

UBS Australian Share Fund

March 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 Limited
QBE Insurance Group Limited	National Australia Bank Limited
United Malt Group Ltd.	Macquarie Group, Ltd.
Worley Limited	Wesfarmers Limited
Origin Energy Limited	Woolworths Group Ltd

Active industry positions

Overweight	Underweight
Software & Services	Banks
Capital Goods	Pharmaceuticals Biotechnology & Life Sciences
Media & Entertainment	Financial Services
Insurance	Consumer Staples Distribution & Retail
Telecommunication Services	Equity Real Estate Investment Trusts (REITs)

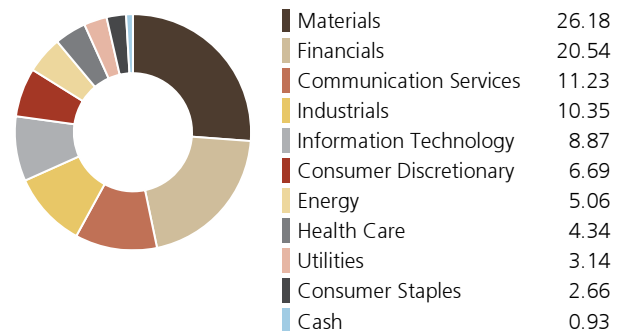
Fund information[^]

Inception date	15 July 1992
Fund size	\$ 241.3m
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	2.21	6.82	4.20	20.21	6.94	9.64
Benchmark**	(0.24)	3.33	(0.57)	16.59	8.64	9.25
Added Value	2.45	3.49	4.77	3.62	(1.70)	0.39

* 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 increased by 2.21% during the month, outperforming its benchmark by 245 bps.

The largest positive contributors were United Malt, NAB, and Xero. United Malt outperformed after a takeover bid was received from peer, Malteries Soufflet priced at \$5.00/share (+45% premium to last close). NAB underperformed during the month, caught up in the global selloff of banks following the failure of Silicon Valley Bank, Signature Bank and Credit Suisse. Xero outperformed during the period after announcing plans to reduce the size of its workforce by 15%. The cost-out will lead to a reduction in operating expenditure/sales from the recent levels of 83-85% over recent results down to a more sustainable level of ~75% from FY24.

The largest negative contributors were Newcrest Mining, Incitec Pivot and Worley. Newcrest Mining traded higher as the gold price rallied 9% in March on macro uncertainty and an expected slowdown of interest rate rises globally. Incitec Pivot underperformed over the period as the price for Tampa ammonia fell 23% in March on weaker gas prices in Europe and weaker demand. Worley underperformed as spot WTI oil pricing fell 3% over the month.

Market review

Australian equities returned -0.2% during March. The Australian 10-year bond yield decreased by 56bps, whilst the AUDUSD depreciated by 0.7%.

The S&P/ASX 300 Accumulation Index returned -0.2% in March, taking its 12-month return to -0.6%. Globally, the MSCI World Index climbed by +3.2% for the month.

Metals and Mining (+6.4%) was the top contributor during the month, with gold producers benefiting from a surge in the gold price due to the failure of financial banks globally. Key contributors were by Northern Star (NST, +20.0%) and Evolution (EVN, +14.7%), while Liontown (LTR, +89.7%) was subject to a takeover offer from US listed lithium producer Albermarle Corporation.

Communication Services (+3.3%) was a positive contributor during the period. REA Group (REA, +13.0%) performed well over the quarter, alongside Domain Holdings (DHG, +13.2%) as investors anticipate that we are getting close to the trough in the real estate listings cycle.

Conversely, the weakest performing sector was Real Estate (-5.6%) which saw a downturn in performance early in the year post a strong 4Q22 quarter. Companies under most pressure included Goodman (GMG, -5.4%) and Scentre Group (SCG, -7.7%).

Outlook

The June quarter 2023 will mark the top of the interest cycle for most of the developed world. With ongoing evidence of inflation moderating, tightening in lending availability and downgrades accumulating for economic growth, including the Federal Reserve staff formally forecasting a modest recession in the US, the appetite for policy makers to persist with the tightening cycle is rapidly evaporating. Although the Fed may choose to hike in May, the decline in headline inflation has returned real interest rates to zero and our nowcasting for US economic growth continues to suggest the US has been contracting modestly since late 2022. We believe the US labour market is set to post more modest employment gains in 2Q23 which in concert with improving labour supply will continue to moderate wage growth and help underwrite the commencement of a gradual easing cycle in the US from September 2023.

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 1H22, 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 10 times by 2030 and Australia has the world's 2nd largest copper resource. LNG is an important energy transition fuel, and currently accounts 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 will 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 Reserve Bank of Australia (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. It is unlikely that policy easing will be delivered in 2023, however, we do expect that the RBA will commence an easing modest easing cycle in 1H24.

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 to an easing cycle in 2023, we expect the A\$/US\$ will appreciate to the mid-70s through 2H CY23.

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

Client Services

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