

# UBS Australian Bond Fund



July 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.

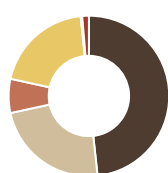
Key statistics	Fund	Benchmark <sup>1</sup>
Modified duration (yrs)	5.70	6.04
Spread duration <sup>2</sup> (yrs)	3.56	2.20
Weighted avg maturity (yrs)	6.68	6.84
Average credit quality	AA	AA+
Yield to maturity <sup>3</sup> (%)	1.14	0.83

<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 (%)



● AAA	48.3
● AA	23.3
● A	6.9
● BBB	19.9
● Below BBB	0.3
● Cash and other	1.3

## Fund information

Inception date	30 November 1989
Fund size	\$ 1,149 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 <sup>4</sup>	2.32	3.84
Government inflation-linked	0.00	0.00
Semi-government	1.63	1.53
Government related	0.61	0.40
Corporates	1.04	0.26
Financials	0.41	0.10
Industrial	0.45	0.12
Utility	0.17	0.04
Credit hedge <sup>5</sup>	0.00	0.00
Securitised	0.10	0.01
Cash and cash equivalents	0.00	0.00

## By Tenor

0–3 year	0.33	0.37
3–5 year	0.66	0.70
5–7 year	1.02	0.98
7–10 year	1.55	1.83
10+ years	2.15	2.15

<sup>4</sup> Includes derivatives.

<sup>5</sup> Spread duration contribution.

## Investment performance

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	1.72	2.70	0.55	4.49	3.34	7.63
Benchmark**	1.76	2.73	0.53	4.77	3.39	7.62
<b>Added Value</b>	<b>(0.04)</b>	<b>(0.03)</b>	<b>0.02</b>	<b>(0.28)</b>	<b>(0.05)</b>	<b>0.01</b>

\*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 bonds rallied across the curve over the month.
- Australian credit spreads were broadly stable, trading in a tight range.
- The RBA maintained the cash rate at 0.10%.

## Performance review

The 10-year US Treasury rallied in July, with yields falling from 1.47% to finish the month at 1.23% and the curve flattened. European rates followed a similar pattern, with the 10-year yield on German Bunds decreasing by 25bps to end the month at -0.46%. Global bond market returns were broadly positive, driven by spread tightening in most credit markets and falling US Treasury yields. US and EUR HY eked out small gains in July. EM Sovereign bonds were also slightly up for the month, however spreads on Asia HY widened by 106bps due to ongoing negative news flow around the Chinese property developer Evergrande.

The Australian bond market delivered positive return in July as the Australian Government Bonds rallied across the curve over the month. Credit spreads were broadly, trading in a tight range over the month. The Bloomberg AusBond Composite 0+Yr Index returned 1.76% in July.

In July, Australian Government bonds rallied across the curve. Our overall Australian duration relative to benchmark was flat through the month, and thus contributed flat index-relative performance but strong positive overall performance over the month.

Given greater global central bank policy divergence, and following the US second quarter GDP disappointment and the rally of global rates due to COVID-19 disruptions, we added to our global short duration in US Treasuries as well as 10-year Gilts in July. As yields rallied towards the end of the month, the exposure contributed slightly negatively to relative performance.

Australian semi-government and supranational bond spreads were broadly stable in July, trading in a tight range. We added some beta in the sector through purchasing a longer-dated South Australian government (SAFA) bond, as well as a small allocation in Western Australian (WATC) bonds. We also bought an attractively-priced short-dated supranational bond in July, adding to our overweight to the SSA sector. We remain overweight corporate credit and added modestly to that position during the month through buying a bond in the REIT sector. The portfolio overweight exposure to semi-government, supranationals and corporates benefited marginally from the carry, contributing a slight positive to relative performance.

## Outlook

While we remain broadly optimistic on the outlook for global growth given easy fiscal and monetary policy settings, the economic risks resulting from outbreaks of the more contagious delta strain of COVID-19 suggests recovery will continue to be uneven across both global economies. In this regards the varied pace of rollout of COVID-19 vaccines across countries, and the impacts emanating from any further genetic mutations, will continue to be a headwind to more robust growth and inflationary pulses.

Although we expect inflation to move higher on stronger growth and ongoing supply bottlenecks, it is not expected to be sufficiently strong to warrant most central banks changing course in the near-term. 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 will taper and ultimately begin to raise rates. Indeed, in NZ the RBNZ has already halted their QE program and are expected to begin hiking rates and introducing macroprudential measures in the near term. While removing excess stimulus is still some way off for other central banks, markets may become skittish if they try to get too far ahead of the expectations they have fed to markets over the past year.

In contrast to changes in messaging from the US Fed, the RBA continues to be quite resolute in signalling that it will continue to pursue an accommodative monetary stance for some 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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