UBS Australian Share Fund

December 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
QBE Insurance Group	CSL
Worley	National Australia Bank
Aristocrat Leisure	Macquarie Group
Reliance Worldwide	Wesfarmers
PEXA Group	Rio Tinto

Active industry positions

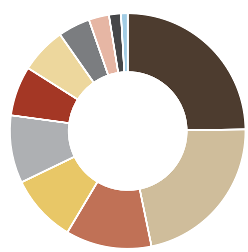
Overweight	Underweight
Software & Services	Banks
Media & Entertainment	Real Estate
Unassigned	Pharmaceuticals Biotechnology & Life Sciences
Consumer Services	Diversified Financials
Telecommunication Services	Food & Staples Retailing

Fund information^

Inception date	15 July 1992
Fund size	$ 233.8m
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 (%)



Materials	24.78
Financials	21.98
Communication Services	11.79
Consumer Discretionary	9.30
Information Technology	9.29
Energy	6.83
Industrials	6.30
Health Care	4.40
Utilities	2.78
Consumer Staples	1.64
Cash	0.91

Investment performance

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	(3.17)	10.54	0.06	4.26	4.54	9.49
Benchmark**	(3.29)	9.13	(1.77)	5.51	7.10	9.22
Added Value	**0.12**	**1.41**	**1.83**	**(1.25)**	**(2.56)**	**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.

Performance/attribution comments

After fees and expenses, the Portfolio declined by 3.17% during the month, outperforming its benchmark by 12 bps.

The largest positive contributors were Evolution Mining (EVN), Sandfire Resources and QBE Insurance. Evolution Mining benefitted from the gold price rising to US$1,828/oz at period end. Following a period of significant underperformance, we now see attractive valuation support for EVN. Sandfire Resources was a positive contributor during the period, with copper prices up 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. QBE Insurance outperformed following its third quarter trading update late in the prior month, with improving market confidence in the earnings power of the business into 2023.

The largest negative contributors were Aristocrat Leisure, Tyro Payments and Nine Entertainment. Aristocrat Leisure underperformed during the period following a slightly disappointing result, which saw Digital revenue slow more than expected post COVID-19 (largely flat y/y in US$, with softening 2H momentum). Tyro Payments declined during the month following the conclusion of unsuccessful takeover discussions with suitors Westpac and Potentia. Nine Entertainment underperformed during the period following Domain's (DHG) earnings downgrade in late December. DHG reported a weaker than expected listings environment since its AGM, as well as softer than expected yield in 2Q23.

Market review

Australian equities returned -3.2% during December, with all sectors ending the month in the red.

The S&P/ASX 300 Accumulation Index returned Index returned -3.3% for the month, taking its 12-month return to -1.8%. Globally, the MSCI World Index fell -4.2%.

Consumer discretionary (-13.6%) experienced widespread declines, the major blow coming from casinos as the government proposed a new gambling tax. The largest falls came from Star Entertainment (SGR, -34.7%), PointsBet Holdings (PBH, -25.8%) and Skycity Entertainment (SKC, -12.7%).

The other poorer performing sectors were Information Technology (-5.7%) and Industrials (-4.9%). Notable stocks within the sectors were Novonix (NVX, -34.4%), Tyro Payments (TYR, -19.4%), Downer EDI (DOW, -28.2%) and APM Human Services (APM, -24.0%).

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 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 heighted 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 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.

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

Client Services

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