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All data as at 31 May 2022

UBS Yarra Australian Share Fund

May 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	National Australia Bank
Worley	CSL
Aristocrat Leisure	Macquarie Group
Woodside Energy Group	Wesfarmers
TPG Telecom	Transurban Group

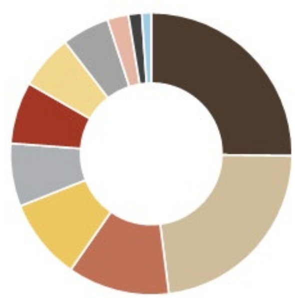
Active industry positions

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

Fund information

Inception date	15 July 1992
Fund size	$ 277.1 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 (%)



Materials	25.23
Financials	22.77
Communication Services	11.68
Consumer Discretionary	9.29
Information Technology	7.23
Energy	7.10
Industrials	6.25
Health Care	5.44
Utilities	2.43
Cash	1.53
Consumer Staples	1.07

Investment performance

Fund	1 month %	3 months %	1 year % pa	3 years % pa	5 years % pa	Since inception* % pa
Total return	(2.71)	0.92	3.74	6.58	5.96	9.61
Benchmark**	(2.76)	3.08	4.71	8.00	8.97	9.41
Added Value	**0.05**	**(2.16)**	**(0.97)**	**(1.42)**	**(3.01)**	**0.20**

*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 declined by 2.71% during the month, outperforming its benchmark by 5 bps.

The largest positive contributors were Worley, Amcor and Goodman Group (not held). Worley outperformed due to expectations the global energy crisis will stimulate capex for both oil & gas and energy transition projects. Amcor announced EPS in the third quarter came in at US20.4 cents per share, 4% above consensus and 13% above the prior year. Further, management upgraded full-year guidance for 9.5-11% EPS growth, above its prior guidance for 7-11%. Goodman underperformed amid higher interest rates and after key tenant Amazon called out excess capacity in its fulfillment and transportation network.

The largest negative contributors were Link Administration, Nine Entertainment and JB Hi-Fi. Link underperformed over speculation the recent acquisition by Dye and Durham may not complete and after the ACCC temporarily suspended its approval timeline until it received further information. Nine underperformed despite delivering a solid trading update during the period. Management expects FY22 EBITDA to be up 22% y/y, unchanged versus its previous guidance, supported by slightly stronger underlying metrics. JB Hi-Fi underperformed as concerns about the company reaching peak earnings growth overshadowed a stronger-than-expected sales growth for 3Q22 across its key divisions (JBH Australia +11.1%, JBH NZ +4.8% and The Good Guys +5.0%).

Market review

Australian equities declined during May as Australia's first interest rate hike since 2010 pressured valuations, with all sectors falling in value.

The S&P/ASX 300 Accumulation Index returned -2.8% for the month, taking its 12-month return to +4.7%. In comparison, global indices were flat (MSCI World Index -0.2%). The benchmark's forward P/E declined from 15.0 times to 14.3 times as the RBA lifted the official cash rate by 25 bps to 0.35%.

Within Materials (-0.3%), BHP Group (BHP, +4.3%) outperformed following the completion of the demerger of its oil assets to Woodside Energy Group (WDS, -4.5%) while South32 (S32, +4.8%) continued to rise alongside higher base metal prices.

Conversely, the worst performing sectors included Consumer Staples (-6.6%), Information Technology (-8.0%) and Media (-16.3%). In particular, Xero (XRO, -7.3%) delivered a disappointing FY22 result while supermarket company Woolworths (WOW, -10.3%) announced mixed 3Q22 sales and the acquisition of mydeal.com.au, which was negatively perceived by the market.

Elsewhere, Real Estate (-8.7%) also experienced widespread declines given its negative correlation to higher rates, led by Charter Hall Group (CHC, -15.3%), Mirvac Group (MGR, -6.6%), Home Consortium (HMC, -17.2%) and Dexus Group (DXS, -6.2%).

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 awaits.

Australia does have some key natural advantages in such a climate. One of 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 1H 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 CY2022 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.

While the RBA has been later than most other developed nations in tightening policy, tighter financial conditions in 2022 are likely to come via both significantly higher cash rates and 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 is providing an incentive for the A$/US$ to commence an appreciation cycle, together with the attractive carry on offer. We expect the A$ will finish 2022 at around 76 cents, albeit the risk to this forecast is on the upside.

Client Services

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