

UBS Australian Share Fund

May 2021

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	National Australia Bank
Aristocrat Leisure	CSL
Westpac Banking	Wesfarmers
BHP Group	Woolworths Group
Telstra	Macquarie Group

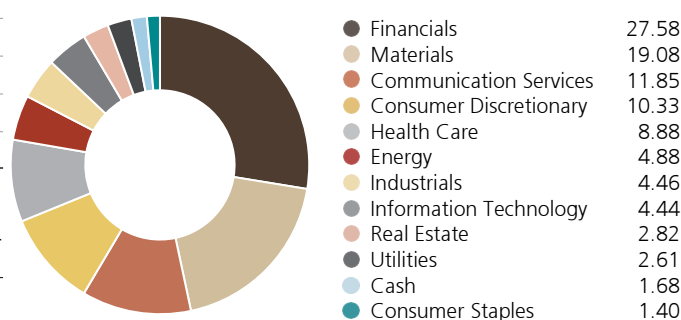
Active industry positions

Overweight	Underweight
Media & Entertainment	Pharmaceuticals Biotechnology & Life Sciences
Telecommunication Services	Real Estate
Consumer Services	Diversified Financials
Health Care Equipment & Services	Food & Staples Retailing
Banks	Commercial & Prof Services

Fund information

Inception date	15 July 1992
Fund size	\$356.4 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	2.42	9.27	32.06	6.94	6.65	9.82
Benchmark**	2.31	8.53	28.72	10.09	10.21	9.58
Added Value	0.11	0.74	3.34	(3.15)	(3.56)	0.24

*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 rose by 2.42% during the month, outperforming its benchmark by 11 bps.

The largest positive contributors were Afterpay (not held), Aristocrat Leisure and Westpac Bank. Afterpay underperformed amid concerns that momentum was slowing across its key markets, with growth in its app downloads moderating, and increasing competition in the BNPL market from large rivals such as PayPal. Aristocrat Leisure delivered better-than-expected 1H21 results, highlighting its leverage to the re-opening US economy and strong competitive position. Westpac Bank announced 1H21 cash NPAT of \$3.537mn, 9% ahead of consensus, and announced an ambitious cost-out program.

The largest negative contributors were Incitec Pivot, APA Group and CSL (underweight). Incitec Pivot underperformed as ongoing operational issues and a soft 1H21 result overshadowed stronger fertiliser prices. Management reported EBIT of \$110mn for the period – 35% below consensus forecasts – as unplanned manufacturing outages, import constraints and flooding caused lower volumes, outweighing the benefit from higher commodity prices. APA Group underperformed without any materially negative news. CSL was also seen as a beneficiary of the re-opening US economy, with foot traffic at its collection centres increasing in recent weeks.

Market review

Australian equities rose in May as Financials and Consumer Discretionary stocks more than offset weakness across Utilities and Information Technology.

The S&P/ASX 300 Accumulation Index rose 2.3% during the month, taking its 12-month return to 28.7%. The benchmark outperformed overseas Indices (with the S&P500 returning 0.7%), supported by the major banks on the back of the federal government's big spending federal budget – with \$96bn of stimulus announced over 5 years – and Australia's strengthening housing market.

Within Banking (+7.3%), the Commonwealth Bank (CBA, +12.0%) and Westpac Bank (WBC, +8.2%) delivered better-than-expected updates. CBA's 3Q21 update revealed revenue growth, slightly higher net interest margins (NIMs) and significantly lower than expected bad and doubtful debts. WBC announced 1H21 cash NPAT of \$3.537mn, 9% ahead of consensus, and announced an ambitious cost-out program.

Elsewhere, Consumer Discretionary (+3.2%) was led by Aristocrat Leisure (ALL, +10.8%) as its 1H21 results highlighted its leverage to the re-opening US economy and strong competitive position. Other top performers included Crown Resorts (CWN, +5.4%) and JB Hi-Fi (JBH, +4.9%).

Conversely, Utilities (-6.6%) weighed on the benchmark due to AGL Energy (AGL, -9.1%) and APA Group (APA, -8.0%). The former declined amid ongoing lower wholesale electricity prices, while the latter underperformed despite reiterating FY21 EBITDA guidance and outlining its growth outlook at its Investor Day, including a plan to shift the business to renewables and transmission.

Within Information Technology (-9.1%), Afterpay (APT, -21.1%) underperformed over concerns its momentum was slowing across key markets as competition increased, while Xero (XRO, -6.3%) delivered a disappointing FY21 result.

Outlook

The recovery in the Australian economy continues to exceed consensus expectations. The Australian economy contracted 2.5% in calendar 2020, however strong sequential growth in 2H2020 and positive momentum in early 2021 will see economic activity in 1Q2021 exceed pre-COVID levels.

The strength of the economic recovery is particularly evident via record levels for business conditions, business confidence and the strength in employment growth. The level of employment already exceeds pre-COVID levels, and after peaking at 7.5% in July 2020 the unemployment rate has declined sharply to 5.6% in March 2021.

Although wage rates remain subdued, the recovery in labour market income has been sufficient to offset the gradual withdrawal of temporary fiscal support. Moreover, the accumulation of \$125bn in excess household saving, in concert with strong asset price gains, leaves the consumer uniquely positioned to underpin economic growth in 2021-2022. Dwelling investment is set to provide solid support for economic growth over the next 18 months following a surge in demand for new housing construction, partly in response to the Government's Homebuilder subsidy. We expect the global economy to expand 6.5% and the Australian economy to expand 6% in 2021.

We continue to expect US inflation to surprise on the upside over the remainder of 2021 and for policy makers to resist pressure to normalise interest rates. This may see bond yields continue to rise at a moderate rate in coming months, however, we are cognisant that global business surveys will likely peak around mid-2021 which may limit the adjustment in bond yields, at least until the Federal Reserve signals it is preparing to taper its asset purchases. We do not expect this to happen until late 2021 at the earliest.

The A\$/US\$ should continue to be well supported by global reflationary forces, including robust commodity price trends. We continue to expect the A\$/US\$ to appreciate to the 81-83c range by the end of calendar 2021.

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 Industrials, Communication Services and Energy sectors, and underweight Health Care, Consumer Staples and Metals & Mining.

Client Services

Telephone: (03) 9046 4041 Freecall: 1800 572 018 Email: ubs@unitregistry.com.au www.ubs.com/am-australia

Investors should consider the PDS and seek professional financial and taxation advice before deciding whether the product is appropriate for them and whether to acquire, or to continue to hold the investment. Your investment in the Fund does not represent deposits or other liabilities of UBS or any member company of the UBS Group including UBS Asset Management (Australia) Ltd (ABN 31 003 146 290) (AFS Licence No. 222605), the issuer of the Fund. Your investment is subject to investment risk, including possible delays in repayment and loss of income and capital invested. The repayment of capital or income is not guaranteed by any company in the UBS Group. Offers of interests in the Fund are contained in the Product Disclosure Statement dated 30 November 2020. The PDS is available from our website www.ubs.com/am-am-pds or by calling (03) 9046 4041.

The PDS for this fund is only available to persons receiving the PDS (electronically or otherwise) while physically in Australia, unless expressly authorised by us in writing. The offer does not constitute an offer or invitation in any place in which, or to any person to whom, it would be unlawful to make such an offer or invitation. This Fund (or the PDS) has not been registered under the laws of any jurisdiction outside Australia. The Fund may not be offered or sold in the United States of America or to 'U.S. Persons' (as defined in 'Regulation S' of the Securities Act of 1933, as amended).

This document may not be reproduced or copies circulated without prior authority from UBS Asset Management (Australia) Ltd.

