

UBS Yarra Australian Share Fund

August 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	CSL Limited
Aristocrat Leisure Limited	National Australia Bank
Worley Limited	Macquarie Group
Atlas Arteria	Wesfarmers Limited
Nine Entertainment Co. Holdings Limited	Woolworths Group

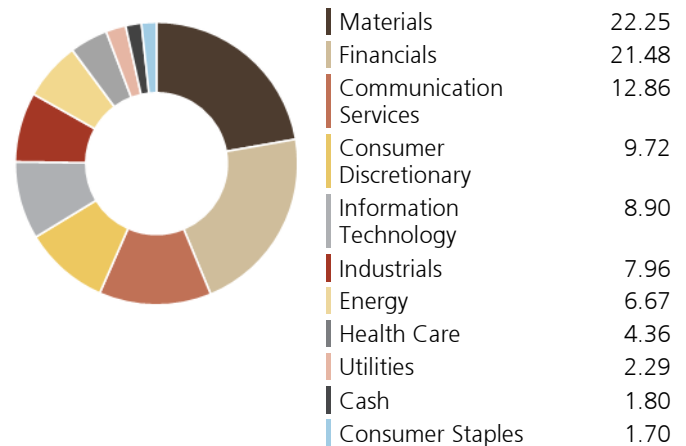
Active industry positions

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

Fund information

Inception date	15 July 1992
Fund size	\$ 236.8 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 (%)



Investment performance

Fund	1 month %	3 months %	1 year % pa	3 years % pa	5 years % pa	Since inception* % pa
Total return	2.35	(1.05)	(2.48)	4.59	5.94	9.49
Benchmark**	1.18	(2.41)	(3.67)	5.64	8.23	9.24
Added Value	1.17	1.36	1.19	(1.05)	(2.29)	0.25

*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 gained 2.35% during the month, outperforming its benchmark by 117bps.

The largest positive contributors were OZ Minerals, IGO and Qantas. OZ Minerals outperformed during the month as a result of BHP's \$25/sh takeover offer for the company, IGO was a key contributor during the period on continued lithium price strength ahead of consensus forecasts and Qantas outperformed following the announcement of its full year results. The very strong demand environment for domestic and international travel has seen QAN balance sheet repair quickly with net debt now back below targeted levels and the company announcing a \$400 buyback.

The largest negative contributors were TPG Telecom, Reliance Worldwide and NextDC. TPG underperformed following a slightly disappointing (4% miss at the EBITDA level) result., Reliance the global provider of water control systems and plumbing solutions for domestic, commercial and industrial applications underperformed as investor concerns grew around a weakening cycle and de-stocking risk. NextDC underperformed along with the technology sector despite a solid full year result in line with expectations.

Market review

Australian equities gained 1.18% during August reflecting a stronger than expected reporting season with 1.4x more beats than misses to consensus earnings expectations.

The S&P/ASX 300 Accumulation Index returned Index returned +1.18% for the month, taking its 12-month return to -3.7%. Globally, the MSCI World Index fell 3.4%.

Within Energy (+7.8%), outperformers included Viva Energy (VEA, 12.0%), Santos (STO, 9.7%) and Paladin Energy (PDN, 14.9%). Other sectors to rally were Materials (+4.3%) and Communication Services (+2.55%)

The worst performing sector was Real Estate (-3.2%) as companies downgraded dividend outlooks due to the rising cost of debt impacting FFO growth.

Market Outlook

Financial markets have now embraced the risk of recession in the US and Europe over the past quarter, and the gap between our more pessimistic forecasts for the global economy and the consensus has narrowed. Indeed, with the Fed signaling that financial conditions are close to neutral, we are edging closer to the point where the pace of monetary tightening will slow, providing some scope for risk markets to recover some lost ground.

The period of excess inflation is starting to recede, with prior surges in commodity prices retreating, an easing in supply constraints, and signs of slowing demand likely to compress elevated sales margins. As central banks continue to await

firmer signs that inflation expectations have stabilised and for labour demand to ease, financial markets are faced with the positive news of less restrictive monetary policy and the negative news of likely weaker company earnings.

In a world of heightened concerns of recession in major developed economies, subdued economic activity in China and ongoing conflict between Russia and the Ukraine which has contributed to commodity shortages, high inflation and rising interest rates, the Australian economy presents as a relative safe haven.

Australia's economic data has remained robust in 1H2022, although we do expect economic activity to slow significantly in 2023 to average just 1.5%. While a local recession is possible in 2023, we believe Australia should be able to avoid a technical recession due to three key reasons:

1. Australia has been a net beneficiary of global commodity shortages. This surge in commodity prices saw Australia's export prices in A\$ terms move to their highest levels since the 1880s in 1H2022. The consequence has been strong national income growth, profits growth and an improving underlying fiscal position.
2. The household sector continues to hold a significant buffer of over \$160bn of excess savings relative to pre-COVID levels. Although we expect the impact of higher interest rates and higher living expenses will curtail consumer spending, we do expect the combination of rising wage growth and a run down in the level of savings to continue to support consumption spending.
3. Low levels of spare productive capacity, strong profit and low corporate debt have contributed to robust capital investment intentions.

Over the medium term we believe a recovery in net immigration levels into Australia and Australia's exposure to key commodities crucial to the global energy transition will provide a solid underpin for future economic growth.

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. We expect that the RBA cash rate will finish the year at 2.85%, below market expectations of 3.25%, and view A\$ as risks skewed to the upside. Australia's external accounts are in their best position since the early 1970s, providing an incentive for the A\$/US\$ to commence an appreciation cycle, together with the attractive carry on offer and the prospect the US\$ uptrend will peak as the Fed pivots from its aggressive hiking strategy. We expect the A\$ will finish 2022-23 at around 76 cents.

We are most overweight stocks within the Communication Services, Information Technology and Consumer Discretionary sectors, and are underweight Financials, Real Estate and Health Care.

Client Services

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