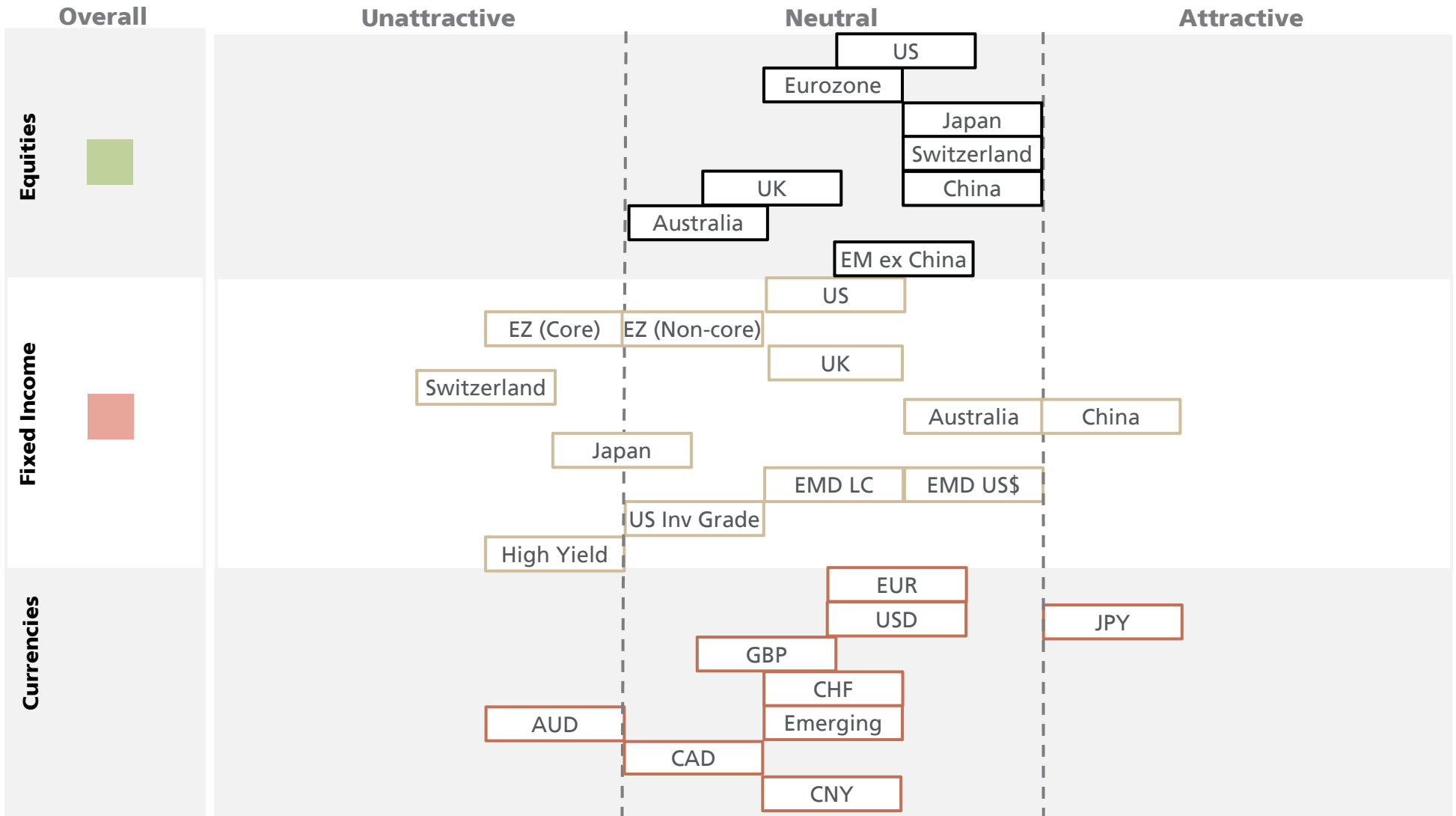
- **Market behavior analysis**
- **Macroeconomic analysis**
- **Cyclical and structural themes**

- Markets have inherent inefficiencies that can be exploited by analysing both *fundamental valuation, market behavioural indicators, macroeconomic analysis*, and an understanding of *cyclical & structural themes*
- Team-generated ideas with individuals *accountable* for their implementation offers best approach to getting ample high conviction positions in portfolios
- Risk should only be taken where *compensated* - *Risk management expertise and proprietary tools* that allow us to better understand sources of risk

Note: For illustrative purposes only

Asset Class attractiveness

As at October 31, 2018

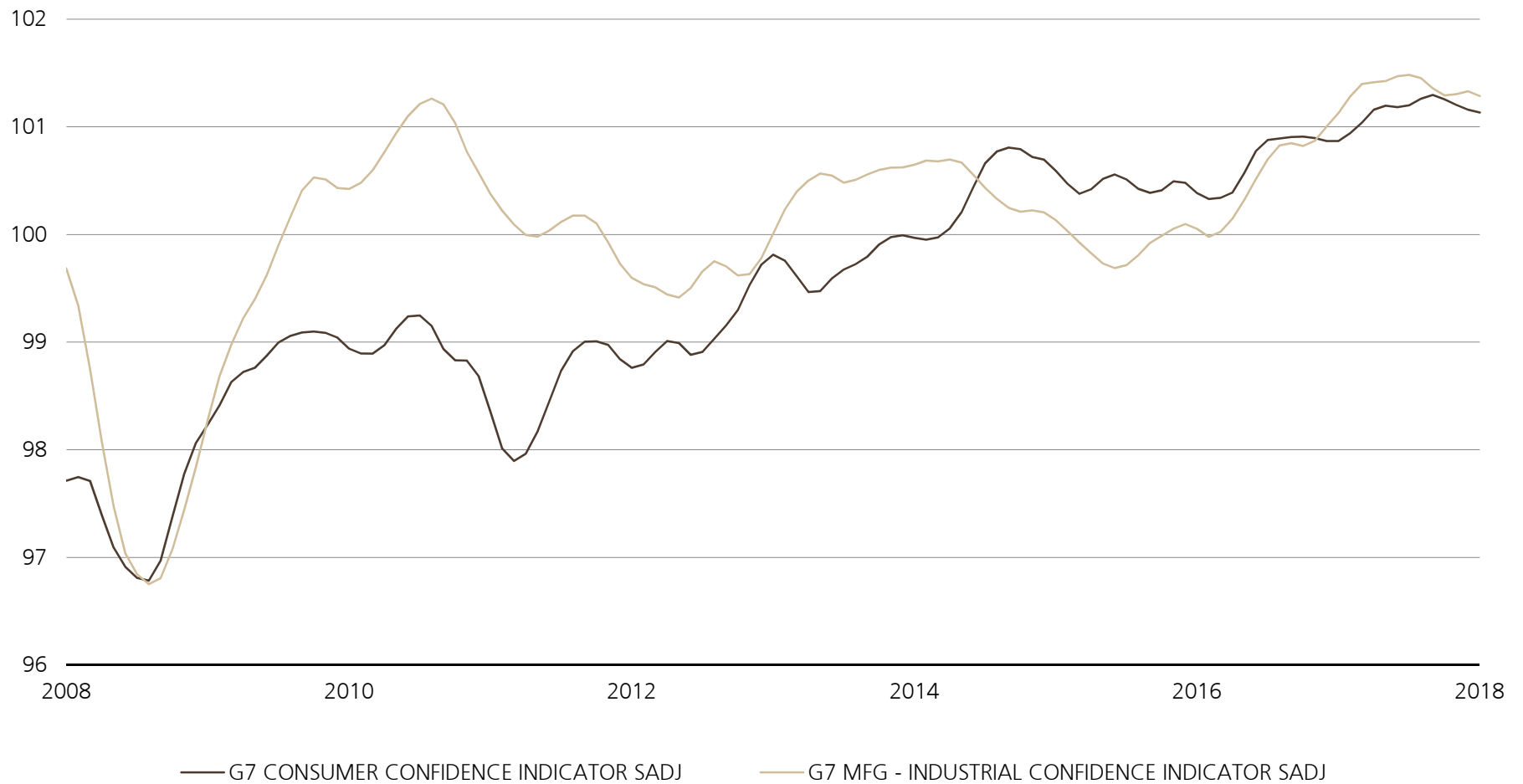


Source: UBS Asset Management Investment Solutions Asset Allocation team as at October 31, 2018. Views are provided on the basis of a 3-12 month investment horizon, are not necessarily reflective of actual portfolio positioning and are subject to change.

Opportunity: Risk assets

Above-trend global growth continues to offer support

G7 Manufacturing and Consumer confidence indicators

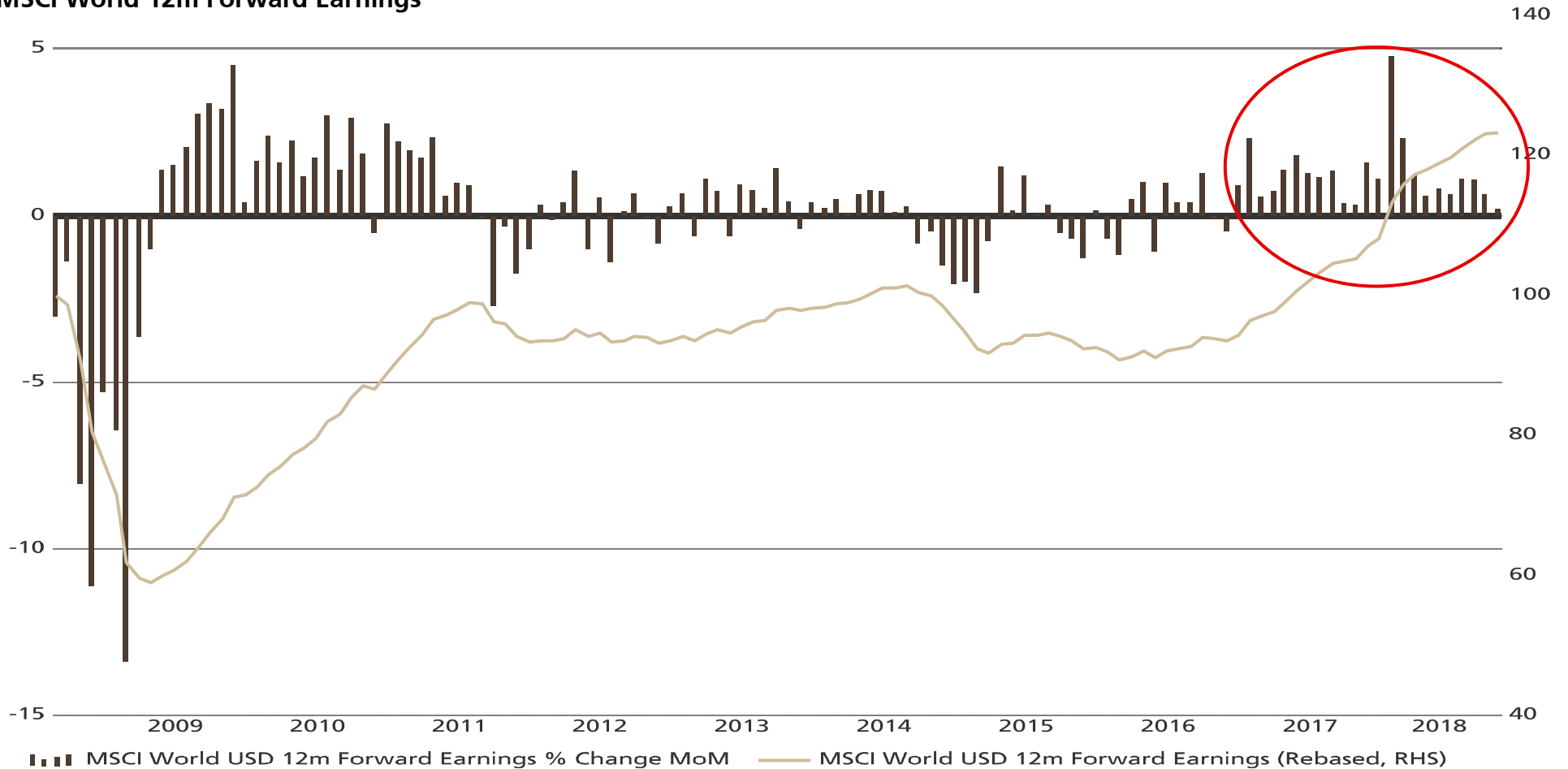


Source: UBS Asset Management, Datastream as at October 31, 2018

Opportunity: Global equities

Expectations for future company profits upgraded every month since December 2016

MSCI World 12m Forward Earnings



Source: UBS Asset Management, Datastream as at October 31, 2018

Opportunity: Chinese equities

China has put in place a broad suite of measures to cushion a growth slowdown



Source: UBS Asset Management, Macrobond

Steps Taken Since June 23 to Support Growth

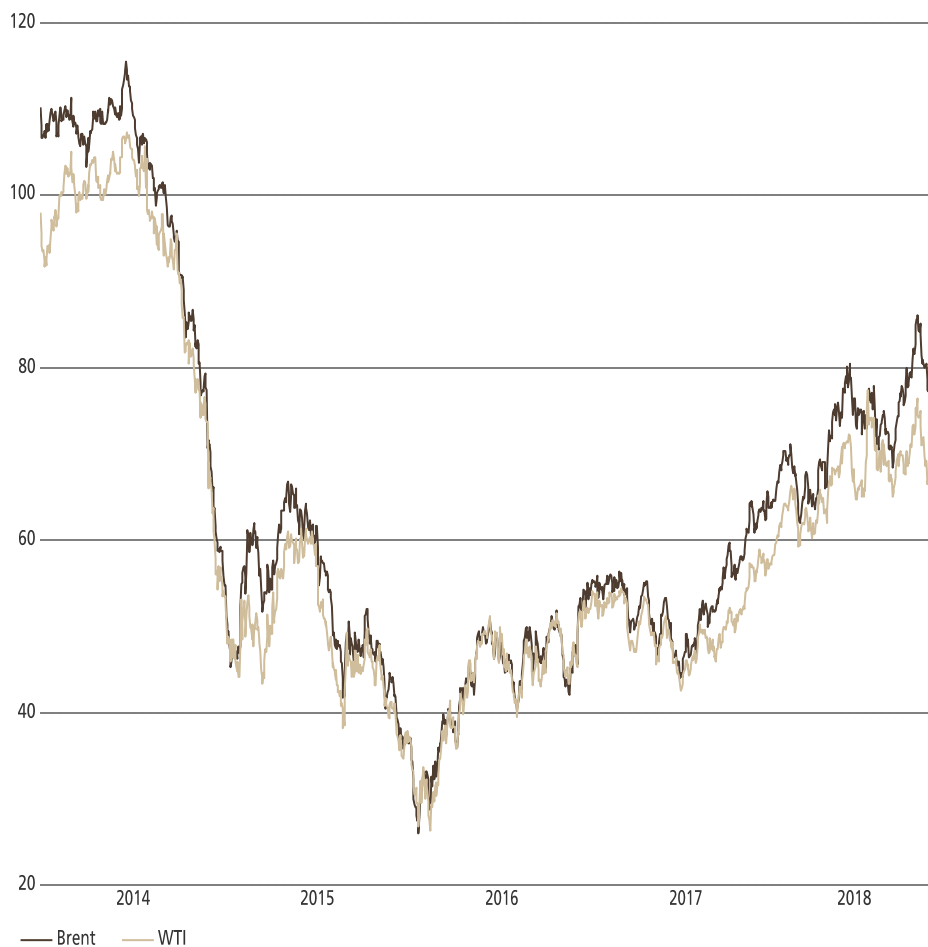
1. Weakened CNY
2. Lower Shibor
3. Increased domestic liquidity
4. RRR cut for small companies
5. Relending cut for small companies
6. Lower Tariffs to Asian trading partners
7. Accelerated establishment of free trade with other trading partners
8. Raised personal income threshold
9. Shifted tariff revenues to those impacted
10. Raised lending quotas for state-owned banks
11. Removed FDI restrictions on certain industries
12. Eased asset management rules
13. R&D tax cut
14. Sped up already announced lending programs
15. Lowered capital requirements for some banks
16. Infrastructure spending
17. Eased credit lending
18. More tax cuts to come?

Source: CSM

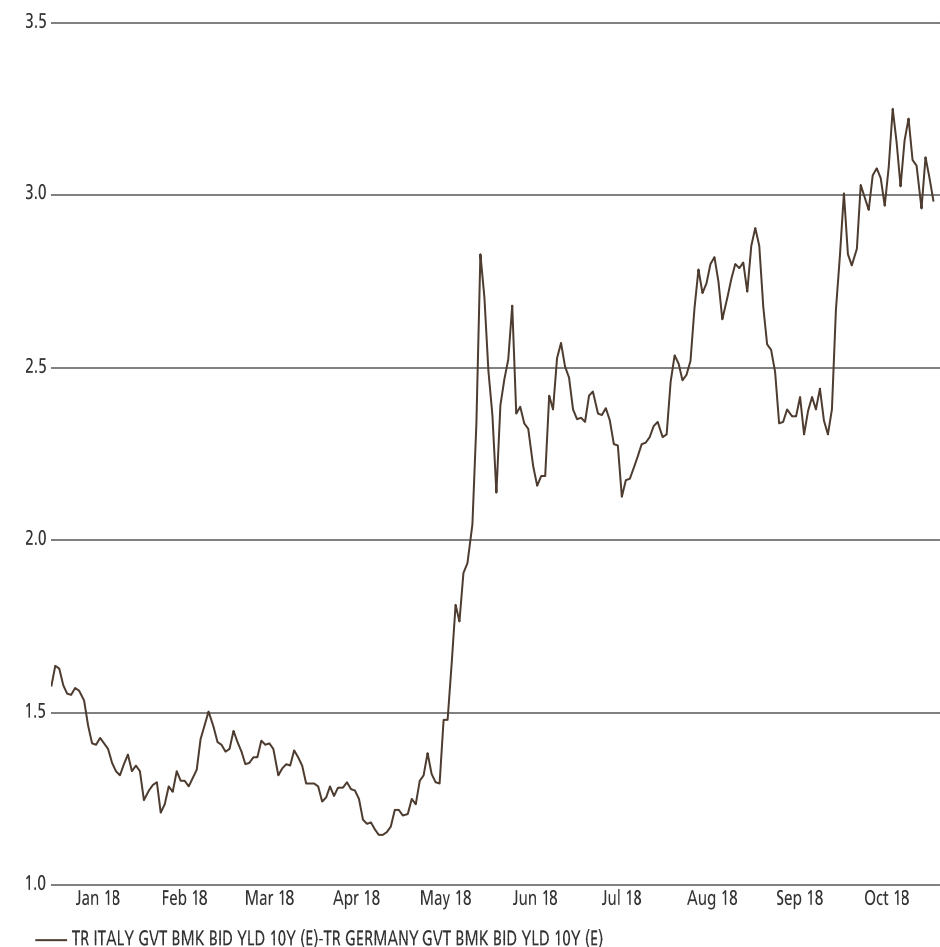
Risk: Geopolitical events continue to impact

Rising oil price, elevated Italian bond spreads two obvious examples from 2018

Crude Oil Prices (USD per barrel)



Italy-Germany 10yr government bond yield spread

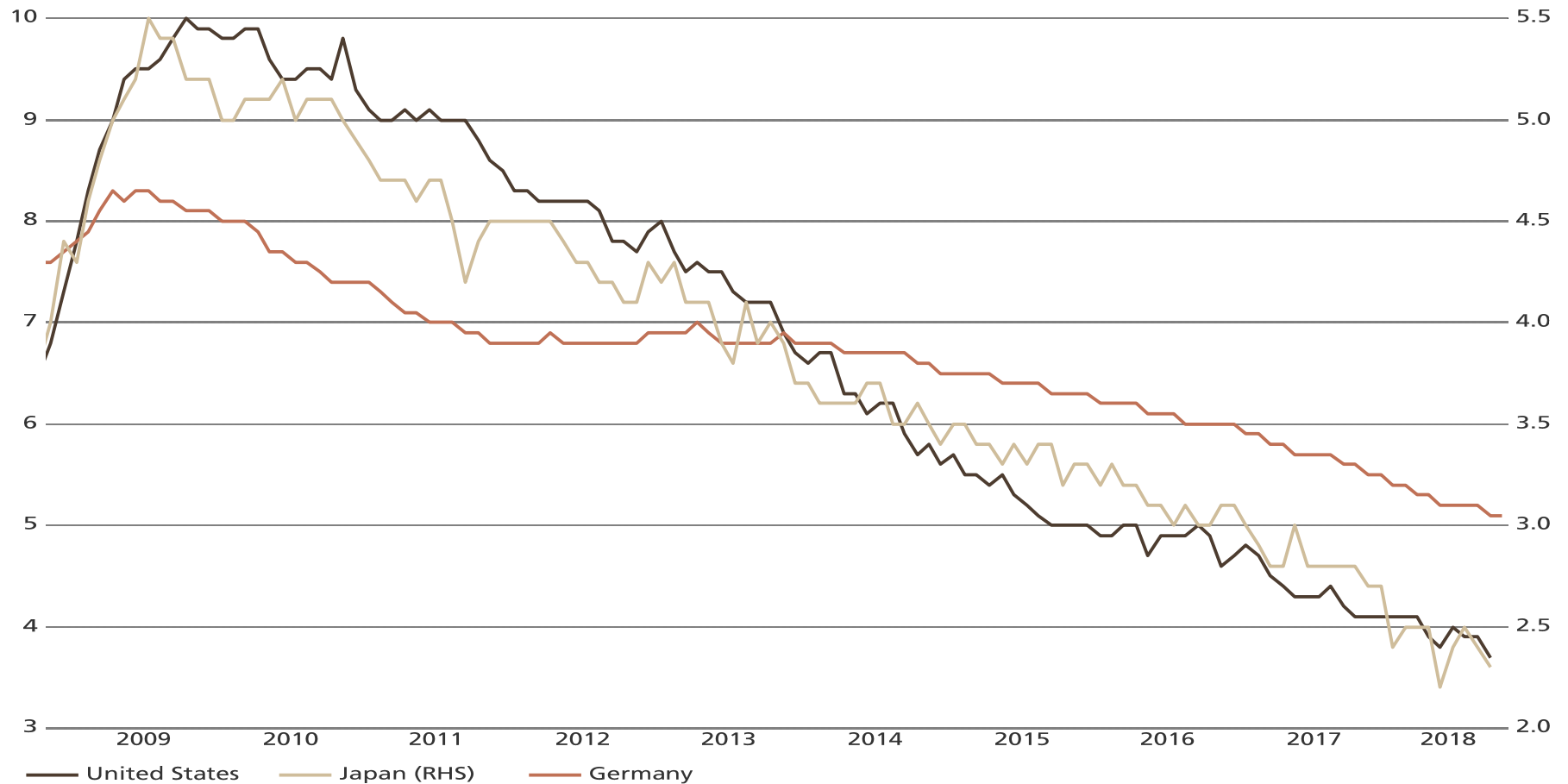


Source: UBS Asset Management, Datastream as at October 31, 2018

Risk: Inflation goes higher in major economies

Due to higher oil, reducing slack and accelerating wage growth

Unemployment Rate: US, Japan, Eurozone



Source: UBS Asset Management, Datastream as at October 31, 2018

Risk: Brexit impact on UK assets

We see sterling as most exposed to the range of possible outcomes

Euro to Pound Sterling

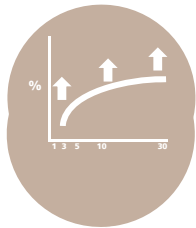


Source: UBS Asset Management, Datastream as at November 14, 2018

November 2018: Our key asset allocation themes



Global growth steadies above-trend



Moderately higher inflation and bond yields



Geopolitics and Protectionism



Central Bank Balancing Act



Higher volatility

Source: UBS Asset Management Investment Solutions Asset Allocation team as at October 31, 2018. Views are not necessarily reflective of actual portfolio positioning and are subject to change.

Your mandates with UBS

Funds in which East Sussex invest in:

Equities – GBP 1,648.0m

- Life UK Equity Tracker Fund
- Life All World Equity Fundamentally Weighted Index Fund
- **Life Climate Aware World Equity Fund**
- Life Global Emerging Markets Equity Tracker Fund
- Life Europe Ex-UK Equity Tracker Fund
- Life Japan Equity Tracker Fund
- Life Pacific Ex-Japan Equity Tracker Fund
- Life North America Equity Tracker Fund

Fixed Income - GBP 191.2m

- Life Over 5 Year Index-Linked Gilt Tracker Fund

Alternative Assets – GBP 19.2m

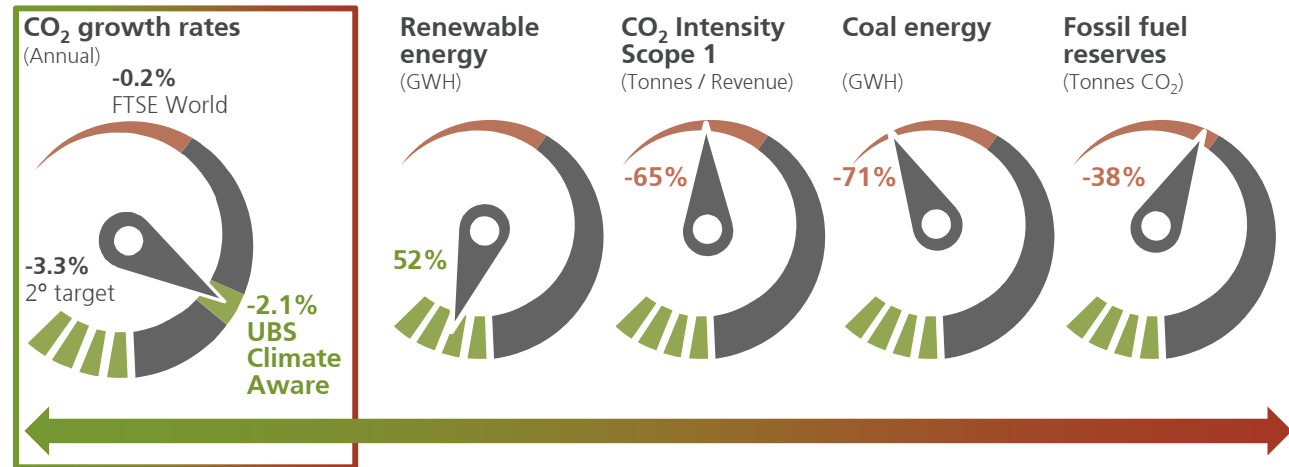
- Infrastructure

Source: UBS Asset Management as at September 30, 2018

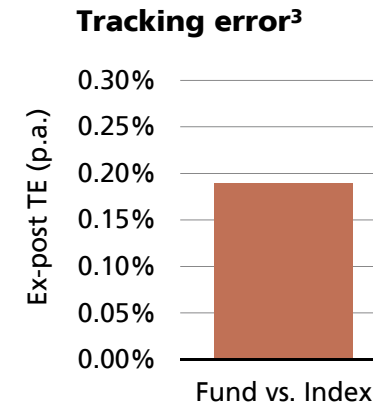
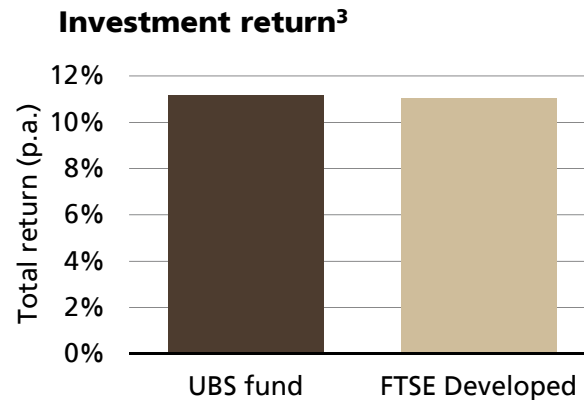
UBS Climate Aware Rules-Based Global Equity Fund: key metrics and performance¹

Selected achieved relative exposures (as of September 2018)²

↑ **2DS glide path:** 30% tilt towards companies most aligned to meet industry carbon reduction targets



Reducing carbon risk without sacrificing returns

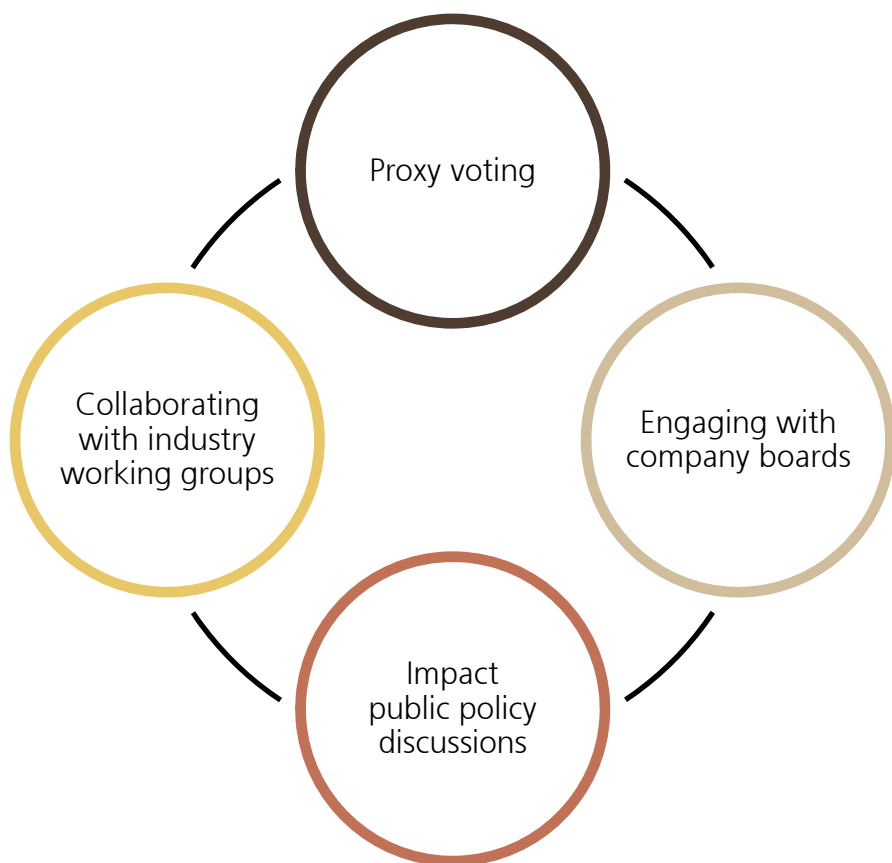


Source: UBS Asset Management, Asset4, Trucost, FTSE Russell.

- 1 Data is for existing UK domiciled Climate Aware Fund as an illustration of ESG metrics and performance metrics for a live fund.
- 2 First graph shows estimated growth rates as portfolio/benchmark weighted averages of stocks in industry groups related to climate change. Growth rates are computed over five year time weighted averages.
- 3 Annualised data since composite inception on 28 February 2017 to 30 September 2018. Ex-post TE between Fund vs. FTSE Developed Index. Past performance is not a reliable indicator of future results. Historical tracking error is not a guide to the future.

Stewardship of your assets

Voting and corporate engagement on global basis across asset classes



Long stewardship track record

- 20+ years of engaging with boards
- Signatories to UK and Japanese Stewardship Codes
- Supportive of Hong Kong Principles for Responsible Ownership
- Signatory of PRI since 2009
- Member of the TCFD – Taskforce on Climate Related Financial Disclosure

Active involvement in shareholder groups

- Asian Corporate Governance Association – ACGA
- International Corporate Governance Network – ICGN
- Council of Institutional Investors – CII
- UK Investor Forum
- Institutional Investor Group on Climate Change – IIGCC

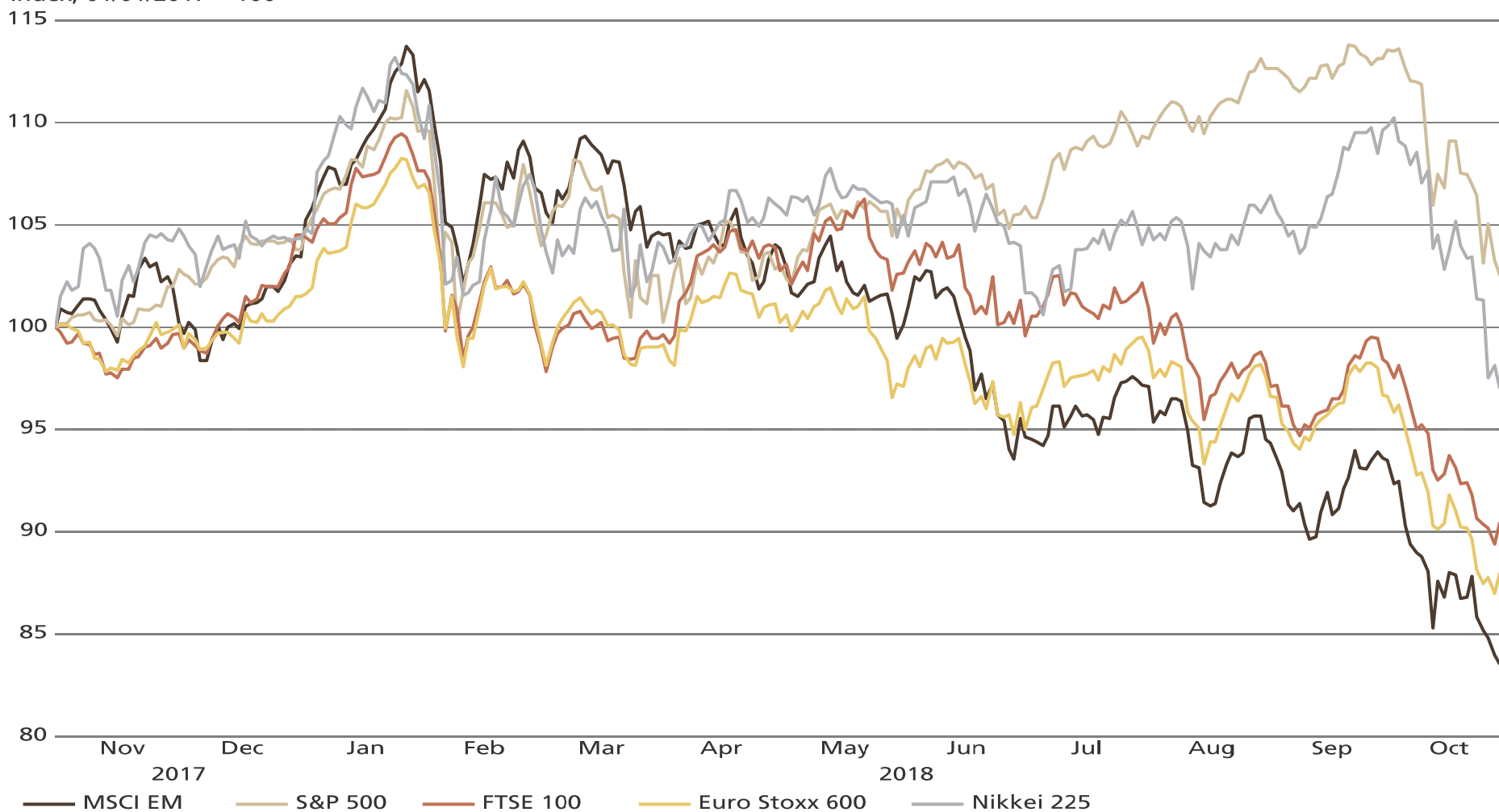
Source: UBS Asset Management, for illustrative purposes only

Appendix

Major Equity Market 12m returns – USD

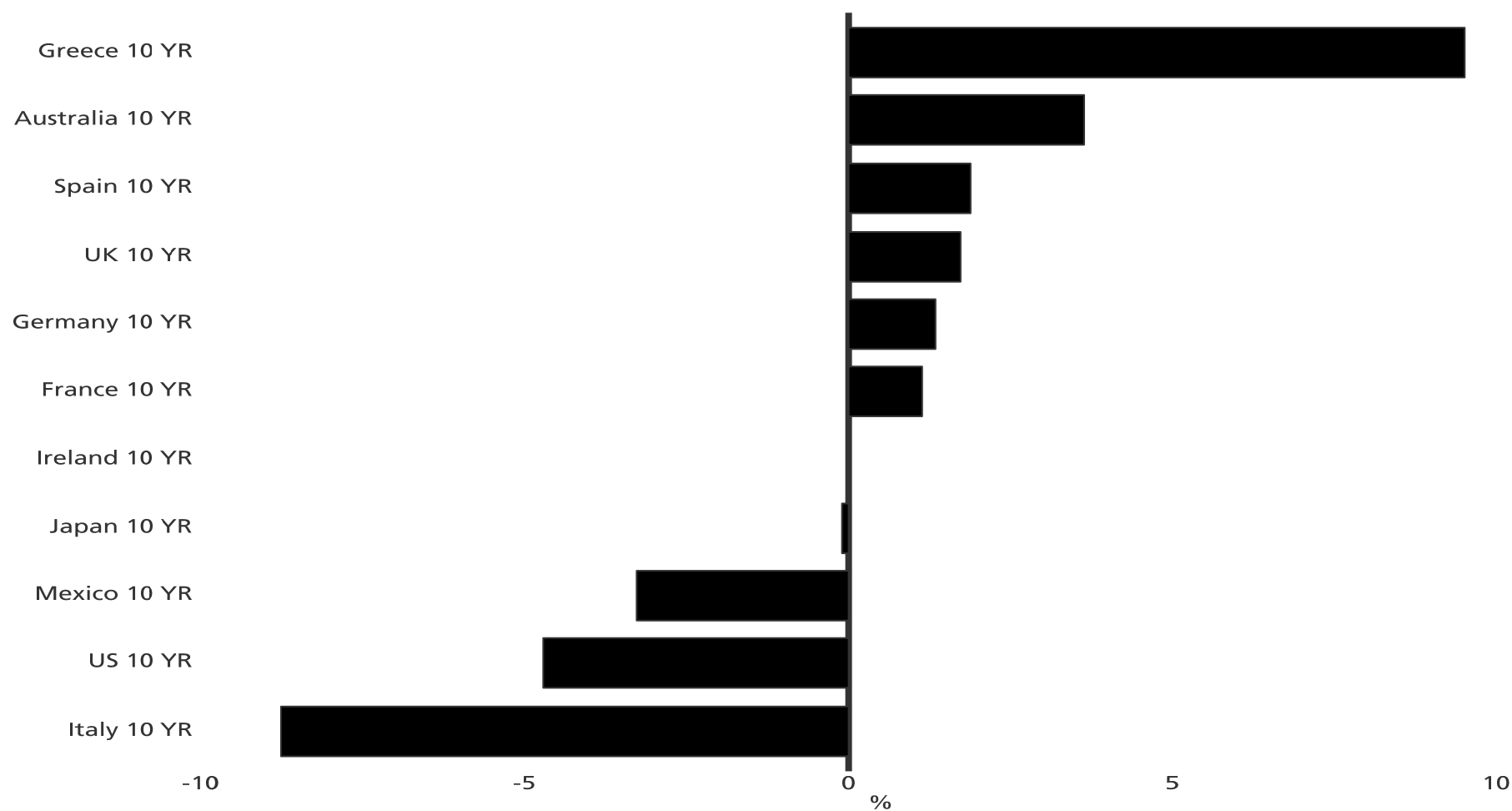
Major equity indices past 12m (in USD)

Index, 01/01/2017 = 100



Source: UBS Asset Management, Datastream as at October 31, 2018

12m Govt Bond Returns – Local Currency



Source: UBS Asset Management, Datastream as at October 31, 2018

Michael Walsh FIA, CFA, CQF

Senior Investment Specialist
Director



Michael is a Senior Specialist, providing prospects, clients and investment consultants with strategic thinking, market and investment views across our Investment Solutions capabilities. He also plays an important role in designing innovative products and solutions for wholesale, institutional and DC clients with a major focus on the UK marketplace.

Michael joined UBS Asset Management in January 2016. Previously, Michael worked in senior Strategy positions across active equities, multi-asset and liability driven investments at Barclays Global Investors/Blackrock, Legal and General Investment Management and Old Mutual Global Investors. Michael started his career as an investment analyst at Mercer.

Michael is a Fellow of the Institute of Actuaries, a CFA charterholder and holds the Certificate in Quantitative Finance from the Wilmott Institute.

Years of investment industry experience: 15

Education: University College Dublin (Ireland), BAFS

Note: As at March 2018

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Source for all data and charts (unless otherwise stated): UBS Asset Management

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