UBS

UBS Asset Management
For Professional / Qualified / Institutional Investors only
All data as at 28 February 2023

# 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

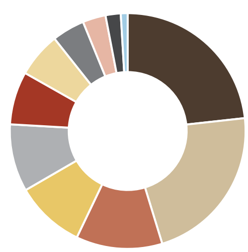
| Overweight | Underweight |
|---|---|
| Software & Services | Real Estate |
| Media & Entertainment | Pharmaceuticals Biotechnology & Life Sciences |
| Consumer Services | Diversified Financials |
| Insurance | Banks |
| Telecommunication Services | Food & Staples Retailing |

### 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 (%)



| | |
|---|---|
| Materials | 23.25 |
| Financials | 22.01 |
| Communication Services | 11.84 |
| Information Technology | 9.55 |
| Consumer Discretionary | 9.26 |
| Energy | 7.28 |
| Industrials | 6.15 |
| Health Care | 4.48 |
| Utilities | 3.16 |
| Consumer Staples | 2.08 |
| Cash | 0.94 |

## 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 it 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**

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