

UBS Yarra Australian Share Fund

January 2022

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
QBE Insurance Group	Macquarie Group
TPG Telecom Limited	Wesfarmers
Atlas Arteria	Woolworths Group

Active industry positions

Overweight	Underweight
Telecommunication Services	Real Estate
Software & Services	Pharmaceuticals Biotechnology & Life Sciences
Media & Entertainment	Diversified Financials
Insurance	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	(4.42)	(3.06)	13.25	8.85	5.92	9.62
Benchmark**	(6.45)	(4.49)	9.59	10.04	8.64	9.33
Added Value	2.03	1.43	3.66	(1.19)	(2.72)	0.29

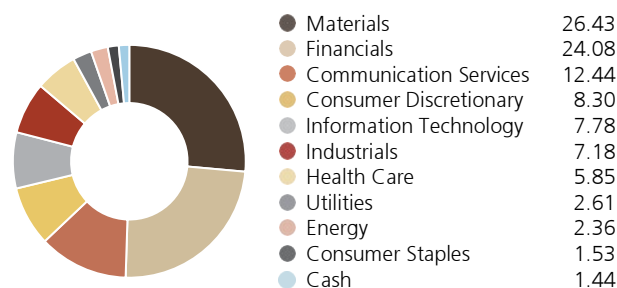
*The UBS Asset Management price/value equities process was adopted on 1 April 1996. **S&P/ASX 300 Accumulation Index. All Ordinaries Accumulation Index prior to June 2000.

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	\$280.0 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 declined by 4.42% during the month, outperforming its benchmark by 203 bps.

The largest positive contributors were BHP Group, Worley and Origin Energy. BHP outperformed amid higher iron ore prices (up 18% to US\$142/t), as it completed the unification of its dual-listed structure and, lastly, after announcing a solid 2QFY22 result with strong iron ore production offsetting lower-than-expected volumes from copper, met coal and oil. Worley and Origin outperformed as oil prices increased, with Brent Crude rising 20% to US\$92/bbl. Additionally, Origin announced a strong 2QFY22 result: LNG prices were ahead of expectations, averaging US\$11.80/mmbtu, while production was solid due to planned maintenance completing ahead of schedule.

The largest negative contributors were Rio Tinto (not held), Woodside Petroleum (not held) and Santos (not held). Rio Tinto outperformed as the iron ore price increased by 18% to US\$142/t, which outweighed a worse-than-expected 4Q21 result with production coming in at the lower end of 2021 guidance for most commodities. Woodside Petroleum and Santos outperformed as oil prices increased, with Brent Crude rising 20% to US\$92/bbl. Additionally, both companies released strong 4Q21 results with record quarterly revenue (at US\$2.9bn and \$1.5bn respectively).

Market review

Australian equities declined sharply in January as high inflation spurred Federal Banks to accelerate quantitative tapering and signal earlier rate rises.

The ASX 300 Accumulation Index declined 6.5% during the month, taking its 12-month return to 9.6%. Globally, the S&P500 and MSCI World Index returned -5.2% and -4.9% respectively as US real yields rose, with the US 10-year Treasury Inflation-Protected Securities (TIPS) climbing 38 bps to -0.69% as the US Fed said it would likely start to increase interest rates in March.

At a sector level, high-PE cohorts within Health Care (-12.1%) and Information Technology (-17.1%) recorded the most significant declines, led by companies with long-dated cash flows like Afterpay (APT, -19.9%), Xero (XRO, -20.2%), Wisetech Global (WTC, -22.7%), Altium (-21.0%) and Pro Medicus (PME, -27.8%). Gold (-12.8%) also declined significantly given its negative correlation with real interest rates.

Conversely, Energy (+7.5%) was the strongest performer as Brent Crude lifted by 20% to US\$92/bbl. Oil & Gas producers Woodside Petroleum (WPL, +14.3%), Santos (STO, +13.2%), Beach Energy (BPT, +17.5%) and engineering services company Worley (WOR, +8.7%) were among the top performers. Utilities (+2.6%) also increased in value during the period amid the outlook for higher electricity prices, supported by AGL Energy (AGL, +15.6%) and Origin Energy (ORG, +7.3%).

Outlook

The pattern of quarterly economic growth in Australia remains volatile, having declined 1.7% (q/q) in 3Q under the impact of the Delta strain of COVID. Nevertheless, record fiscal stimulus and easy financial conditions have helped underpin solid real economic growth of 3.9% (y/y) and a 4Q recovery from the Delta variant disruption is expected to see real economic growth in calendar 2021 to average 4.0%.

Recovering underlying household income growth, \$200bn in 'excess saving', strong corporate profit growth, low inventory levels and robust capex expectations – in concert with a still solid global growth backdrop – suggests Australian economic growth into 2022 will be above 'potential'. In both CY2022 and CY2023 we expect the Australian economy to expand at an above 'potential' rate of 3%.

The strength of the economic recovery has been particularly evident via the strength in employment. After peaking at 7.5% in July 2020, the unemployment rate has declined sharply to 4.2% in December 2021. In essence the unemployment rate is now in line with the RBA estimate of non-accelerating inflation rate of unemployment (NAIRU) and the combination of excess demand relative to available supply has seen 2H21 produce sufficient broad based inflation pressures to prompt an abrupt reassessment of the RBA's monetary stance. We expect the RBA will commence increasing interest rates in 4Q2022 with a 35 bps hike, with a further four 25 bps rate hikes in 2023.

Although we remain constructive on global economic growth, we believe the industrial cycle peaked in mid-2022 and that a relatively controlled slowing in economic activity is currently taking place. Nevertheless, there are some areas that are cause for concern. For over 18 months we have warned about rising US inflation pressures and rising inflation expectations, and while these threats have been realised, 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 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 volatility in commodity 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 the RBA joining other central banks in tightening interest rates this year. We expect the A\$ will finish CY 2022 at around 76 cents.

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, Information Technology and Materials sectors, and underweight Real Estate, Health Care and Consumer Staples.

Client Services

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