



UBS Diversified Fixed Income Fund

November 2020

Fund description

The Fund is an actively managed, diversified portfolio of Australian and global fixed income assets.

Investment strategy

The strategy is managed employing both top-down macroeconomic research and bottom-up security specific analysis to build a portfolio with the core defensive characteristics of the fixed interest asset class. Whilst the Fund seeks to be fully hedged to Australian dollars, we may invest in strategic foreign currency exposures that will not exceed 10% of the total portfolio.

Investment return objective

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.

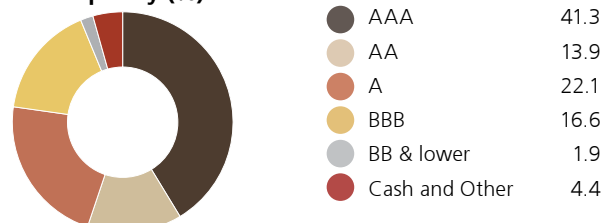
Key statistics	Fund	Benchmark ¹
Modified duration (yrs)	7.12	6.79
Spread duration ² (yrs)	3.87	3.22
Weighted avg maturity (yrs)	8.35	7.83
Average credit quality	Aa3	Aa2
Yield to maturity ³ (%)	1.07	0.73

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

² Option adjusted spread duration ex Treasury.

³ 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	31 January 1997
Fund size	\$1,071.1 m
Management fee	0.55% pa
Minimum initial investment	\$10,000 (via mFund and online application \$5,000)
Distribution frequency	Quarterly
Buy/sell spread ⁴ effective 17/09/20	+ 0.05% / - 0.15%
APIR code	SBC0007AU
mFund code	UAM06

⁴Due 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 ⁵	3.91	4.29
Government inflation-linked	0.20	0.00
Semi-government / Local authorities	0.85	0.92
Government related	0.68	0.52
Corporates	1.22	0.84
Financials	0.31	0.25
Industrial	0.74	0.50
Utility	0.17	0.09
Securitised	0.25	0.23

By Country

Australia	3.27	3.14
USA	1.44	1.30
Japan	0.54	0.67
Canada	0.15	0.11
Euro area	0.83	0.92
UK	0.16	0.29
New Zealand	0.26	0.00
China	0.46	0.18
Other	0.00	0.16

⁵Includes derivatives.

Investment performance

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	0.11	0.89	3.02	4.34	4.29	6.05
Benchmark**	0.21	1.07	3.79	4.97	4.58	6.49
Added value	(0.10)	(0.18)	(0.77)	(0.63)	(0.29)	(0.44)

*Inception date: 31 January 1997. **50% Bloomberg AusBond Composite 0+ Yr Index / 50% Bloomberg Barclays Global Aggregate (hedged to \$A). 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 0.11% over the month, underperforming the benchmark by 10bps.

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%. In the US, 10-year Treasury yields declined immediately following the US election results, in anticipation of potentially lower levels of fiscal stimulus than under a Blue Wave outcome. Yields subsequently moved higher on vaccine optimism, peaking at 0.97% on the 11th November before finishing the month at 0.84%. In Europe, German 10-year bund yields followed a similar path peaking at -0.49% before moving lower to -0.57%.

Our overweight duration positions in Australia and New Zealand detracted from relative performance, as both markets underperformed global peers with the risk-on sentiment subsequent to the US election. Chinese sovereign bonds also underperformed, at the margin, but remain attractive in real terms. Elsewhere, our overweight positions in both Australian and global credit made strong positive contributions to performance, while a short currency position in the NZD detracted from returns before being closed by month-end.

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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