

# UBS Income Solution Fund

August 2021

## Fund description

The Fund is an actively managed, diversified portfolio of corporate credit, asset backed and other fixed income securities, cash equivalents and cash. The Fund may hold up to 25% in high yield securities (which may include unrated securities).

## Investment strategy

The Fund is actively managed, based on fundamental research that draws upon the investment insights of our fixed income teams. The approach employs both "top-down" research, including analysis of economic factors, market data and macro credit themes, and "bottom-up" research in respect of particular securities, including analysis of earnings and cash flow stability, balance sheet strength, industry and valuation.

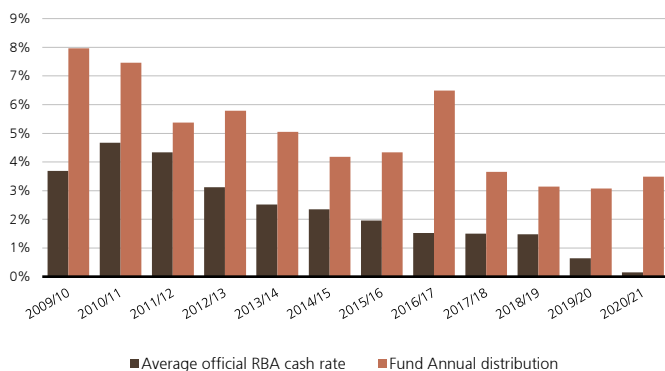
The Fund's investment strategy is to invest in a portfolio of Australian and global corporate credit, asset backed, and other fixed income securities, cash equivalents and cash.

## Investment return objective

The Fund aims to outperform (after management costs) the Reserve Bank of Australia Official Cash Rate over rolling three year periods.

## Income history

As at financial year 30 June 2021



## Credit quality (%)

|                  |      |
|------------------|------|
| Investment Grade | 73.5 |
| High Yield       | 18.0 |
| Cash and other   | 8.5  |

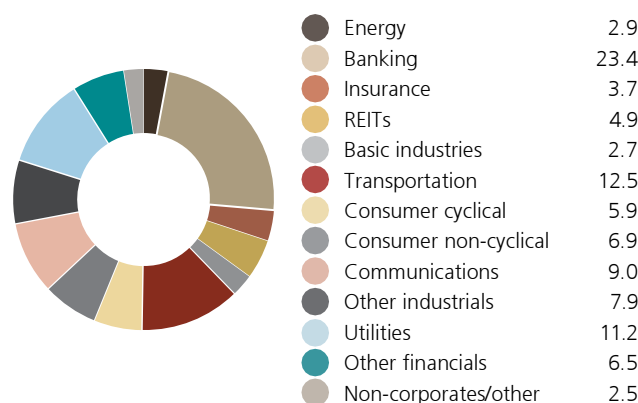
## Fund information

|  |                   |
|--|-------------------|
| Inception date                                     | 17 April 2002     |
| Fund size  | \$ 362.6m         |
| Management fee                                     | 0.60% pa          |
| Minimum initial investment                         | \$10,000          |
| Distributions                                      | Monthly           |
| Monthly distribution estimate cents per unit (CPU) | 0.175             |
| Buy/sell spread                                    | + 0.10% / - 0.20% |
| Currency management                                | Hedged to AUD     |
| APIR code  | UBS0003AU         |

## Portfolio statistics

|                                    |      |
|------------------------------------|------|
| Modified Duration (yrs)            | 1.37 |
| Spread Duration (yrs)              | 3.73 |
| Yield to Maturity <sup>1</sup> (%) | 1.82 |
| Official cash rate (%)             | 0.10 |
| Average Credit Rating              | BBB  |

## Industry allocation (ex cash) (%)



## Investment performance

| Fund               | 1 month<br>% | 3 months<br>% | 1 year<br>% | 3 years<br>% pa | 5 years<br>% pa | Since inception*<br>% pa |
|--------------------|--------------|---------------|-------------|-----------------|-----------------|--------------------------|
| Total return       | 0.02         | 0.42          | 3.57        | 2.66            | 3.35            | 4.79                     |
| Benchmark**        | 0.01         | 0.03          | 0.13        | 0.68            | 1.03            | 3.68                     |
| <b>Added Value</b> | <b>0.01</b>  | <b>0.39</b>   | <b>3.44</b> | <b>1.98</b>     | <b>2.32</b>     | <b>1.11</b>              |

\*Inception date: 17 April 2002. \*\* RBA Official Cash Rate, Prior to 1 February 2017 benchmark was Bloomberg AusBond Bank Bill Index.

Performance figures are net of ongoing fees and expenses. The performance figures quoted are historical, calculated using end of month 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. Growth returns are the returns due to change in initial capital value. Distribution returns are the returns due to the distributions paid. <sup>1</sup> Yield to Maturity (YTM) is the estimated annualised rate of return that would be received if the Fund's current securities were all held to maturity. Note that YTM does not account for fees or taxes. YTM is not a forecast, and is not a guarantee of the future return of the Fund. <sup>2</sup> Source: RBA, 2019.

## Market highlights

- Australian government yields fell early in the month before recovering to close the month flat.
- Australian credit spreads were broadly stable, trading in a tight range.
- The RBA maintained the cash rate at 0.10%.

## Performance review

Australian government bond yields reached the lowest levels since February driven by the ongoing emergence of COVID 19 and subsequent lockdowns. In this environment, Australian credit spreads continued to trade with a solid tone with very little volatility seen. Equity markets continue to reach record levels. The Australian reporting season had little impact on spreads with companies generally reporting growth in revenue and earnings. The primary market was also robust with new issues in both the financials market and non-financials. All new deals received good interest from investors.

After widening initially at the start of the month US high yield spreads finished tighter which had a positive contribution to performance.

## Outlook

While we remain broadly optimistic on the outlook for global growth given easy fiscal and monetary policy settings, the economic risks resulting from outbreaks of the more contagious delta strain of COVID-19 suggests recovery will continue to be uneven across both global economies. In this regards the varied pace of rollout of COVID-19 vaccines across countries, and the impacts emanating from any further genetic mutations, will continue to be a headwind to more robust growth and inflationary pulses.

Although we expect inflation to move higher on stronger growth and ongoing supply bottlenecks, it is not expected to be sufficiently strong to warrant most central banks changing course in the near-term. Monetary policy settings globally remain highly accommodative, and central banks will retain these settings for some time in order to support their economies. However, we expect to see some central banks – with the US Federal Reserve in particular – discussing on a more consistent basis about when they will taper and ultimately begin to raise rates. While removing excess stimulus is still some way off for other central banks, markets may become skittish if they try to get too far ahead of the expectations they have fed to markets over the past year.

In contrast to changes in messaging from the US Fed, the RBA continues to be quite resolute in signalling that it will continue to pursue a accommodative monetary stance for some time. The excess liquidity that is being generated should continue to support the local bond market and act as a counterbalance to currency strength.

Risk assets across-the-board continue to perform well. Within credit, we expect investor demand to remain strong in an environment where official cash rates are at or close to zero and investors globally continue their reach for yield. Explicit support for high quality credit from central banks in the US and Europe will also underpin demand and is likely to help keep a ceiling on any spread widening episodes. Based on this backdrop, we expect the Australian corporate credit market will continue to perform reasonably well.

## Client Services

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