

Luxury goods

Suitable investment solution for a **crisis-proof sector**

UBS Certificate linked to the Bloomberg Luxury Series 1 Index

Influx into the "Club of Millionaires"

Handmade watches, fine jewellery, fine wines, exclusive designer fashion or high-horsepower sports cars: the market for luxury goods is wide-ranging. The number of consumers who can afford this high-priced variety is steadily increasing. According to the World Wealth Report 2022¹, there were almost 22.5 million "High Net Worth Individuals", or HNWI for short, worldwide in 2021. The consulting firm Capgemini assigns people to this group who have investable assets of more than one million US dollars. Compared to 2020, the "Club of Millionaires" has grown by 7.8 percent. The cumulative wealth of global HNWIs was 86 trillion USD in 2021, according to Capgemini. This sum had thus increased by more than a third within half a decade.

New desire for luxury shopping

In line with these figures, the global market for personal luxury goods has recovered in a V-shape from the historic slump in the wake of the corona pandemic. In 2021, global sales reached 288 billion euros, according to Bain & Company². As a result, the sales volume increased by 30.1 percent compared to the previous year and even exceeded the level of 2019. According to the consulting firm, the luxury market benefited, among other things, from a strong Christmas business. In early 2022, growth continued, according to Bain & Company. In the first quarter, global sales at constant exchange rates increased by 13 percent to 15 percent compared to the same period last year. Despite high inflation and a tense geopolitical situation, the business of luxury companies flourished, especially in Europe and the USA. On the other hand, the recent corona lockdowns have slowed down the sector in China after a strong start to the year.

Generations "Y" and "Z" as growth drivers

In principle, however, Bain & Company² continues to show a strong interest in luxury items among consumers in the Middle Kingdom. Therefore, this important market should recover sooner or later. The experts' forecast is also positive for the rest of the world: in 2025, they expect a global volume of 360 billion to 380 billion EUR in the personal luxury goods business. This



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| Currency | ISIN | Alpha Code |
|----------|--------------|------------|
| ZAR | ZAE000323473 | ULUXSE |

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would mean that the market would expand by up to almost 32 percent compared to last year.

Enormous pricing power

UBS CIO GWM³ shares the positive assessment of the luxury sector. Analysts particularly like the high margins of the companies active here. At the same time, they attest to the industry's particular resilience to crises. This is especially true in the context of sharply rising energy prices and generally rising inflation. Here, more than ever, the pricing power of luxury companies is paying off. In this way, they can pass on the higher production costs to the wealthy clientele. As an example, UBS CIO GWM cites a handbag from Louis Vuitton: Since 2002, the French label has enforced prices for this article that were on average 2.5 times higher than US inflation. E-commerce is playing an increasingly important role in the luxury goods business – also and precisely because of the outlined generational change among consumers. The pandemic did the rest: For a long time, many brands had avoided selling their items online. During the lockdowns, they responded to the closure of brick-and-mortar stores and boutiques by setting up and expanding online shops⁴.

The full spectrum in an index

The Bloomberg Luxury Series 1 Index provides investors with direct access to this important growth market. The Bloomberg Developed Markets Large & Mid Cap Index, which contains a total of more than 1,600 companies, acts as the selection universe for the new theme index. From this large pool, 19 companies are filtered out, which are among the most important players in the global luxury market. Consequently, they generate the majority of their sales in this business. First, the stocks included in the Bloomberg Luxury Series 1 Index are equally weighted, with rebalancing on a quarterly basis. A look at the initial composition shows that companies from North America and Europe set the tone. At the same time, the enormous diversification with regard to the luxury items covered becomes clear. LVMH is an example of this: well-known fashion houses such as Louis Vuitton or Christian Dior are just as much a part of the French industry giant's spectrum as the Moët & Chandon winery or the watch and jewellery addresses Bulgari, Hublot and Tag Heuer.

The product solution

UBS Tracker certificates track the performance of the Bloomberg Luxury Series 1 Index 1:1. The duration of participation products denominated in CHF is unlimited. Since the underlying asset is a net return index, the dividends of the companies included are reinvested net. This gives investors an effective and cost-effective opportunity to invest in a crisis-resistant sector with a positive long-term outlook.

Opportunities

- Participation in international companies operating in the crisis-resistant luxury industry.
- Objective-focused and transparent index design: the composition is checked regularly and adjusted as needed.
- Diversification: Underlying asset contains luxury companies from different market segments and regions.
- Index components are selected by Bloomberg, the index provider.
- Net dividends accrued from the corporations contained in the index are reinvested in the index.
- Tradable every trading day under normal trading conditions.

Risks

- No capital protection: investors run the risk of losing their capital investment if the price of the underlying index worsens.
- The issuer intends to ensure liquidity in normal market phases on trading days. However, investors should realise that they may not be able to buy / sell the product at every point in time.

- Systematic risk: the development of the yield depends on the respective market conditions.
- As the assets included in the index may be listed in different currencies from the product and the products do not have any currency hedges, the investor may also be exposed to exchange rate risk, which may adversely affect the value of the product.
- Each investor bears the general risk that the financial situation of the issuer may worsen. In the event of the insolvency of the issuer, the products are direct, unsecured and subordinated liabilities of the issuer.
- The issuer has the right to cancel the products if certain conditions are met.

UBS Certificate linked to the Bloomberg Luxury Series 1 Index

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| Underlying | Bloomberg Luxury Series 1 Net Return Index |
| ISIN | ZAE000323473 |
| UBS AG credit rating | S&P A+ Moody's Aa3 Fitch A+ |
| Primary exchange | Johannesburg Stock Exchange |
| Management fee | 0.50% p.a. |
| Issue date | 21 June 2023 |
| Maturity date | 27 June 2028 |
| Issue price | ZAR 100.00 |
| Settlement currency | ZAR |
| Alpha Code | ULUXSE |

Investor profile

Solutions for investors with experience in stock market topics and structured products and with a medium to increased risk tolerance who would like to participate in the performance of the equities included in the index at little capital and administrative expense.

The product documentation, i.e. the applicable pricing supplement and termsheet can be found on keyinvest-za.ubs.com

Further information about the Index and the methodology used to compute the level of the Index is available at the website of the index calculator.

¹Capgemini, The World Wealth Report 2022, 2022

²Bain & Company, Luxury Goods Worldwide Market Study Fall 2021, 2022

³UBS CIO GWM, Global Research and Evidence Lab, European Luxury, Luxury & energy crisis – what are the risks?, 2022

⁴Moneyweek, How to invest in luxury goods, 2022

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