

UBS Australian Share Fund

February 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
QBE Insurance Group Limited	CSL Limited
Reliance Worldwide Corp. Ltd.	National Australia Bank Limited
Aristocrat Leisure Limited	Macquarie Group, Ltd.
Worley Limited	Wesfarmers Limited
Origin Energy Limited	Woolworths Group Ltd

Active industry positions

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

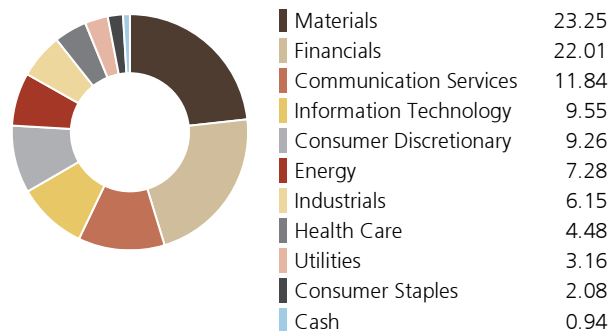
Fund information[^]

Inception date	15 July 1992
Fund size	\$ 238.2m
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	(1.40)	1.19	7.44	7.50	5.59	9.59
Benchmark**	(2.55)	0.17	6.54	7.94	7.87	9.29
Added Value	1.15	1.02	0.90	(0.44)	(2.28)	0.30

* 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 1.40% during the month, outperforming its benchmark by 115 bps.

The largest positive contributors were QBE insurance (QBE), Link Administration (LNK) and The Lottery Corporation (TLC). Link Administration appreciated during the month as the company made material progress to resolving the uncertainty overhanging its UK Fund Solutions business. QBE Insurance performed strongly during the month in which it reported a solid full year result, largely in line with expectations, and with the guidance for gross written premium growth for 2023 of mid to high single digit growth leading to upgraded earnings expectations. The Lottery Corporation outperformed during the period, with the stock reporting a strong result underpinned by both a solid Lotteries print and improving Keno momentum.

The largest negative contributors were Northern Star (NST), PEXA (PXA) and Macquarie Group (MQG). Northern Star was a negative contributor during the month. Following a period of strong outperformance late in 2022, NST tracked the gold price lower in February, with gold declining 5% to US\$1,817/oz at month end. PEXA underperformed during the month despite reporting a solid result for the six months to December 2022. With the background of the anticipated slowdown in house transaction volumes in Australia already an overhang on the stock, PXA guided to a slower roll out of its UK platform and higher than anticipated losses in its startup digital business. Macquarie performed strongly during the month on limited news flow, albeit that 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 -2.5% for the month, taking its 12-month return to 7.2%. The broader ASX300 returned similarly, -2.6% for the month with global indices mirroring (MSCI World Index -2.4%).

Utilities (+3.4%) was among the top performing sectors during the month led by Origin Energy (ORG, +9.4%) which outperformed on the proposed purchase of the business by suitors Brookfield and EIG.

Information Technology (+2.3%) had a good run during the period after facing multiple headwinds in 2022, led by Link Services (LNK, +19.3%) and Computershare (CPU, +5.7%).

Conversely, the largest lagging sector was Materials (-6.6%) with Metals & Mining (-7.4%) being the poorest performer. With Gold prices declining by 5% to US\$1817/oz at month end, the producers took a hit, in particular Northern Star (NST, -17.4%) and Evolution Mining (EVN, -14.4%).

Outlook

As we near the end of the March quarter, some of the initial enthusiasm for risk has started to fade on the combination of stronger than consensus expectations data in the US and the US Fed raising the prospect of returning to 50bp hikes, after stepping down to a 25bp increment in January. This combination of events has seen bond yields rise in an environment where earnings revisions remain in downward revision mode, resulting in a relatively sharp decline in equity risk premia and leaving the equity market somewhat more vulnerable from a valuation perspective.

On balance, the better data in the US in early 2023 can be mostly attributed to unusually warm weather and we still believe the US and Europe remain near recession-like economic growth conditions 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. Albeit we remain particularly cautious on discretionary retail spending, given most of the excess savings can be traced to older and wealthier households.
- 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 and March rate hikes 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. Importantly, it is clear the RBA is now openly considering pausing the hiking cycle. 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 the last hike has likely been delivered this cycle.

The A\$/US\$ has been under downward pressure as markets grappled with a seemingly more hawkish Fed and a relatively more dovish RBA. Nevertheless, both central banks are in the concluding phases of the tightening cycle. 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 through 2H 2023.

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

Telephone: (03) 9046 4041 **Freecall:** 1800 572 018 **Email:** ubs@unitregistry.com.au www.ubs.com/am-australia

Any financial product advice in this document is general advice only and has been prepared without taking into account your personal objectives, financial situation or particular needs. Therefore, before acting on any advice, you should consider the appropriateness of the advice in light of your own or your client's objectives, financial situation or needs. Investors should consider the Product Disclosure Statement (PDS) and seek professional financial and taxation advice before deciding whether the product is appropriate for them and whether to acquire, or to continue to hold the investment. Your investment in the Fund does not represent deposits or other liabilities of UBS AG or any member company of the UBS Group including UBS Asset Management (Australia) Ltd (ABN 31 003 146 290) (AFS Licence No. 222605), the issuer and responsible entity of the Fund. Your investment is subject to investment risk, including possible delays in repayment and loss of income and capital invested. The repayment of capital or income is not guaranteed by any company in the UBS Group. Offers of interests in the Fund including the details of the management fee received by the responsible entity are contained in the PDS dated 28 September 2022. The responsible entity has also issued a target market determination (TMD) that describes the class of consumers that comprises the target market for the Fund and matters relevant to its distribution and review. A copy of the PDS (including the PDS additional information booklet) and TMD are available on our website at <https://www.ubs.com/au/en/asset-management.html> or by calling (03) 9046 4041 or 1800 572 018.

The PDS and application form is only available to persons receiving it (electronically or otherwise) while physically in Australia, unless expressly authorised by us in writing. The offer does not constitute an offer or invitation in any place in which, or to any person to whom, it would be unlawful to make such an offer or invitation. The Fund (or the PDS) has not been registered under the laws of any jurisdiction outside Australia. The Fund may not be offered or sold in the United States of America or to 'U.S. Persons' (as defined in 'Regulation S' of the Securities Act of 1933, as amended).

This document may not be reproduced or copies circulated without prior written authority from UBS Asset Management (Australia) Ltd.

Yarra Funds Management Limited (ABN 63 005 885 567, AFSL 230 251) is the portfolio manager of the Fund. The information set out has been prepared in good faith and while Yarra Funds Management Limited and its related bodies corporate (together, the "Yarra Capital Management Group") reasonably believe the investment information and opinions to be current, accurate, or reasonably held at the time of publication, to the maximum extent permitted by law, the Yarra Capital Management Group: (a) makes no warranty as to the content's accuracy or reliability; and (b) accepts no liability for any direct or indirect loss or damage arising from any errors, omissions, or information that is not up to date.

Yarra Funds Management Limited manages the Fund and will receive a fee that is paid from the fee received by the responsible entity and described in the PDS. To the extent that any content set out in this presentation discusses market activity, macroeconomic views, industry or sector trends, such statements should be construed as general advice only. Any references to specific securities are not intended to be a recommendation to buy, sell, or hold such securities. Holdings may change by the time you receive this report. Future portfolio holdings may not be profitable. Past performance is not an indication of, and does not guarantee, future performance.

References to indices, benchmarks or other measures of relative market performance over a specified period of time are provided for your information only and do not imply that the portfolio will achieve similar results. The index composition may not reflect the manner in which a portfolio is constructed. Portfolio characteristics take into account risk and return features which will distinguish them from those of the benchmark.

