UBS Australian Share Fund

July 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
BHP Group	CSL
Aristocrat Leisure	Wesfarmers
ResMed	Macquarie Group
Westpac Banking	Rio Tinto

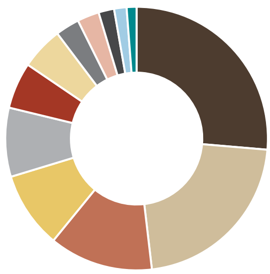
Active industry positions

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

Fund information

Inception date	15 July 1992
Fund size	$310.1 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 (%)



Financials	26.35
Materials	21.79
Communication Services	12.78
Consumer Discretionary	9.40
Health Care	8.46
Information Technology	5.69
Industrials	5.22
Energy	2.95
Real Estate	2.69
Utilities	1.92
Consumer Staples	1.54
Cash	1.21

Investment performance

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	0.47	5.55	32.17	6.62	6.61	9.88
Benchmark**	1.11	5.77	29.14	9.69	10.13	9.65
Added Value	**(0.64)**	**(0.22)**	**3.03**	**(3.07)**	**(3.52)**	**0.23**

*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 0.47% during the month, underperforming its benchmark by 64 bps.

The largest positive contributors were IGO Limited, BHP Group and ResMed. IGO announced the completion of its Greenbushes lithium acquisition late in the prior period and, secondly, a strong June quarter production report. While no guidance was outlined for Greenbushes, production and costs at Nova were well ahead of consensus estimates and FY22 guidance was broadly in line with forecasts. BHP Group also delivered an impressive June quarter result: production and realized iron ore prices were better than expected across its divisions and FY22 guidance matched analyst forecasts. ResMed outperformed as key competitor Philips announced it won't be able to sell many of its products to customers for about 12 months after it was forced to announce a recall following safety concerns.

The largest negative contributors were Sydney Airport (not held), Ansell and Kathmandu. Sydney Airport received a takeover proposal from an IFM-backed consortium. The bid, which was priced at $8.25 per share, implies a valuation of 21 times FY24 EV/EBITDA, in-line with other major historic airport transaction multiples such as Gatwick and Copenhagen (which were priced at 20-21 times EV/EBITDA). The SYD board rejected the bid on the grounds that it was opportunistic and not in the best interest of shareholders. Ansell underperformed without any material news during the period. Kathmandu was forced to close a number of its stores as fresh COVID outbreaks across the east coast of Australia triggered new lockdowns.

Market review

Australian shares rose modestly in July despite ongoing lockdowns across the east coast of the country.

The S&P/ASX 300 Accumulation Index returned 1.1% for the month, taking its 12-month return to 29.1%. However, the market lagged overseas indices, with the S&P500 returning 2.4% during the month amid an upbeat US corporate earnings season.

Metals & Mining ex-Gold (+9.0%) was the top contributor to the index, supported in the most part by BHP Group (BHP, +10.1%), Rio Tinto (RIO, +5.4%) and Fortescue Metals Group (FMG, +6.7%) as stronger-than-expected production results more than offset the lower iron ore price (-15%). Other contributors were miners leveraged to the electric vehicle theme, including Mineral Resources (MIN, +17.3%), Lynas Rare Earths (LYC, +28.5%), IGO Limited (IGO, +22.0%) and Pilbara Minerals (PLS, +22.1%).

Corporate activity increased during the period, with Sydney Airport (SYD, +34.9%) and Spark Infrastructure (SKI, +23.8%) receiving takeover bids during the period. The SYD board rejected the bid on the grounds that it was opportunistic and not in the best interest of shareholders. SKI granted due diligence after receiving a third takeover bid – at $2.95 per share up from $2.80 per share previously – from a consortium comprising KKR and OTPP.

Conversely, sectors leveraged to the re-opening theme underperformed during the period. Underperformers included Consumer Services (-4.4%), Media & Entertainment (-4.5%) and the Banks (-1.6%). At a stock level, Crown Resorts (CWN, -27.7%) was among the worst performers over concerns it would be stripped of its gaming licenses in Victoria and after Star Entertainment (SGR, -7.3%) withdrew its merger offer.

Outlook

The Australian economy completed 1H2021 with strong momentum, prompting the RBA and consensus to upgrade expectations for both 2021 and 2022 calendar year growth. Both the size of the economy and people employed comfortably exceed pre-pandemic levels. The unemployment rate declining from a peak of 7.5% in July 2020 to just 4.9% in June 2021 is the clear highlight. Nevertheless, renewed COVID-related lockdowns in Melbourne, Sydney and South East Queensland will sharply impact the data in 3Q21 and materially alter our growth forecasts for the remainder of 2021 and 2022.

We believe the interruption to economic growth from renewed lockdowns will be an aberration within an improving trend rather than a view altering event. Indeed, the fundamentals that will drive the economic recovery remain in place. The recovery in labour market income has been sufficient to offset the gradual withdrawal of temporary fiscal support. Moreover, the accumulation of an estimated $171bn in excess household saving, in concert with strong asset price gains, leaves the consumer uniquely positioned to underpin economic growth in 2021-22. Dwelling investment is set to provide solid support for economic growth over the next 12 months following a surge in demand for new housing construction, and a broader-based lift in business investment expectations is an important step in ensuring a sustained economic recovery. We expect the global economy to expand 6.5% and the Australian economy to expand 4.75% in 2021, a downward revision from our pre-lockdown forecast of 6%. We expect another strong year of economic growth in 2022 of 4.0%.

While we continue to expect US inflation to surprise on the upside over the remainder of 2021, the biggest inflation surprises are now behind us, and our expectation that global business surveys would likely peak around mid-2021 appears to have been realised. The peak in global business surveys, in concert with slower bond issuance relative to central bank buying, helped push real bond yields to record lows over recent weeks. As the Federal Reserve signals increased wiliness to taper its purchases, and global economic and inflation indicators remain elevated, we expect bond yields will again start to move higher through the remainder of 2021. We expect US 10 year yields to approach 1.80% by the end of 2021.

The A$/US$ has recently been buffeted by concerns of peak in global industrial growth indicators, slowing China economic momentum and recent declines in iron ore prices. Nevertheless, Australia's external accounts are in their best position since the early 1970s and despite some moderation in commodity prices the A$/US$ should remain supported by global reflationary forces through 2021-22. Reflecting the factors above, we have lowered our expectations for the A$/US$ somewhat over the remainder of 2021 and now expect the A$/US$ to finish the year in the 76-78c range, down from a forecast 81-83c range previously.

We are most overweight stocks within the Communication Services, Information Technology and Consumer Discretionary sectors, and are underweight Real Estate, Consumer Staples and Financials.

Client Services

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