

# UBS Australian Bond Fund



November 2020

## Fund description

The Fund is an actively managed, diversified portfolio of largely investment grade fixed income securities, cash equivalents and cash.

## Investment strategy

The Fund is actively managed, based on fundamental research that draws upon the investment insights of our fixed income teams. The approach employs both “top-down” research, including analysis of economic factors, market data and macro credit themes and “bottom-up” research in respect of particular securities, including analysis of earnings and cash flow stability, balance sheet strength, industry and valuation.

The Fund’s investment strategy is to invest in a portfolio of largely investment grade fixed income securities, cash equivalents and cash.

## Investment return objective

The Fund aims to outperform (after management costs) the Bloomberg AusBond Composite 0+Yr Index over rolling three year periods.

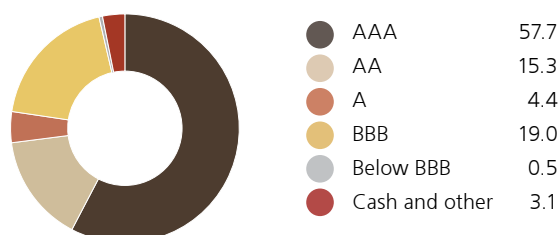
Key statistics	Fund	Benchmark <sup>1</sup>
Modified duration (yrs)	6.38	6.08
Spread duration <sup>2</sup> (yrs)	3.63	2.18
Weighted avg maturity (yrs)	7.43	6.90
Average credit quality	AA	AA+
Yield to maturity <sup>3</sup> (%)	0.97	0.64

<sup>1</sup> Benchmark statistics do not reflect month end rebalancing for new issues and reinvestment of coupons.

<sup>2</sup> Option adjusted spread duration ex Treasury.

<sup>3</sup> Yield to Maturity (YTM) is the estimated annualised rate of return that would be received if the Fund’s current securities were all held to maturity. Note that YTM does not account for fees or taxes. YTM is not a forecast, and is not a guarantee of the future return of the Fund.

## Credit quality (%)



Note: Credit ratings for physical holdings only, ‘cash and other’ includes the effect of derivatives.

## Fund information

Inception date	30 November 1989
Fund size	\$1,395.5 m
Management fee	0.45% pa
Minimum initial investment	\$10,000 (via mFund and online application \$5,000)
Distribution frequency	Quarterly
Buy/sell spread <sup>4</sup> effective 17/09/20	+ 0.025% / – 0.08%
APIR code	SBC0813AU
mFund code	UAM04

<sup>4</sup> Due to increased volatility in the markets resulting from COVID-19, the buy/sell spreads for certain funds may have varied. For more information, please download our latest Buy/sell spreads from our [website](#).

## Fund positioning – modified duration contribution (yrs)

By sector	Fund	Benchmark
Government nominal <sup>5</sup>	2.90	3.91
Government inflation-linked	0.00	0.00
Semi-government	1.81	1.50
Government related	0.45	0.41
Corporates	1.08	0.26
Financials	0.23	0.10
Industrial	0.67	0.12
Utility	0.19	0.03
Credit hedge <sup>6</sup>	0.00	0.00
Securitized	0.13	0.01
Cash and cash equivalents	0.00	0.00

## By Tenor

0–3 year	0.42	0.35
3–5 year	0.15	0.70
5–7 year	1.47	0.98
7–10 year	1.89	1.75
10+ years	2.44	2.29

<sup>5</sup> Includes derivatives.

<sup>6</sup> Spread duration contribution.

## Investment performance

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	0.03	1.55	2.96	5.13	4.66	7.82
Benchmark**	(0.11)	1.25	3.04	5.32	4.68	7.80
<b>Added Value</b>	<b>0.14</b>	<b>0.30</b>	<b>(0.08)</b>	<b>(0.19)</b>	<b>(0.02)</b>	<b>0.02</b>

\*Inception date: 30 November 1989. \*\*Bloomberg AusBond Composite 0+ Yr Index.

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.

### Market highlights

- Australian bonds sold off as the vaccine news dominated markets over November
- Australian credit markets enjoyed a rally with the US election result, positive vaccine news and the reopening of Victoria
- RBA cut a series of its policy rate tools in November
- Economic data continues to show evidence of a stronger than expected rebound

### Performance review

After fees and expenses, the portfolio increased by 0.03% over the month outperforming its benchmark by 14bps.

November was a strong month for risk assets with global equities and bonds rallying in the wake of the outcome of the US presidential election and positive news on the development of effective COVID-19 vaccines. Within Fixed Income US 10-year Treasury yields declined immediately following the US election results, then moved higher on vaccine optimism. The Australian bond market underperformed global counterparts given longer-dated Australian government bond yields stepped higher over the month. Australian 3 year government bond yields initially traded lower but this was short-lived as they retraced to close the month back near where they began at 0.11%. Meanwhile 10 year government bond yields closed the month 7bps higher at 0.90%. Australian credit markets enjoyed a rally with the US election result, positive vaccine news and the reopening of Victoria.

We entered November with a long duration position held in the 10 year part of the Australian curve. Government bonds enjoyed a brief rally on the announcement that the Reserve Bank of Australia (RBA) had eased monetary policy at its November Board meeting, as was widely expected by market participants. The 'significant package' included a cut in the official cash rate from 0.25% to 0.10%, reduction of the target yield for 3 year government bonds to 0.10%, reduction of the Term Funding Facility rate to 0.10%, and A\$100bn of government bond purchases 'with maturities of around five to 10 years' over the next six months. Market attention then turned quickly to the US Presidential election, with Australian government bond yields moving in sympathy with US Treasuries over the subsequent days, rallying on the initial election night uncertainty before selling off as swing-state results began to favour President-elect Biden. We added some duration during the sell-off, going longer in the belly of the curve as well as around the 10 year node. Bond yields then steadied, trading within a relatively tight range over the rest of November. The 3 year yield closed lower on the month, anchored by \$5 billion of yield curve control purchases from the RBA, while 10

year yields rose marginally, reflecting global trends. Our long duration position detracted modestly from relative performance.

Credit positioning was a strong positive contributor to performance as Australian credit spreads tightened over the month. The RBA's inclusion of semi-government bonds in its asset purchases was positive for spreads in that sector, where we have long retained an overweight allocation. Elsewhere, our selective overweight exposure within corporate credit added to excess returns, with positioning in industrial names particularly beneficial for performance. BBB credit spreads outperformed higher rated names, adding to performance here. We also closed our small underweight to sovereign, supranational and agency bonds by adding some exposure to the World Bank through the primary market. Later in the month, we took some profits on the semi-government positions to participate in the inaugural bond issuance from the NBN.

### Outlook

Consensus and central bank economic forecasts have been marked up as realised outcomes have surprised markets to the upside. Our outlook is more restrained than the now more optimistic consensus reflecting the rolling nature of COVID-19 resulting in a recovery that continues to be uneven across sectors and regions.

Fiscal policy has now assumed a lead policy role but monetary policy will continue to be actively supportive to growth. Central banks have explicitly provided guidance that policy settings will remain in place for an extended period including beyond the turn in the inflation cycle. The tools of choice will be asset purchase and liquidity programs rather than a move towards more negative policy rates.

With the US presidential election behind us and the potential for a divided congress, a fiscal stimulus package may be delivered later or be smaller than markets expect. Positive developments on a vaccine are moving apace where availability and take-up is expected to broaden beyond essential workers into Q1 2021.

The pace and efficacy of the vaccine roll-out will have a material bearing on the evolution of the employment market. Near-term, savings and wage subsidies are providing a cushion to income but will fade by Q2 2021.

In Australia, Prospects for the labour market remain first and foremost in the minds of RBA Board members. We expect that the central bank will continue to pursue a highly accommodative monetary stance for a long time, in order to support fiscal initiatives on job creation as the economy recovers from the pandemic shock. Bond purchases will continue for the next six months and may be extended if necessary. The RBA has also been forceful with its market

interventions in furtherance of the yield curve control target. Given the significant steps taken at the November meeting, further policy action is unlikely in the near term.

Within credit, investor demand remains strong in an environment where issuers continue use debt to shore up liquidity. Explicit support for high quality credit by central banks in the US and Europe will help keep a ceiling on spreads despite increasing leverage and limited earnings growth. The Australian corporate credit market has continued to perform well. We remain modestly positive toward most investment grade credit but maintain caution within high yield securities.

## Client Services

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