

# UBS Australian Share Fund

January 2023

## 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
Reliance Worldwide Corp. Ltd.	CSL
QBE Insurance Group	National Australia Bank
Aristocrat Leisure	Macquarie Group, Ltd.
Worley	Wesfarmers
Telstra Group	Rio Tinto

## Active industry positions

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

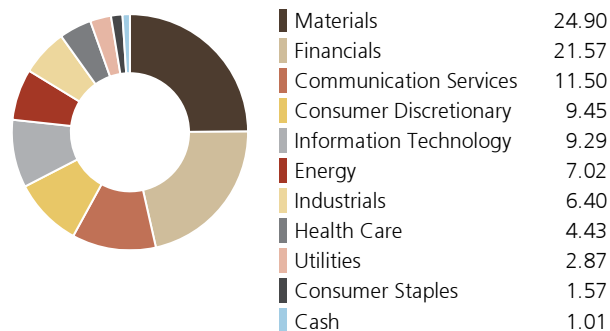
## Fund information<sup>^</sup>

Inception date	15 July 1992
Fund size	\$ 243.1m
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

<sup>^</sup> 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	5.99	9.31	10.95	5.12	5.96	9.67
Benchmark**	6.29	9.46	11.61	5.97	8.50	9.41
<b>Added Value</b>	<b>(0.30)</b>	<b>(0.15)</b>	<b>(0.66)</b>	<b>(0.85)</b>	<b>(2.54)</b>	<b>0.26</b>

\* 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 gained 5.99% during the month, underperforming its benchmark by 30 bps.

The largest positive contributors were Reliance Worldwide (RWC), Sandfire Resources (SFR) and JB Hi-Fi (JBH). Reliance Worldwide outperformed over the month of January following the news of the widespread freeze event in the US in late December. These freeze events occur every ~3 or so years and this one should provide a solid boost to sales as repairs are undertaken to rectify frozen pipes. Sandfire Resources was a positive contributor to the portfolio. Copper prices increased ~10% over the month to close at US\$4.17/lb on expectations the re-opening of China post COVID-zero would support copper demand. JB Hi-Fi outperformed during the period, with the stock continuing to re-rate higher on a strong trading update and resilient consumer spending patterns. Margins at both JB Hi-Fi and The Good Guys held up better than expected, with no evidence as yet of a reversion to pre-COVID levels.

The largest negative contributors were Incitec Pivot (IPL), Origin Energy (ORG) and Macquarie Group (MQG). Incitec Pivot underperformed over the month of January as ammonia prices fell 23% to \$790/t. Ammonia prices in Europe have been falling with demand in Asia very soft, the removal of a 5.5% EU import duty & EU gas prices in late Dec at their lowest level for seven months. Origin Energy – which is under a takeover offer – lagged the market during the month, falling modestly despite an upgrade to its full year earnings guidance for its Energy Markets business. Macquarie Group performed strongly during the month on limited news flow, albeit continued volatility in US and European energy markets through their winter seasons should be positive for MQG's commodity business.

## Market review

The S&P/ASX 200 Accumulation Index returned 6.2% for the month, taking its 12-month return into positive territory of +12.2%. The broader ASX300 mirrored, gaining 6.3% for the month with global indices also strong (MSCI World Index +7.1%).

Most sectors delivered positive returns for the month, with Consumer Discretionary (+9.9%) the best performing sector, led by Aristocrat Leisure (ALL, +11.3%), JB Hi-Fi (JBH, +15.3%), Corporate Travel Management (CTD, +24.6%) reflective of resilient consumer spending patterns during the holiday season.

Within Materials (+8.9%), Metals and Mining produced some of the top performers for the month. Sandfire Resources (SFR, +14.9%), Northern Star Resources (NST, +15%) and Sims (SGM, +16.6%) all outperformed, with the gold price rising 3% to US\$1,928/oz and Copper rising ~10% over the month to close at US\$4.17/lb.

Conversely, the largest lagging sector was Utilities (-3.0%), following strong sector performance in the December quarter, with AGL Energy (AGL, -5.2%), Origin Energy (ORG, -3.2%) and APA Group (APA, -1.9%) all lower.

## Outlook

Financial market enthusiasm at the commencement of 2023 has been stoked by three key forces; signs globally that the period of excess inflation is starting to recede, an acceleration in the trend decline in the US\$ which is helping to ease the contraction in global credit, and the expected impetus from "China's reopening" post is movement away from COVID zero. Each of these factors helps to diminish the risk of a harder landing for global growth and marginally increase the probability that a formal global recession may be avoided.

Importantly, the long-awaited pivot from major central banks appears to have been delayed until labour markets show more convincing signs of easing and the inflation down trend more assured. On balance, we still believe the US and Europe will enter a modest recession in 1H23 and inflation dynamics will change sufficiently for policy makers to conclude that the monetary policy is sufficiently restrictive to halt the tightening cycle in coming months.

We continue to argue that Australia presents as a safe haven from both the perspective of more robust growth relative to the G7 peer group and as having good leverage to signs of a trough in the economic cycle in China. Although both the RBA and we expect economic activity to slow significantly in 2023 to average just 1.5%, we believe Australia should be able to avoid a technical recession due to four 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 and even though commodity prices are now off their peaks they remain very elevated from a historical perspective. The consequence has been strong national income growth, profits growth and an improving underlying fiscal position. Indeed, the Commonwealth Budget will likely be close to surplus for the 2023 financial year.
- 2) The household sector continues to hold a significant buffer of over \$270bn 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) Australia remains incredibly well placed to benefit from the global energy transition. Lithium is already a A\$10bn export industry for Australia and Australia is the world's dominant producer. Electric Vehicle sales are forecast to increase 10x by 2030 and Australia has the world's 2nd largest copper resource. LNG is an

important energy transition fuel, and currently accounting for 23% of global electricity generation. Australia just happens to be the world's equal largest exporter of LNG. Iron ore obviously remains Australia's biggest export and China the dominant customer. However, we expect the global energy transition to be steel intensive, opening up new customers.

- 4) Net migration into Australia contracted in 2021 for the first time since 1945. However, a very strong recovery was recorded through 2022 and a record level of net migration appears likely in coming months, ensuring that Australia's population growth will be close to 2% in 2023.

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 February rate hike of 25 bps, we believe financial conditions are now in the restrictive zone and the RBA is now close to the finish of the tightening cycle.

Nevertheless, following the February hike its clear the RBA is retaining the option of delivering two or more further rate hikes. From our perspective the RBA's focus on global growth, trends in household spending and the outlook for inflation and labour markets in informing their future decisions suggest that multiple additional hikes are unlikely to be required. Interest rate hikes in Australia will remain a month-to-month proposition for the next six months, however, our bias is that just one further 25 bps hike is likely to be delivered this 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 prove more robust and the prospect the US\$ down trend will persist 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 and are underweight Financials, Real Estate and Health Care.

## Client Services

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