

UBS Australian Bond Fund



June 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.

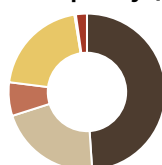
Key statistics	Fund	Benchmark ¹
Modified duration (yrs)	5.94	6.04
Spread duration ² (yrs)	3.47	2.22
Weighted avg maturity (yrs)	6.97	6.85
Average credit quality	AA	AA+
Yield to maturity ³ (%)	1.33	1.02

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 (%)



AAA	48.9
AA	21.1
A	6.9
BBB	20.4
Below BBB	0.3
Cash and other	2.3

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

Fund information

Inception date	30 November 1989
Fund size	\$1,164.9 m
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	2.67	3.82
Government inflation-linked	0.00	0.00
Semi-government	1.51	1.53
Government related	0.61	0.41
Corporates	1.06	0.26
Financials	0.40	0.11
Industrial	0.46	0.12
Utility	0.19	0.04
Credit hedge ⁵	0.00	0.00
Securitised	0.10	0.01
Cash and cash equivalents	0.00	0.00
By Tenor	Fund	Benchmark
0–3 year	0.36	0.35
3–5 year	0.62	0.71
5–7 year	1.09	0.97
7–10 year	1.78	1.90
10+ years	2.09	2.11

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	0.74	1.56	(0.60)	3.95	3.15	7.60
Benchmark**	0.69	1.52	(0.84)	4.21	3.18	7.58
Added Value	0.05	0.04	0.24	(0.26)	(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 flattened over the month, with 3-year yields rising while 10-year and 30-year rallied significantly
- Australian credit spreads tightened marginally
- The RBA maintained the cash rate at 0.10% and continued Bond Purchase Program (QE2) in June.

Performance review

The yield on the 10-year US Treasury declined 13 basis points from the start of June while the German 10-year Bund yield moved little over the month, with yields falling just 2 basis points to -0.19%. Global bond markets posted a positive return in June due to a combination of falling US Treasury yields and tightening credit spreads.

The Australian bond market delivered a modestly positive return in June. The yield curve flattened while credit spreads tightened marginally with financials outperforming non-financials. The Bloomberg AusBond Composite 0+Yr Index returned 0.69% in June.

In June, the long end of the yield curve rallied significantly and we decided it was an opportune time to bring the portfolio duration from a small long position back to neutral. We took the opportunity in the month to switch some shorter-dated government paper into a slightly longer-dated position which benefited from the curve flattening. Our duration and curve positions contributed positively to relative performance as longer-dated government bonds rallied significantly over the month.

FOMC's mid-June meeting signalled a somewhat less dovish stance, with their dot-plot suggesting we may see rate hikes beginning in 2023. Following a brief rally in US treasuries, we took the opportunity to enter into a short US duration position.

Australian semi-government and multilateral/supranational bond spreads widened marginally in June. Despite our overweight position, our issue selection compensated and delivered a flat contribution on relative performance. During the month we enacted a small relative-value switch out of Queensland state bonds back into equivalent-maturity government bonds. The overweight in corporate credit continues to contribute positively to returns, given higher running yield in this sector.

Outlook

While we remain optimistic on the outlook for global growth given easy fiscal and monetary policy settings, the evolving nature of COVID-19 (and the political responses to this) suggests recovery will be uneven across developed and emerging markets. In this regards the varied pace of rollout of COVID-19 vaccines across countries, and the impacts emanating from the growing genetic mutations, will continue to be a headwind to more robust growth and inflationary pulses. While fiscal support in the US is expected to remain, markets will also focus on the Biden administration's policy agenda in relation to foreign policy and regulation.

Although we expect inflation to move higher on stronger growth and near-term supply bottlenecks, it is not expected to be sufficiently strong to warrant central banks prematurely changing course. Monetary policy settings globally remain highly accommodative, and central banks will retain these settings for some time in order to support their economies. However, we expect to see some central banks – with the US Federal Reserve in particular – discussing on a more consistent basis about when they might potentially taper and ultimately begin to raise rates. While 'removing the punch bowl' is still some way off, markets may become skittish if the Fed tries to get too far away from the expectations they have fed to markets over the past year.

In contrast to the US Fed, the RBA continues to be resolute in signalling that it will continue to pursue a highly accommodative monetary stance for a long time. The excess liquidity that is being generated should continue to support the local bond market and act as a counterbalance to currency strength.

Risk assets across-the-board continue to perform well. 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 from central banks in the US and Europe will also underpin demand and is likely to help keep a ceiling on any spread widening episodes. Based on this backdrop, we expect the Australian corporate credit market will continue to perform reasonably well.

Client Services

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