

UBS Australian Share Fund

November 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	National Australia Bank
Worley	Macquarie Group
Reliance Worldwide Corp.	Wesfarmers
Carsales.Com	Transurban Group

Active industry positions

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

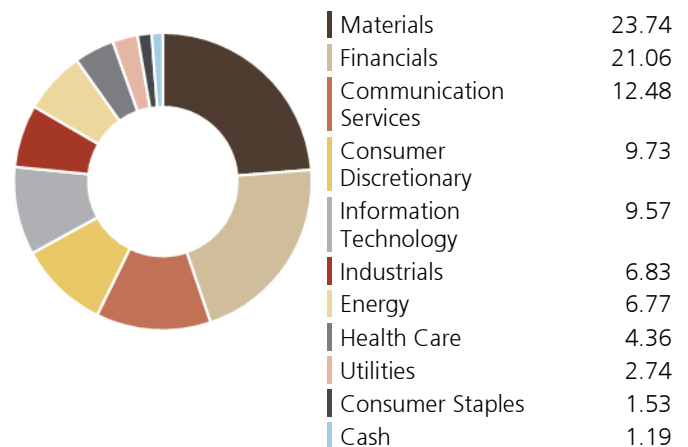
Fund information^

Inception date	15 July 1992
Fund size	\$ 246.5m
Management fee*	0.80% pa
Minimum initial investment	\$ 50,000
Typical number of holdings	30 to 70
Distributions	Semi-annually
Buy/sell spread	+/- 0.25%
APIR code	SBC0817AU

^The UBS Yarra Australian Share Fund has been renamed the UBS Australian Share Fund, effective as at 9 November 2022.

*The management fees and costs for the fund have been reduced from 0.90% p.a. to 0.80% p.a effective as at 9 November 2022.

Fund positioning (%)



Investment performance

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	6.51	6.32	6.06	5.08	5.76	9.63
Benchmark**	6.49	5.74	4.27	5.97	8.22	9.36
Added Value	0.02	0.58	1.79	(0.89)	(2.46)	0.27

* 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 6.51% during the month, outperforming its benchmark by 2 bps.

The largest positive contributors were Origin Energy, Sandfire Resources and National Australian Bank (not held). Our overweight position in Origin Energy outperformed following a takeover approach from a consortium Brookfield and EIG priced at \$9.00 per share, a 55% premium to the pre-bid share price, and valuing the company at an enterprise value of \$18.4b. Sandfire Resources was also a positive contributor, with copper prices increasing 9% over the month to close at US\$3.73/lb. We like copper as a commodity given its leverage to electrification as a key material in batteries and electric motors. Our underweight position in National Australian Bank contributed to outperformance, with the banking sector underperforming amidst concerns that we are rapidly approaching the peak of benefit from higher interest rates. Further, the cost outlook for banks has deteriorated which, along with bad debts normalizing, suggests earnings are likely nearing the peak.

The largest negative contributors were Aristocrat Leisure, Fortescue Metals (not held) and Reliance Worldwide. Aristocrat Leisure underperformed following the release of a slightly disappointing trading result, with Digital momentum slowing ahead of expectations. Longer term, we see significant opportunities across both Land-Based and Digital gaming and retain conviction in ALL's growth potential. Our underweight position in Fortescue Metals Group was a detractor during the period as the stock outperformed on rising iron ore prices. During November the benchmark 62% Fe index rose 27% to close at \$101.50/t on expectations that a shift away from COVID-zero policies in China would support industrial production and housing starts. Reliance Worldwide underperformed following the release of a weaker than expected market update from listed peer James Hardie (JHX). While the market is now pricing for a significant decline in earnings – the company trades on a P/E multiple of 12 times compared to a mid-cycle multiple of 17 times) – we remain confident in the demand environment given the defensive nature of the majority of RWC's repair and remodelling sales.

Market review

Australian equities rallied sharply and gained 6.0% during Australian equities delivered another month of strong performance, gaining a further 6.6% in November following the 6% recovery in October.

The S&P/ASX 200 Accumulation Index returned 6.6% for the month, taking its 12-month return back into positive territory of 5.0%. The broader ASX 300 Accumulation Index mirrored similarly, gaining 6.5% for the month with global indices also strong (MSCI World Index +7.0%).

All sectors delivered positive returns for the month, with Utilities (+20.9%) the best performing sector, led by Origin

Energy (ORG, +41.1%) off the back of a takeover bid, and further supported by AGL Energy (AGL, +16.9%) and APA Group (APA, +6.5%).

Within Materials (+16.3%), Metals and Mining produced some of the top performers for the month with Sandfire Resources Limited (SFR, +45.2%), Champion Iron Ltd (+39.0%) and Fortescue Metals Group Ltd (FMG, +31.8%) reflecting strong commodity performance as expectations increased of China reopening creating a stronger demand environment.

Conversely, the lagging sector was Communication Services (+2.1%), with strong returns from Carsales.com (CAR, +12.4%) balanced out by negative returns from Domain Holdings (DHG, -8.4%) and EVT Limited (EVT, -7.5%).

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 markets anticipating the end of the Fed tightening cycle may be at hand, financial conditions have eased considerably in the US as credit spreads narrowed, the equity market rallied strongly in October and November and the US\$ declined.

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 the first three quarters of 2022, 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 \$260bn 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.

In 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 have come via both significantly higher cash rates, higher government bond yields and wider corporate bond spreads. Following the December rate hike of 25bps we believe the RBA is now very close to the finish of the tightening cycle. Officially we expect a final 15bps hike in February. Indeed, we believe the RBA inflation forecasts will likely be downgraded slightly in February 2023 which will be used to put a full stop to the current rate tightening cycle. The A\$/US\$ has finally started to appreciate, after a long period of relative weakness. With Australia's external accounts remaining in excellent health, our expectation that Australia's economic growth will be more robust than its peers and the prospect the US\$ uptrend will peak as the Fed pivots from its aggressive hiking strategy we expect the A\$/US\$ will appreciate to the mid-70s by mid-2023.

Client Services

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