



# UBS Diversified Fixed Income Fund

June 2021

## 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.

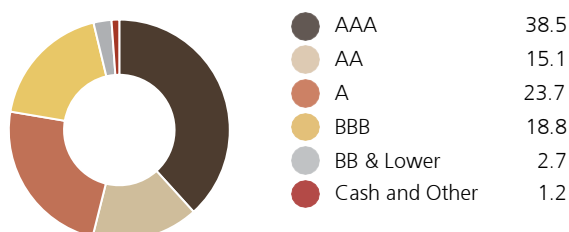
Key statistics	Fund	Benchmark <sup>1</sup>
Modified duration (yrs)	6.20	6.77
Spread duration <sup>2</sup> (yrs)	4.04	3.26
Weighted avg maturity (yrs)	7.33	7.76
Average credit quality	A1	Aa2
Yield to maturity <sup>3</sup> (%)	1.32	1.06

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

<sup>2</sup> Option adjusted spread duration ex Treasury.

<sup>3</sup> 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	\$ 934.2 m
Management fee	0.55% pa
Minimum initial investment	\$10,000 (via mFund and online application \$5,000)
Distribution frequency	Quarterly
Buy/sell spread	+ 0.05% / - 0.15%
APIR code	SBC0007AU
mFund code	UAM06

## Fund positioning – modified duration contribution (yrs)

By sector	Fund	Benchmark
Government nominal <sup>4</sup>	2.81	4.18
Government inflation-linked	0.24	0.00
Semi-government	0.71	0.94
Government related	0.81	0.53
Corporates	1.31	0.82
Financials	0.42	0.25
Industrial	0.71	0.48
Utility	0.19	0.09
Securitised	0.32	0.30

## By Country

Australia	3.05	3.10
USA	0.73	1.37
Japan	0.48	0.63
Canada	0.13	0.11
Euro area	0.82	0.89
UK	0.12	0.28
New Zealand	0.31	0.00
China	0.52	0.20
Other	0.04	0.16

<sup>4</sup>Includes derivatives.

## Investment performance

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	0.60	1.36	(0.57)	3.45	2.83	5.83
Benchmark**	0.59	1.23	(0.49)	4.13	3.03	6.26
<b>Added value</b>	<b>0.01</b>	<b>0.13</b>	<b>(0.08)</b>	<b>(0.68)</b>	<b>(0.20)</b>	<b>(0.43)</b>

\*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 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. US investment grade and high yield corporates led the way followed by hard currency denominated emerging market bonds while European corporate bonds lagged. Local currency EM bonds also fared poorly dragged down by weaker EM currencies.

The US economy continued to recover in June. With more than half of the population having received at least one dose of the vaccine, new COVID-19 cases are at their lowest levels since the early days of the pandemic, enabling more of the economy to reopen. Economic data for May showed inflationary pressure building as the supply side struggled to keep up with strong demand. Negotiations over the next fiscal package continued to progress with an increased likelihood that a bipartisan deal focused on traditional infrastructure would be enacted. At the FOMC meeting on 16 June, the Fed signaled an earlier start to tapering and rate hikes. A majority of FOMC members now sees rate hikes beginning by 2023, with a significant minority looking for hikes in 2022.

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. Australian 3 year government bond yields widened 13bps to 0.41% while 10 year bonds tightened by 18bps to 1.53% as inflation fear subsided following the RBA's reiteration of their dovish stance. The spread between Australian and US 10 year government bond yields narrowed, ending the month at a spread of +5bps (from +11bps at the end of the prior month).

Our long duration position in Australia in early June contributed positively to portfolio performance. Following a brief rally in the long end of Australian and US yield curve, we decided it was an opportune time to bring Australian duration from a long position back to neutral and add short US duration to the portfolio. Our overweight position in

corporate credit made a positive contribution to returns as spreads tightened in global credit markets.

## 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.

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