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All data as at 31 March 2022

UBS Yarra Australian Share Fund

March 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.

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 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 Limited	National Australia Bank Limited
Aristocrat Leisure Limited	CSL Limited
Worley Limited	Macquarie Group Limited
QBE Insurance Group Limited	Wesfarmers Limited
TPG Telecom Limited	Woolworths Group Ltd

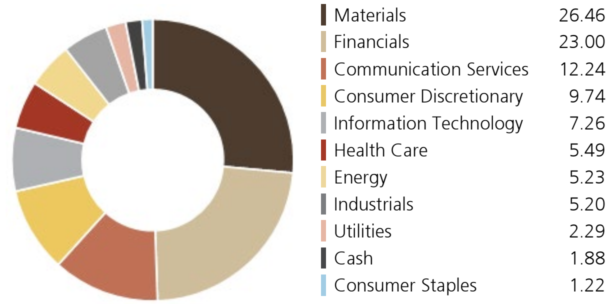
Active industry positions

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

Fund information

Inception date	15 July 1992
Fund size	$297.7m
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 (%)



Investment performance

Fund	1 month %	3 months %	1 year % pa	3 years % pa	5 years % pa	Since inception* % pa
Total return	5.39	2.57	13.88	9.54	6.37	9.83
Benchmark**	6.90	2.08	15.21	10.84	9.38	9.60
Added Value	**(1.51)**	**0.49**	**(1.33)**	**(1.30)**	**(3.01)**	**0.23**

*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.

Portfolio review

After fees and expenses, the Portfolio increased by 5.39% during the month, underperforming its benchmark by 151 bps. The largest positive contributors were IGO Limited, Incitec Pivot and CSL (underweight). IGO outperformed amid higher lithium prices, with spodumene rising 4% to US$2,710/t. Incitec Pivot strengthened as the ammonia benchmark price increased to a record high of US $1,625/t, compared to US$545/t a year ago. CSL underperformed the rising market without any materially negative news.

The largest negative contributors were Sandfire Resources, Link Administration and Insurance Australia Group. Sandfire Resources declined following its 1H22 result at the end of the prior month in which management gave disappointing cost guidance for the newly acquired MATSA project. Link Administration underperformed without any material news, with the takeover from Dye & Durham on track to be completed mid-year. Insurance Australia Group declined after increasing FY22 CAT guidance by $55mn to $1.1bn in response to the flooding along the East Coast of Australia.

Market review

Australian equities outperformed global indices in March as surging commodity prices supported the resources sectors.

The ASX 300 Accumulation Index increased by 6.9% during the month, taking its 12-month return to +15.2%. In comparison, the MSCI World Index and the S&P500 returned +3.2% and 3.7% respectively. The domestic market benefited from a much larger weighting to Resources: Metals & Mining and Energy comprise 27% of the benchmark versus the S&P500 at 4%.

At a sector level, Metals & Mining (+10.2%) saw strong gains across Steel (+12.7%) and Diversifieds (+11.1%). At a stock level BHP Group (BHP, +10.9%) dominated the sector, followed by Rio Tinto (RIO, +6.8%) and IGO Limited (IGO, +29.2%). Within Energy (+10.1%), Woodside Petroleum (WPL, +12.5%) was the top performer given its relatively high leverage to European spot gas prices.

Elsewhere, Information Technology (+11.8%) rallied following weakness in January and February. Top benchmark contributors included Block Inc (SQ2, +19.3%), Wisetech (WTC, +17.3%), Xero (XRO, +9.6%) and Computershare (CPU, +14.0%), with the latter continuing to strengthen in response to higher bond yields.

While all sectors rose during the period, the worst performers were Real Estate (+1.7%) and Health Care (+2.5%). The former is adversely affected by higher bond yields, while the latter lagged the benchmark due to CSL (CSL, +3.7%), ResMed (RMD, -2.9%) and Fisher & Paykel Healthcare (FPH, -12.5%).

Outlook

Geopolitical events and surging commodity prices have taken centre stage in 2022, shaking risk sentiment and challenging consensus' optimistic forecast for global growth. From our perspective, although for the past six months our forecasts for global growth in 2022 have been below consensus, we believe a series of downgrades will soon be evident for global earnings growth in most major markets. Surging commodity prices and ongoing supply shortages have resulted in further upside to the inflation outlook and risks forcing the hand of central banks in coming months to try to contain rising inflation expectations. The reality for 2022 is likely a world of higher inflation, slower growth and higher financing costs.

Australia does have some key natural advantages in such a climate. The most notable is that Australia's export dominance of iron ore, coal, LNG, gold, wheat and base metals contribute close to 80% of Australia's exports and each of these commodities have seen strong price rises in early 2022 which will likely translate into a large positive national income boost even if spot prices retreat in coming weeks. Indeed, Australia presents as a safe haven market which is far from the conflict in Europe, an exporter of in demand raw materials and given its own undershooting of its inflation target since 2015 it has ample room to adjust policy settings at a gradual pace.

Australia also has the benefit of recovering underlying household income growth, $230bn in 'excess saving', strong corporate profit growth, robust capex expectations in concert and improving government finances which suggests Australian economic growth in 2022 will remain more robust than its developed economy peer group. In both CY2022 and CY2023 we expect the Australian economy to expand at an above 'potential' rate of 3%. While this is slower than the 4% pace recorded in 2021 it is still sufficient to see further employment growth gains and we expect the unemployment rate will soon fall below 4% and below the RBA's estimate of non-accelerating inflation rate of unemployment (NAIRU) and further wage pressure will become evident into mid-2022. We expect the RBA will still take its time to assess the outlook for inflation and most likely will commence increasing interest rates in 4Q2022 with a 35 bps hike. We expect a further four 25 bps rate hikes in 2023 and we believe the consumer is well placed to absorb the initial interest rate rises.

While the RBA may well prove to be later than most other developed nations in tightening policy, tighter financial conditions in 2022 are likely to come via a stronger currency. The A$/US$ has in recent months been buffeted by concerns of a peak in global industrial growth indicators and slowing China economic momentum.

Nevertheless, Australia's external accounts are in their best position since the early 1970s and surging commodity prices in early 2022 are providing an incentive for the A$/US$ to commence an appreciation cycle well before the RBA joins alongside other central banks in tightening interest rates later this year. We expect the A$ will finish 2022 at around 76 cents, albeit the risk to this forecast is on the upside.

We are most overweight stocks within the Communication Services, Consumer Discretionary and Materials sectors, and are underweight Real Estate, Consumer Staples and Financials.

Client Services

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