

UBS Australian Share Fund

June 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	Macquarie Group
ResMed	Woolworths Group

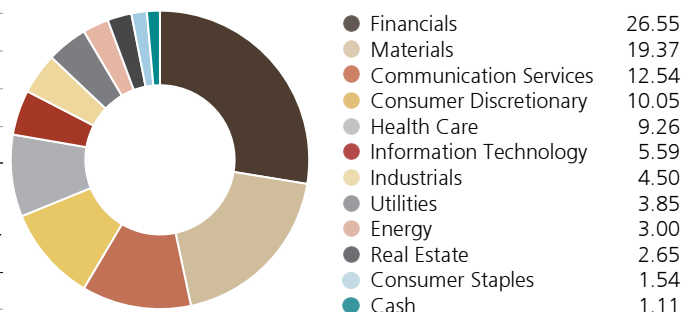
Active industry positions

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

Fund information

Inception date	15 July 1992
Fund size	\$348.0 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	2.57	7.82	30.93	6.63	7.77	9.89
Benchmark**	2.25	8.48	28.49	9.76	11.25	9.63
Added Value	0.32	(0.66)	2.44	(3.13)	(3.48)	0.26

*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 2.57% during the month, outperforming its benchmark by 32 bps.

The largest positive contributors were ResMed, TPG Telecom and National Australia Bank (not held). ResMed retraced prior underperformance after delivering a weaker-than-expected 3Q21 result in the prior month. TPG rallied after management commented that trading was tracking ahead of expectations at the company's AGM. National Australia Bank underperformed after announcing that AUSTRAC had informed it of "potential serious and ongoing non-compliance" with Anti-Money Laundering (AML) and Counter-Terrorism Financing (CTF) laws.

The largest negative contributors were Afterpay (not held), Genworth Mortgage Insurance and Star Entertainment. Afterpay outperformed after PayPal announced it was raising its BNPL pricing, easing the market's concerns that Afterpay's high merchant fees are unsustainable. Genworth Mortgage Insurance underperformed in response to the Commonwealth Bank – Genworth's largest customer – announcing that it would put its lenders mortgage insurance contract out to tender, with the current contract expiring in December 2022.

Market review

Australian equities shrugged off new COVID-19 outbreaks across the country to deliver a solid return in June.

The S&P/ASX 300 Accumulation Index increased by 2.3% in the month to 30 June 2021, taking its 12-month return to 28.5%. The ASX matched global indices, with the MSCI World Index returning 2.4%, despite most major cities going into lockdown at one point during the month in response to COVID-19 cases. Information Technology (+12.4%) rebounded in the period as the Australian 10-year bond yield retraced -12 bps to 1.5%, supporting the sector's valuation (given long-dated cash flows). Top contributors to the benchmark included Afterpay (APT, +27.4%), Altium (ALU, +29.8%) and Megaport (MP1, +22.9%). Consumer Discretionary (+4.5%) also supported the benchmark during the period. Aristocrat Leisure (ALL, +5.0%) benefited from the re-opening US economy, while domestically 'COVID beneficiaries' outperformed amid the lockdowns, including Domino's Pizza (DMP, +9.3%) and Wesfarmers (WES, +6.7%). In contrast, Webjet (WEB, -3.0%) and Flight Centre (FLT, -2.5%) declined.

Other strong performers included Communication Services (+5.6%) as TPG Telecom (TPG, +20.2%) rallied and Telstra (TLS, +6.8%) sold 49% of its stake in TowerCo for \$2.8bn, and Consumer Staples (+5.4%) as Woolworths (WOW, +6.2%) completed the de-merger from Endeavour Group (+4.5%). Conversely, Financials (-0.2%) and Metals & Mining (-0.4%) declined modestly following strong outperformance in prior periods. The former was led by the major banks (-1.4%), while the latter was largely due to the Gold industry (-13.0%).

Outlook

The recovery in the Australian economy continues to exceed consensus expectations. Real GDP contracted 2.5% in calendar 2020, however strong sequential growth in 2H2020 and 1Q21 has seen our economy already exceed pre-pandemic 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 5.1% in May 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 Communication Services, Utilities and Consumer Discretionary sectors, and are underweight Consumer Staples, Real Estate and Health Care.

Client Services

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