UBS Australian Bond Fund

August 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

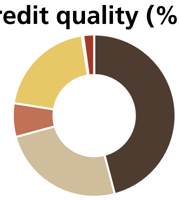
The Fund aims to outperform (after management costs) the Bloomberg AusBond Composite 0+Yr Index over rolling three year periods.

Key statistics

Key statistics	Fund	Benchmark[1]
Modified duration (yrs)	5.66	5.92
Spread duration[2] (yrs)	3.83	2.19
Weighted avg maturity (yrs)	6.61	6.78
Average credit quality	AA	AA+
Yield to maturity[3] (%)	1.18	0.84

[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	45.9
AA	24.8
A	6.7
BBB	20.1
Below BBB	0.3
Cash and other	2.1

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

Fund information

Inception date	30 November 1989
Fund size	$ 1,131.7m
Management fee	0.45% pa
Minimum initial investment	$50,000
Distribution frequency	Quarterly
Buy/sell spread	+ 0.025% / – 0.08%
APIR code	SBC0813AU

Fund positioning – modified duration contribution (yrs)

By sector	Fund	Benchmark
Government nominal[4]	2.01	3.73
Government inflation-linked	0.00	0.00
Semi-government	1.79	1.53
Government related	0.66	0.39
Corporates	1.06	0.25
Financials	0.41	0.10
Industrial	0.48	0.12
Utility	0.17	0.04
Credit hedge[5]	0.00	0.00
Securitised	0.13	0.01
Cash and cash equivalents	0.00	0.00
By Tenor		
0–3 year	0.33	0.32
3–5 year	0.68	0.67
5–7 year	1.08	0.98
7–10 year	1.42	1.84
10+ years	2.15	2.12

[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	0.05	2.51	1.06	4.24	3.25	7.61
Benchmark**	0.09	2.55	1.05	4.52	3.33	7.60
Added Value	**(0.04)**	**(0.04)**	**0.01**	**(0.28)**	**(0.08)**	**0.01**

*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 yields fell early in the month before recovering to close the month flat.
- Australian credit spreads were broadly stable, trading in a tight range.
- The RBA maintained the cash rate at 0.10%.

Performance review

Developed market government bond yields rose during the month of August. The 10-year US Treasury ended the month close to 1.3%, up modestly from around 1.22% at the start of the month. The yield on 10-year German Bunds ended the month at –40bps. Consequently, duration-sensitive sectors such as US and European IG generated negative returns. Spreads tightened in higher beta sectors such as US and European HY leading to positive total returns for the month. EMD hard currency bonds posted a positive monthly return driven by spread tightening despite rising US Treasury yields.

The Australian bond market delivered a slight positive return in August. Credit spreads were broadly stable, trading in a tight range over the month. Semi-government bonds' spreads widened by 4bps on the back of high issuance during the month. The Bloomberg AusBond Composite 0+Yr Index returned 0.09% in August. The Australian 3 year government bond yields remained flat at 0.24% while 10 year bonds were 2bps lower in yield, to 1.16%.

In August, Australian Government bonds across the curve traded in a wide range before closing the month flat. Our overall Australian duration relative to benchmark was flat throughout the month, and thus contributed flat index-relative performance.

The portfolio's global rates positioning in short US Treasuries and 10-year Gilts contributed positively to relative performance as developed market government bond yields rose over the month.

Australian semi-government bond spreads widened over the month by 7bps. We added beta in the semi-government sector through purchasing longer-dated New South Wales government (NSWTC) bond. As spreads widened, the overweight in semi-government contributed a slight negative to relative performance.

Supranational and corporate bond spreads were broadly stable in August, trading in a tight range. We added an attractively-priced longer-dated supranational bond in August, 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 financial sector. The portfolio overweight exposure to supranational 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. 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 a 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

Telephone: (03) 9046 4041 Freecall: 1800 572 018 Email: ubs@unitregistry.com.au www.ubs.com/am-australia

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