

UBS Australian Share Fund

October 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
Aristocrat Leisure	CSL Limited
Link Administration Holdings	Macquarie Group
Reliance Worldwide Corp	National Australia Bank
Worley Limited	Transurban Group
Nine Entertainment Co. Holdings	Wesfarmers

Active industry positions

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

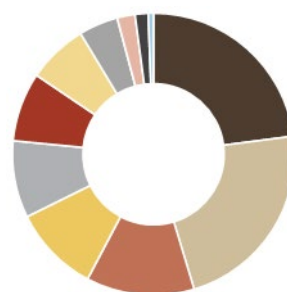
Fund information^

Inception date	15 July 1992
Fund size	\$ 231.7 m
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	22.96
Financials	22.39
Communication Services	12.39
Consumer Discretionary	9.96
Information Technology	8.83
Industrials	7.92
Energy	6.90
Health Care	4.50
Utilities	2.05
Consumer Staples	1.50
Cash	0.60

Investment performance

Fund	1 month %	3 months %	1 year % pa	3 years % pa	5 years % pa	Since inception* % pa
Total return	7.18	2.17	(1.61)	3.48	5.00	9.43
Benchmark**	5.96	0.46	(2.61)	4.86	7.22	9.16
Added Value	1.22	1.71	1.00	(1.38)	(2.22)	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.

Portfolio review

After fees and expenses, the Portfolio gained 7.2% during the month, outperforming its benchmark by 122bps.

The largest positive contributors were CSL, Link Group and Fortescue Metals (not held). Our underweight position in CSL contributed to returns following the company's investor day for its newly acquired Vifor business. Investors remain cautious on the acquisition given the size and shift from CSL's strong position in the global plasma market. Link Group recovered somewhat during the month following sharp underperformance in the prior month following termination of the agreed deal with Dye & Durham to acquire the company. Fortescue Metals (FMG) underperformed on the back of lower iron ore prices. As a high-cost iron ore producer, the company is highly levered to movements in spot iron ore prices; the benchmark 62% Fe index's 17% decline to US\$79.50/t drove a 12.4% decline in FMG's share price in October.

The largest negative contributors were National Australian Bank (not held), Reliance Worldwide and OZ Minerals. NAB performed strongly over the month as the market factored in higher expectations around the pace of net interest margin expansion as the banks benefit from the higher interest rate environment. Reliance Worldwide underperformed during the period following its 1Q23 result which showed volumes are softening across the business (-1.9% in 1Q), with an expectation that volumes will be down by mid-single digits in the Americas division over FY23. OZ Minerals underperformed despite no incremental news, with BHP's takeover offer for the company weighing on share price performance relative to market gains.

Market review

Australian equities rallied sharply and gained 6.0% during October, following the 6.2% decline in September.

The S&P/ASX 300 Accumulation Index returned +6.0% for the month, taking its 12-month return to -2.6%, while global indices notched up strong gains (MSCI World Index, +7.2%).

Within Financials (+12.1%), the sector performed strongly over the month as the market factored in higher expectations around the pace of net interest margin expansion led by Westpac Bank (WBC, +16.8%), Commonwealth Bank (CBA, +15.4%) and National Australian Bank (NAB, +12.5%).

Real Estate was a strong performer (+9.3%) as investors started to revisit the sector following material underperformance and the sector trading at a material discount to asset backing. Performance was led by Arena REIT (ARF, 18.0%), National Storage REIT (NSR, 17.0%) and Centuria Industrial REIT (CIP, 17.0%).

Conversely, the worst performing sector was Materials (-0.2%) led by St. Barbara (SBM, -31.1%), Fortescue Metals (FMG, -12.6%) and Sandfire Resources (SFR, -6.7%).

Market Outlook

Financial markets have now embraced the risk of recession in the US and Europe, and the gap between our more pessimistic forecasts for the global economy and the consensus has narrowed. Indeed, with the Fed signalling that financial conditions are close to neutral, we are edging closer to the point where the pace of monetary tightening will slow, providing some scope for risk markets to recover some lost ground.

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 heightened 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 1H2022, 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 \$160bn 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.

Over 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. We expect that the RBA cash rate will finish the year at 3.10%, which we expect will mark the peak for the RBA, well below market expectations of a 4.0% peak in 2H23. The A\$/US\$ has been particularly weak in recent weeks, albeit on a TWI basis the A\$ has been broadly stable. With Australia's external accounts are in their best position since the early 1970s 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 end-2023.

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

Client Services

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