

UBS Australian Bond Fund

February 2022

Fund description

The Fund is an actively managed, diversified portfolio of largely investment grade fixed income securities, cash equivalents and cash.

Target market

The Target Market Determination (TMD) for the Fund sets out the class of consumers for whom the product, including its key attributes, would likely be consistent with their likely objectives, financial situation and needs. To access to the TMD and other Fund documentation visit our [website](#).

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 objective

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

Key statistics

	Fund	Benchmark ¹
Modified duration (yrs)	5.54	5.63
Spread duration ² (yrs)	3.69	2.12
Weighted avg maturity (yrs)	6.25	6.42
Average credit quality	AA	AA+
Yield to maturity (%)	2.21	1.88

¹ Benchmark statistics do not reflect month end rebalancing for new issues and reinvestment of coupons.

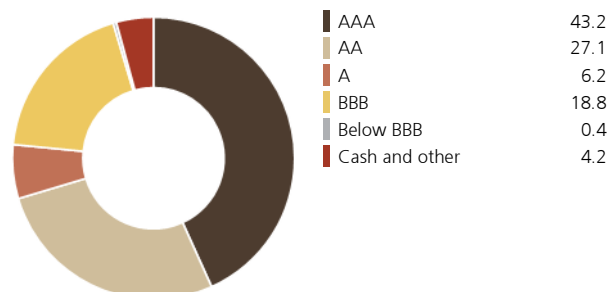
² Option adjusted spread duration ex Treasury.

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.

Fund information

Inception date	30 November 1989
Fund size	\$ 906.0 m
Management fee	0.45% pa
Minimum initial investment	\$50,000
Distribution frequency	Quarterly
Buy/sell spread	+ 0.025% / – 0.08%
APIR code	SBC0813AU

Credit quality (%)



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

Fund positioning – modified duration contribution (yrs)

By Sector	Fund	Benchmark
Government nominal ⁴	1.97	3.50
Government inflation-linked	0.00	0.00
Semi-government	1.81	1.50
Government related	0.64	0.37
Corporates	1.05	0.25
Financials	0.49	0.10
Industrial	0.38	0.11
Utility	0.17	0.03
Credit hedge ⁵	0.00	0.00
Securitised	0.08	0.01
Cash and cash equivalents	0.00	0.00

By Tenor	Fund	Benchmark
0–3 year	0.33	0.38
3–5 year	0.61	0.70
5–7 year	0.85	0.93
7–10 year	1.62	1.84
10+ years	2.13	1.78

⁴ Includes derivatives. ⁵ Spread duration contribution.

Investment performance

Fund	1 month %	3 months %	1 year % pa	3 year % pa	5 years % pa	Since inception* % pa
Total return	(1.28)	(2.10)	(1.40)	1.34	2.59	7.31
Benchmark**	(1.21)	(2.13)	(1.09)	1.56	2.73	7.30
Added Value	(0.07)	0.03	(0.31)	(0.22)	(0.14)	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 bond yields rose across the term structure.
- Australian credit spreads widened over February.
- The RBA ended the bond purchasing program and announced that the Board would make a decision about bond maturity reinvestment in May.

Performance review

Most major fixed income sectors delivered negative returns during the month given the combination of higher developed market government bond yields and widening credit spreads. Spread movement at the beginning of the year was initially driven by technical factors related to more hawkish central bank policy but has more recently been driven by the onset of the Russia-Ukraine war which has contributed to risk-off sentiment in spread sectors. US investment grade corporate spreads (as measured by the Bloomberg US Corporate Index) finished the month 16 basis points wider at 122 basis points. US high yield spreads (as measured by the ICE US Cash Pay High Yield Constrained Index) finished the month 14 basis points wider at 369 basis points. Emerging market hard currency sovereign spreads (as measured by the JPMorgan EMBI Global Diversified Index) finished the month 86 basis points wider at 469 basis points.

The Australian bond market delivered negative return in February as domestic government yields rose across the term structure and credit spreads widened. The Australian 3-year Government bond yields rose 23bps to 1.54% while 10-year bonds yields rose 24bps to 2.14% over the month. The spread between Australian 10-year and US 10-year Government bond yields widened, ending the month at +31bps (from +12bps at the end of the prior month). Domestic credit spreads referenced by the Bloomberg Ausbond Credit 0+Yr Index, widened 7bps from 83 to 90bps.

Australian Government bond yields rose over the month with most of the price action taking place in the earlier half of the month. We moved to a short duration stance early in the month in anticipation of markets pricing in earlier than expected rate hikes by the RBA. This position benefited the portfolio relative performance as yields rose. Later in the month, we took partial profit on the short duration position as tensions rose on geo-political events.

We also moved our duration position further up the yield curve by executing a switch from 5-year to 8-year Government bonds.

On global rates exposures, our existing spread tightener position - short US duration against New Zealand interest rate swaps - contributed a slight negative to relative performance as this spread widened slightly over the month.

Australian credit spreads across all sectors spreads widened over the month with the corporate sector being impacted the most. The portfolio's overweight positions across Australian supranational and corporates contributed negatively as spreads widened. On the Australian semi-government positions, we executed switching trades during the month on attractive relative value, moving our positions in both NT and SA into WA and ACT. The semi-government positioning contributed a small positive to relative performance.

Outlook

2022 is shaping up to be a volatile year for financial markets with the outlook depending on how far financial conditions can tighten without jeopardising the recovery. Recently, Russia invaded their neighbouring country Ukraine amid an escalation in tensions. This has also led to safe-haven flows into fixed income and increased volatility. Yet ultimately we do not see these events derailing the trend towards monetary policy tightening in most geographies, especially when taking into account renewed upside risks to inflation from even higher commodity prices. Consequently, we continue to think that government bond yields are more likely to be biased higher in the near-term.

We remain confident that the Australian economy will continue to rebound strongly amid high vaccine coverage, stronger political will to avoid future lockdowns and a high household savings rate. At the same time, we are observing an acceleration and broadening out of inflation. As Australia transitions to "living with the virus", we are conscious of the inflationary experience of other western economies where disruptions to labour and goods supply have been at least as significant and often longer lasting than the negative impact to demand.

Higher energy and food prices should also contribute to another strong inflation release in Q1 after a bumper 1.0% q/q increase in the RBA's preferred trimmed mean measure in Q4. All told, we expect the coming months to see the unemployment rate fall below 4% - the level thought to represent full employment - underlying inflation breach the upside of the RBA's 2-3% target band and wages to also show stronger upside momentum.

The RBA has already wound down Yield Curve Control and QE since October 2021 but has so far communicated that it is willing to take a patient approach to raising the cash rate. Yet the incoming data will test this resolve and we expect the bank to follow in the footsteps of other Anglo-Saxon central banks in hiking rates, potentially as early as mid-year. Tactically we favour positioning short duration in the front-end of the yield curve as hikes come into view. Long-dated bond yields can remain comparatively stable, and our expectation is that 10-year ACGBs find support with yields in a 2-2.5% range. It is our view that this tightening of monetary conditions, including a drying up of the flow of central bank QE and higher real yields, provides a more challenging outlook for corporate credit than 2021. Spreads are more likely to drift wider as markets demand some return of risk premium that had been compressed in the QE era, even if the relatively low duration and high quality of Australian credit should see it outperform other markets such as the US.

Client Services

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

Investors should consider the PDS and seek professional financial and taxation advice before deciding whether the product is appropriate for them and whether to acquire, or to continue to hold the investment. Your investment in the Fund does not represent deposits or other liabilities of UBS or any member company of the UBS Group including UBS Asset Management (Australia) Ltd (ABN 31 003 146 290) (AFS Licence No. 222605), the issuer of the Fund. Your investment is subject to investment risk, including possible delays in repayment and loss of income and capital invested. The repayment of capital or income is not guaranteed by any company in the UBS Group. Offers of interests in the Fund are contained in the Product Disclosure Statement dated 29 September 2021. Any potential investor should consider the relevant product disclosure statement (PDS) in deciding whether to acquire, or continue to hold, units in a fund. UBS has also issued a target market determination (TMD) that describes the class of consumers that comprises the target market for each UBS fund and matters relevant to their distribution and review. A copy of the PDS, PDS addition information and TMD is available from UBS Asset Management (Australia) Ltd, the issuer of the UBS Funds, on our website <https://www.ubs.com/au/en/asset-management.html> or by calling (03) 9046 4041 or 1800 572 018.

The PDS for this fund is only available to persons receiving the PDS (electronically or otherwise) while physically in Australia, unless expressly authorised by us in writing. The offer does not constitute an offer or invitation in any place in which, or to any person to whom, it would be unlawful to make such an offer or invitation. This Fund (or the PDS) has not been registered under the laws of any jurisdiction outside Australia. The Fund may not be offered or sold in the United States of America or to 'U.S. Persons' (as defined in 'Regulation S' of the Securities Act of 1933, as amended).

This document may not be reproduced or copies circulated without prior authority from UBS Asset Management (Australia) Ltd.

© UBS Group AG 2022. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.

