

UBS International Share Fund

May 2021

Fund description

The Fund is an actively managed fund investing in a portfolio of 70–90 listed global equity securities.

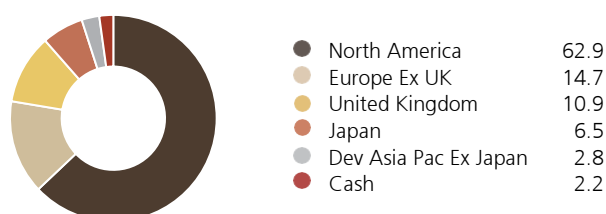
Investment strategy

The Fund seeks to invest across a wide number of countries and currencies in order to deliver a diversified investment strategy aimed at achieving the investment objective of the Fund. Currency exposure to each country may be fully hedged, partially hedged to \$A, or may exceed the Fund's securities exposure to that country.

Investment return objective

The Fund aims to outperform (after management costs) the MSCI World ex Australia net total return Index (unhedged)(\$A) over rolling five year periods.

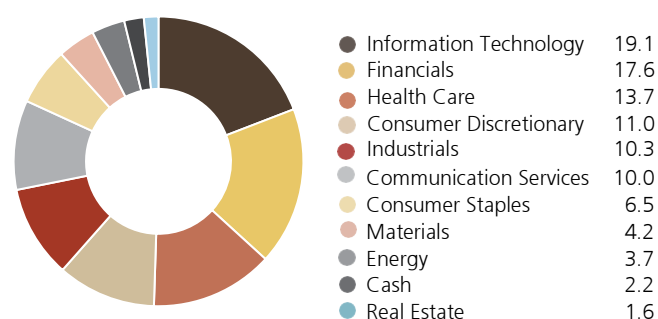
Country/regional allocation (%)



Fund information

Inception date	26 November 1992
Fund size	\$113.1 m
Management fee	1.00% pa
Minimum initial investment	\$10,000 (via online application \$5,000)
Typical number of holdings	70 to 90
Distributions	Annually
Buy/sell spread	+/- 0.25%
Currency management	Actively managed
APIR code	SBC0822AU

Fund positioning (%)



Active security positions

Overweight	Underweight
Wells Fargo	Apple
Hess Corp	Alphabet – CL C
Ameriprise Financial	Alphabet – CL A
Southwest Airlines	JP Morgan Chase
Ingersoll-Rand	Tesla

Active industry positions

Overweight	Underweight
Software & Services	Utilities
Telecommunication Services	Capital Goods
Pharmaceuticals, Biotechnology & Life Sciences	Semiconductors & Semiconductor Equipment
Insurance	Technology Hardware & Equipment
Food, Beverage & Tobacco	Food & Staples Retailing

Investment performance

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	1.30	9.17	25.26	13.08	12.66	7.08
Benchmark**	1.19	9.73	20.41	13.62	12.78	8.07
Added Value	0.11	(0.56)	4.85	(0.54)	(0.12)	(0.99)

*The UBS Asset Management price/value equities process was adopted on 1 April 1996. **MSCI World ex Australia net total return Index (unhedged)(\$A). 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

The performance was ahead of the benchmark in May.

Positive stock selection in Energy and Information Technology added the most value, on the other hand stock selection in Health Care and Consumer Discretionary detracted the most. In general, the best performing sectors were Information Technology (0.39% total effect), Energy (0.32% total effect) and Consumer Staples (0.14% total effect). However Consumer Discretionary (-0.29% total effect), Health Care (-0.26% total effect) and Industrials (-0.09% total effect) had a negative impact. Concerning stock contribution, Apple (0.26% total effect), Erste Group Bank (0.2% total effect, 17.04% port total return) and Hess (0.19% total effect, 12.49% port total return) contributed positively to performance. On the other hand SoftBank Group (-0.27% total effect, -16.55% port total return), Dollar Tree (-0.25% total effect, -15.14% port total return) and Alcon (-0.09% total effect, -7.29% port total return) detracted the most. On the topic of attribution by countries, United Kingdom and United States were the top contributors to performance, exposure to Japan and Switzerland detracted the most.

Largest stock contributors

- Apple & Tesla Not holding these two stocks added value as tech stocks underperformed in May. For Apple, concerns about the sustainability of demand for products that benefited from work-from-home and the regulatory environment persist. We remain cautious on Apple given the maturity of its smartphone business and increasing regulatory/legal risk on the company's App store take rate.
- Erste Group Bank Q1 net profit was up 50.9% for the Austria bank, the group said it was also actively looking again for acquisition targets as a recovery in central and eastern Europe economies allowed it to reduce risk provisions and free up cash.
- Hess Shares rose after the company posted a quarterly profit, more than double the Wall Street estimates, as its strategy to store oil during last year's downturn paid off.
- Ashtead Group share price performed well as the company announced its plans to recommence its share buyback program. It had paused its greenfield openings, bolt-on and share buyback programs in March 2020 as it looked to optimize cash flow and strengthen its liquidity position due to the COVID-19 pandemic. Now, given strong cash flow generation and expansion plans following the successful Project 2021 campaign, the group anticipates buying back up to £1B in shares.

Largest stock detractors

- SoftBank Group Shares slid after the conglomerate declined to extend its buyback program, removing support for the stock as concern over frothy portfolio valuations outweighed record earnings
- Dollar Tree Shares of Dollar tree suffered as the company gave tepid full-year profit forecasts, weighed down by higher transportation costs, even as a stimulus check-driven boost in spending helped them post better-than-expected quarterly sales.
- Alcon Following the Q1 results, Alcon shares have dropped from the high 60s into the low 60s. Some of this is macro (inflation concerns) related, but given investor feedback on the conference call, the majority of the drop seems to be related to the concerns around share developments within the contact lens space (27% of Alcon's FY20 top-line).
- Southwest Airlines Although share were weak in May but U.S. airlines are preparing for a rebound in summer bookings as mass vaccination gains pace and countries ease travel restrictions for vaccinated travelers.
- Bio-Rad Laboratories Shares lowered after the earnings release over the month, but we continued to like the stock given its solid forecasts.

Market review

The US economy continued to recover in the month of May, but developments were not as smooth as they had been earlier in the recovery. With roughly half of Americans now fully vaccinated, data for April showed some of the stresses in the underlying recovery. Data showed that only 266,000 jobs were created in April, far below consensus estimates for one million jobs to be added. Additionally, there are continued signs of rising inflation expectations. The University of Michigan Survey of Consumers showed that respondents now expect inflation levels of 4.6% for the next year, and 3.1% over the next 5-10 years, both well above the Fed's 2% target. While these higher inflation expectations, and subsequent likely higher inflation readings will cause some unease in markets, this remains part of the Fed's plan to generate a sustained increase in inflation and inflation expectations. Given that goal, the Fed continues to provide ample policy support. In fact, after that disappointing non-farm payroll print earlier in the month, market expectations for tapering pushed out into 2022, as the market adjusted expectations of Fed support following the weak labor market data. Heading into the end of the month, President Biden unveiled his budget for the coming fiscal year, including higher spending and proposed tax increases. Eurozone purchasing managers index readings and other surveys continued to point to strong momentum in the Eurozone economy in the coming months. Incoming economic data continued to show strength in the manufacturing sector relative to services. Confidence in the recovery is growing as the vaccination program picks up, and caseloads of the coronavirus fall. Europe is firmly on course to vaccinate 70% of all adults by the summer. Meanwhile, headline inflation continued to trend higher, driven by base effects. This alone will not cause the ECB to tighten policy; in fact, speeches from governing council members during the month indicate support for the ECB maintaining the current pace of asset purchases when it meets in June. China's economic rebound moderated but activity remained at relatively strong levels, based on data released in May. April retail sales slowed to 17.7% year-on-year from 34.2% in March, partly due to less favorable base effects and some payback after a swift revival in the prior month. The Chinese economy was supported by strong external demand, especially from other emerging markets. This was likely due to the reimposition of pandemic lockdowns which restricted domestic production in some trading partners. Reflecting this, export growth to India surged the most, to 143.8% year-on-year in April from 18.5% in March. There were signs of inflationary pressure in April's data, with producer price inflation hitting a multi-year high of 6.8%. But this was mainly the result of higher commodity prices, and we don't see this leading to tighter monetary policy. Consumer price inflation has remained moderate - at 0.9% in April year-on-year - below the government's target of around 3%. The full-year average could be around 2% in 2021, based on our forecasts. In addition, at the 2Q Politburo meeting on 30 April, policymakers continued to call for policy continuity, citing a still uneven economic recovery and external uncertainties. Finally, China released its census, which pointed to an ageing population and a shrinking workforce. We expect this to be a spur to the adoption of automation and robotics.

Outlook

The economic outlook for the second half of the year looks bright, particularly for those countries which are advanced in their vaccine rollouts. With more countries step-up efforts to vaccinate populations, economic recovery should broaden out. We believe equities should continue to go well in the current environment with modestly rising inflation. From a sector perspective, we continue to overweight more economically sensitive sectors such as Communications services, Energy and Financials stocks as we believe these areas stand to further benefit from the cyclical rebound. This global portfolio allows us to take access a wider range of companies and industries where valuations are typically much lower than the US. Also, while the US has been quite resilient during the pandemic, areas such as Europe have been more badly hit and therefore offer more recovery potential. We can also find some exciting businesses in areas such as Asia where there is much stronger long term growth potential.

Our process has been in place for 40 years, and our PMs have invested through many short term dislocations, and it is crucial during such periods to stick to our disciplined process and take advantage of panic selling to invest in companies at cheap levels. Valuation spreads remain wide versus history, providing excellent opportunities going forward and it is likely that activity levels in the portfolio will continue to be high as we take advantage of the increased level of volatility in the market.

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