

UBS Australian Bond Fund



April 2021

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.

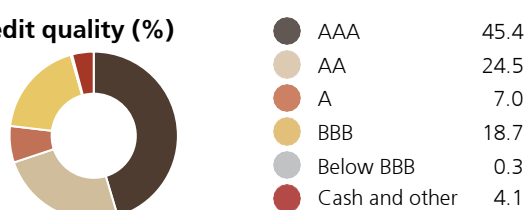
Key statistics	Fund	Benchmark ¹
Modified duration (yrs)	6.17	5.80
Spread duration ² (yrs)	3.38	2.16
Weighted avg maturity (yrs)	7.26	6.62
Average credit quality	AA	AA+
Yield to maturity ³ (%)	1.41	1.06

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	30 November 1989
Fund size	\$1,228.4m
Management fee	0.45% pa
Minimum initial investment	\$10,000 (via mFund and online application \$5,000)
Distribution frequency	Quarterly
Buy/sell spread	+ 0.025% / - 0.08%
APIR code	SBC0813AU
mFund code	UAM04

Fund positioning – modified duration contribution (yrs)

By sector	Fund	Benchmark
Government nominal ⁴	2.75	3.65
Government inflation-linked	0.00	0.00
Semi-government	1.68	1.49
Government related	0.54	0.40
Corporates	1.09	0.25
<i>Financials</i>	0.41	0.10
<i>Industrial</i>	0.48	0.12
<i>Utility</i>	0.20	0.03
Credit hedge ⁵	-0.22	0.00
Securitised	0.10	0.01
Cash and cash equivalents	0.00	0.00
By Tenor		
0–3 year	0.35	0.38
3–5 year	0.52	0.68
5–7 year	1.33	0.86
7–10 year	1.73	1.82
10+ years	2.25	2.06

⁴ Includes derivatives.

⁵ Spread duration contribution.

Investment performance

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	0.59	(2.51)	(0.35)	4.01	3.49	7.61
Benchmark**	0.56	(2.26)	(1.19)	4.29	3.52	7.59
Added Value	0.03	(0.25)	0.84	(0.28)	(0.03)	0.02

*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 government bond yields traded slightly lower over the month.
- Australian credit spreads tightened modestly.
- The RBA kept the cash rate at 0.10% in April, and reaffirmed that the rate will remain at low levels for the next few years.

Performance review

US long-term bond yields fell at the beginning of April and then remained broadly range-bound for the rest of the month. The 10-year US yield finished the month at 1.63%, 11 basis points lower than the peak reached at the end of March. The Australian bond market delivered a positive return in April, with government bond yields declining and corporate spreads compressing over the month. The Bloomberg AusBond Composite 0+Yr Index returned 0.56% in April, on the back of a strong return from domestic bonds in March. The spread of the Bloomberg AusBond Credit 0+ Index over government yields narrowed by 9 bps to 62bps.

The portfolio continued to hold a small overweight duration position in April. We were positioned with a curve flattening bias, favouring the belly of the curve – with shorter-dated bond yields pinned down by the RBA's policy of yield curve control. With five-year government bonds rallying by around 5 bps over the month, our rates positioning made a positive contribution to relative performance.

Our overweight position in corporate credit made a positive contribution to returns, as Australian corporate bond spreads narrowed significantly over the month. During April we incrementally added to our credit exposures, buying a number of new financial, utility and RMBS issues. The overall return contribution from credit was tempered somewhat by our partial iTraxx credit risk hedge; this credit protection helped buffet the portfolio in March, but had the reverse effect in April. Our overweight position to semi-government bonds also contributed to performance, as spreads on state government debt contracted in April.

Outlook

We remain optimistic on the outlook for global growth. Our expectations are driven primarily by clear signs of pent-up consumer demand, particularly in the US. The uneven and evolving nature of the COVID-19 virus suggests the recovery will continue to be uneven across sectors and regions.

The varied pace of rollout of COVID-19 vaccines, and the impacts emanating from the growing genetic mutations, continues to underpin how markets see the recovery unfolding. Further fiscal support in the US is expected and markets will continue to focus on the evolution of the Biden administration's broader policy agenda particularly in relation to foreign policy and regulation.

Along with stimulatory fiscal policy, monetary policy settings remain highly accommodative. Central banks will retain these settings for an extended period to support the economy. Although we expect inflation to move higher on stronger growth and near-term supply bottlenecks, this will not be sufficiently great to warrant central banks prematurely changing course. Indeed, should further stimulus be required, central banks have signalled they will act and we expect this would likely be through further balance sheet adjustments.

In Australia, the central bank continues to signal that it will pursue a highly accommodative monetary stance for a long time, in order to support job creation as the economy recovers from the pandemic shock. The excess liquidity that is being generated from the easy monetary policy settings should continue to support the bond market and act as a counterbalance to strength in the exchange rate. While the RBA remain unperturbed for now by potential near-term price pressures, growing broad-based strength in the housing market – with resurgent investor buying adding to robust owner-occupied housing demand – bears watching closely.

Risk assets across-the-board continue to perform strongly. Within credit, we expect investor demand to remain strong in an environment where official cash rates are at or close to zero and investors globally continue their reach for yield. Explicit support for high quality credit by central banks in the US and Europe will also support demand and help to keep a ceiling on spreads. We expect the Australian corporate credit market will continue to perform well.

Client Services

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