

UBS Yarra Australian Share Fund

December 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
Link Administration Holdings	CSL
Aristocrat Leisure	National Australia Bank
Telstra	Macquarie Group
QBE Insurance Group	Wesfarmers
Atlas Arteria	Woolworths Group

Active industry positions

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

Investment performance

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	2.64	1.04	18.68	11.77	6.52	9.82
Benchmark**	2.65	2.21	17.54	13.95	9.93	9.61
Added Value	(0.01)	(1.17)	1.14	(2.18)	(3.41)	0.21

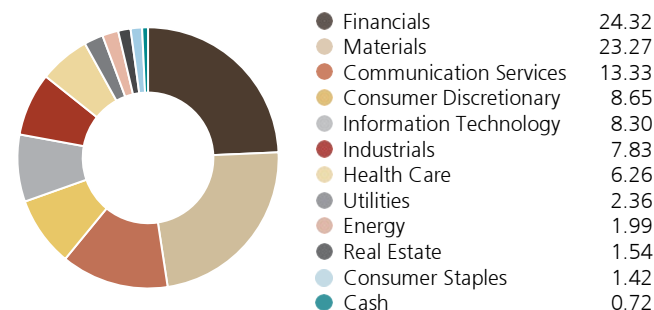
*The UBS Asset Management price/value equities process was adopted on 1 April 1996. **S&P/ASX 300 Accumulation Index. All Ordinaries Accumulation Index prior to June 2000.

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	\$297.8 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 increased by 2.64% during the month, underperforming its benchmark by 1 bp.

The largest positive contributors were CSL (underweight), Link Administration and Afterpay (not held). CSL declined after announcing the acquisition of Vifor Pharma for US\$11.7bn during the period. The purchase was partly funded by a capital raising of \$US5bn, with the placement at an 8% discount to the last closing price prior to the announcement. Link outperformed after receiving several takeover offers during the period and giving a positive trading update. The highest offer came from Canadian-based group Dye & Durham at \$5.50 per share, representing a 28% premium to its closing price prior to an earlier offer from Carlyle Group. The company's board has recommended shareholders vote in favour of the scheme in the absence of a superior proposal. Afterpay underperformed during the period without any material news.

The largest negative contributors were TPG Telecom, Insurance Australia Group and QBE Insurance. TPG Telecom partially retraced outperformance from prior months as its founder sold a block of shares during the period. Insurance Australia Group underperformed despite holding an investor day where it reaffirmed FY22 guidance for 10-12% margins and "low single-digit" GWP growth. QBE Insurance underperformed without any material news during the period.

Market review

Australian equities rose in December as strong performances from most sectors outweighed declines from high PE stocks within Health Care and Information Technology.

The ASX 300 Accumulation Index increased by 2.7% during the month, taking its 2021 return to +17.5%. The local index underperformed global indices, with the MSCI World Index returning 4.0% during the month even as a new COVID variant, labelled Omicron, drove uncertainty around the growth outlook. Further, persistent inflation in the US continued to stoke concerns about faster tapering and US interest rate rises.

At a sector level, Metals & Mining (+7.2%) provided the most support to the benchmark, led by a rally in iron ore miners Fortescue Metals Group (FMG, +12.9%) and BHP Group (BHP, +5.4%). Elsewhere, battery material producers Mineral Resources (MIN, +23.7%) and Lynas Rare Earths (LYC, +14.7%) also delivered strong returns.

Other positive sectors were Real Estate (+5.0%), Utilities (+7.9%), and Banks (+5.9%). Real Estate saw widespread gains, while AGL Energy (AGL, +13.7%) supported Utilities as it rallied from depressed levels.

Conversely, Information Technology (-5.8%) and Health Care (-2.2%) underperformed as the prospect of higher interest rates depressed valuations in the sectors. The worst performers included Afterpay (APT, -24.7%), Novonix (NVX, -23.1%), Imugene (IMU, -27.3%) and CSL (CSL, -5.2%).

Outlook

We expect the Australian economy to continue to rebound in the short-term, following a better-than-expected contraction in 1Q21 amid COVID-related lockdowns in Melbourne and Sydney.

Notwithstanding the ongoing risk from new variants such as Omicron, we believe any 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 six 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 have expanded 6% in 2021 and the Australian economy 4.5%. 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 announcing its decision to taper its bond purchases, we expect bond yields will move higher, providing some ongoing challenges for risk assets.

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 we expect the A\$/US\$ to remain supported by global reflationary forces through 2022.

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 Industrials sectors, and underweight Real Estate, Consumer Staples and Health Care.

Client Services

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