

UBS Australian Share Fund

November 2020

Fund description

The Fund is an actively managed fund investing in a portfolio of 30–70 listed Australian equity securities listed on the Australian Securities exchange.

Investment return objective

The Fund aims to outperform (after management costs) the S&P/ASX 300 Accumulation Index over rolling five year periods.

Active security positions

Overweight	Underweight
Australia and NZ Banking	CSL
Atlas Arteria	National Australia Bank
BHP	Wesfarmers
Aristocrat Leisure	Macquarie Group
Westpac Banking	Woolworths Group

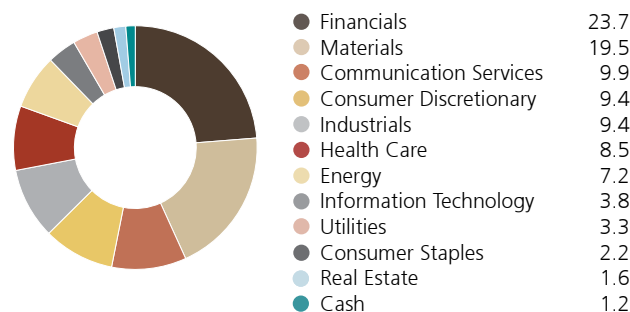
Active industry positions

Overweight	Underweight
Media & Entertainment	Real Estate
Consumer Services	Diversified Financials
Transportation	Pharmaceuticals Biotechnology & Life Sciences
Energy	Commercial & Professional Services
Telecommunication Services	Food Beverage & Tobacco

Fund information

Inception date	15 July 1992
Fund size	\$393.1 m
Management fee	0.90% pa
Minimum initial investment	\$10,000 (via online application \$5,000)
Typical number of holdings	30 to 70
Distributions	Semi-annually
Buy/sell spread	+/- 0.25%
APIR code	SBC0817AU

Fund positioning (%)



Investment performance

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	10.96	9.36	(5.62)	2.48	4.48	9.54
Benchmark**	10.23	8.27	(1.62)	7.05	9.13	9.32
Added Value	0.73	1.09	(4.00)	(4.57)	(4.65)	0.22

*The UBS Asset Management price/value equities process was adopted on 1 April 1996. **S&P/ASX 300 Accumulation Index. All Ordinaries Accumulation Index prior to June 2000.

Performance figures are net of ongoing fees and expenses. The performance figures quoted are historical, calculated using end of month redemption prices, and do not allow for the effects of income tax or inflation. Total returns assume the reinvestment of all distributions. Performance can be volatile and future returns can vary from past returns.

Portfolio review

After fees and expenses, the portfolio increased by 10.96% over the month, outperforming its benchmark by 73bps.

Positive contributors were Worley, Origin Energy and ANZ Bank. Worley and Origin Energy outperformed after Brent Crude increased by 27% during the period, with the latter delivering a positive Investor Day. Management guided for higher production and lower costs at APLNG, offsetting a more challenging Energy markets outlook. ANZ Bank delivered a positive 2H20 result, where overall relief on bad and doubtful debts and capital requirements outweighed continued weakness in revenue (-1.2% h/h).

Negative contributors were National Australia Bank (not held), APA Group and Ansell. NAB delivered a solid 2H20 result in which revenue increased by 5.3%, underpinned by a turnaround in market income. APA announced the construction of a \$460mn pipeline connecting Perth Basin gas fields to the Goldfields Region in Western Australia. The project represents a step-up in risk as only 25% of the pipeline capacity will be contracted at commencement. Ansell underperformed despite upgrading FY21 guidance. Management expects EPS in the range of US135-145c, above its prior forecasts.

Market review

Australian equities rose alongside global markets in November, driven by positive vaccine news and a decisive US election outcome.

The S&P/ASX 300 Accumulation Index returned 10.2% in November, taking its 12-month return to -1.6%. The return was behind global equities, with the MSCI World Index and S&P500 returning +12.0% and +10.9% respectively. Markets surged globally after three major COVID-19 vaccine candidates were announced as highly effective in extensive trials, and after Joe Biden was declared the winner of the US Presidential Election.

Sectors which were hit hardest by COVID-19 rallied sharply. Energy (+28.2%) was the strongest performer as Brent Crude lifted 27% to \$US47.50 per barrel, led by Worley (WOR, +37.1%), Origin Energy (ORG, +29.5%), Santos (STO, +30.2%) and Beach Energy (BPT, +49.2%).

Other strong performers included the Banks (+18.3%), Retail REITs (+27.8%), Transportation (+12.1%) and Consumer Services (+13.6%), with travel services companies like Webjet (WEB, +65.3%) and Flight Centre (FLT, +52.0%) rebounding.

Conversely, sectors which had proved resilient during the downturn – Gold (-10.3%), Utilities (+1.5%), Consumer Staples (-0.7%), Health Care (+2.9%) and Information Technology (+4.1%) – underperformed. At a stock level, the worst performers included Saracen Minerals (SAR, -16.5%), NEXTDC (NXT, -11.7%) and Ansell (ANN, -6.9%).

Outlook

The recovery phase for the Australian economy is now well underway. Despite the concerning trends for new COVID-19 cases in the US and Western Europe, global economic data has continued to show solid improvement through Q3 and into Q4 2020. The contrast with Australia could not be greater. COVID cases in Australia have reverted to their June lows and the gradual reopening in Victoria means that 100% of Australia is now in recovery mode. Economic recovery is occurring even faster than our relatively optimistic forecasts and economic growth now looks set to contract by less than 3% in 2020 before expanding by a forecast 5.5% in 2021.

The driving force of the recovery into 2021 will be consumption growth. The combination of the highest household saving ratio since the mid-1970 in concert with resilient asset prices, declining unemployment, rising hours worked and improving consumer confidence is expected to underpin a 7.0% rise in consumption growth in 2021.

A secondary force assisting the recovery is the upswing in new housing approvals, new housing orders, and housing finance approvals. Despite a sharp drop in net migration and earlier concerns over house price declines, sentiment regarding housing has been buoyed by record low interest rates, a shift in responsible lending onus back to the borrower and large government incentives for construction.

Looking beyond the US election, we expect additional expected fiscal stimulus in the US, additional expected QE in major offshore markets and a new QE program in Australia will leave a pro-growth fiscal and financial conditions environment for Australian economic growth and earnings growth.

The RBA's explicit aim of QE is to lower Australia's longer term bond rates and lower the A\$. We expect the RBA to be partially successful in moderating the appreciation of the A\$, however, upward A\$ pressure will likely remain as the global economic recovery continues. We expect the A\$ to finish CY20 at 75c and 2021 at 80c.

We see significant value in certain sectors but believe others to be overvalued based on our earnings and cash flow expectations. We are most overweight stocks within the Communication Services, Energy and Consumer Discretionary sectors, and underweight Real Estate, Financials and Consumer Staples.

Client Services

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