

UBS Yarra Australian Share Fund

September 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
Aristocrat Leisure	CSL
Westpac Banking	Wesfarmers
TPG Telecom	Macquarie Group
ResMed	Woolworths Group

Active industry positions

Overweight	Underweight
Telecommunication Services	Real Estate
Media & Entertainment	Diversified Financials
Materials	Pharmaceuticals Biotechnology & Life Sciences
Consumer Services	Food & Staples Retailing
Transportation	Commercial & Prof Services

Investment performance

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	(0.69)	1.92	33.05	7.45	7.35	9.87
Benchmark**	(1.89)	1.79	30.86	9.86	10.51	9.61
Added Value	1.20	0.13	2.19	(2.41)	(3.16)	0.26

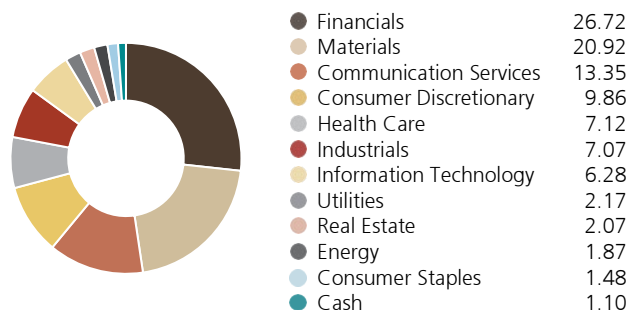
*The UBS Asset Management price/value equities process was adopted on 1 April 1996. **S&P/ASX 300 Accumulation Index. All Ordinaries Accumulation Index prior to June 2000.

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.

Fund information

Inception date	15 July 1992
Fund size	\$309.3 m
Management fee	0.90% pa
Minimum initial investment	\$50,000
Typical number of holdings	30 to 70
Distributions	Semi-annually
Buy/sell spread	+/- 0.25%
APIR code	SBC0817AU

Fund positioning (%)



Portfolio review

After fees and expenses, the Portfolio decreased by 0.69% during the month, outperforming its benchmark by 120bps.

The largest positive contributors were TPG Telecom, Fortescue Metals Group (not held) and Kathmandu. TPG Telecom outperformed as a re-opening beneficiary in response to accelerating vaccination rates; tourists and migrants make up a large portion of its Mobile business. Fortescue Metals Group declined alongside the iron ore price, which fell 23% to US\$119/t of concerns around China's property construction market. Investors looked through Kathmandu's worse-than-expected FY21 result, instead focusing on its leverage to re-opening and the offshore launch of its Kathmandu brand into Europe and Canada in FY22.

The largest negative contributors were Macquarie Group (not held), Woodside Petroleum and BHP Group. Macquarie Group delivered a positive market update, announcing it expects 1H22 NPAT guidance to decline only slightly on the strong performance in 2H20 (\$2bn), ahead of market expectations on investment income and less headwinds in its commodities business. Woodside Petroleum outperformed alongside higher oil and gas prices in response to the emerging energy crisis in the EU and China, with Brent Crude rising 8% to US\$79/bbl. BHP Group declined alongside the iron ore price, which fell 23% to US\$119/t of concerns around China's property construction market.

Market review

Australian equities declined in September amid rising inflation concerns and lower iron ore prices.

The S&P/ASX 300 Accumulation Index declined by 1.9% in the month, taking its 12-month return to +30.9%. In comparison, the MSCI Global Index returned -3.6% in local currency terms. However, FY21 reporting season saw more misses than beats despite recording +28% growth y/y, and FY22 forecasts were revised down at -1.2% for the ASX200 and -1.5% for the Small Ords.

Equity valuations reversed in September as the inflation theme re-emerged and concerns mounted about faster tapering of QE, with the Australian 10-year bond yield rising 33 bps to 1.49%.

Energy (+15.0%) was the top performer during the period, as the emerging gas crisis in the EU/UK and China saw widespread gains across broader commodity complex, with Brent Crude rising 8% to US\$80 per barrel and thermal coal up 25% to US\$218/t. At a stock level, the top performers included Woodside Petroleum (WPL, +22.5%), Oil Search (+17.4%), Santos (STO, +18.5%), Whitehaven Coal (WHC, +27.7%) and Beach Energy (BPT, +42.4%).

Elsewhere, travel services stocks rebounded during the period as Australia draws closer to re-opening the economy. Qantas (QAN, +11.4%), Sydney Airport (SYD, +3.4%), Flight Centre (FLT, +30.8%) and IDP Education (IEL, +18.4%) were among the top performers

Conversely, the falling iron ore price (-23%) weighed on mining majors Fortescue Metals Group (FMG, -20.7%), BHP Group (BHP, -12.2%) and Rio Tinto (RIO, -10.6%).

Outlook

After completing 1H2021 with strong momentum, renewed Covid-related lockdowns in Melbourne and Sydney will see the Australian economy contract in 3Q21, albeit it has been notable how well both business surveys and employment indicators have held up in Q3, suggesting a modest contraction than might have been expected several months ago.

We continue to believe the interruption to economic growth from renewed lockdowns will be an aberration within an improving trend. 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 \$185bn in excess household saving, in concert with strong asset price gains, leaves the consumer uniquely positioned to underpin economic growth in 2021- 2022. Dwelling investment is set to provide solid support for economic growth over the next 6 months as previously approved housing moves through the construction phase, 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% and the Australian economy to expand 4.5% 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%.

Nevertheless, there are some areas that are cause for concern. For over 12 months we have warned about rising US inflation pressures and rising inflation expectations. However, supply chain constraints and energy shortages in the Northern Hemisphere risk inflation pressures becoming more widespread and more entrenched. With the peak in global business surveys having passed, cost inflation continuing to escalate and the Federal Reserve signalling increased willingness to taper its purchases, we expect bond yields will move higher through the remainder of 2021. We expect US 10-year yields to approach 1.80% by the end of 2021, providing some ongoing challenges for risk assets in Q4.

The A\$/US\$ has recently been buffeted by concerns of a 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. We expect the A\$/US\$ to finish the year in the 76-78c range, and remain around that level through 1H22.

We see significant value in certain sectors but believe others to be overvalued based on our earnings and cash flow expectations. We are most overweight stocks within the Communication Services, Materials and Utilities sectors, and underweight Consumer Staples, Real Estate and Financials.

Client Services

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