UBS International Share Fund

June 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.

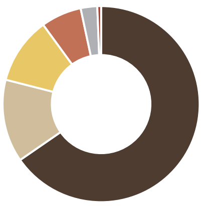
Investment return objective

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

Fund information

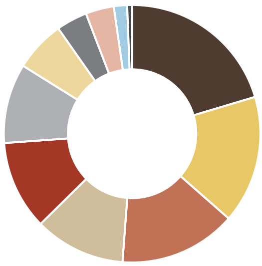
Inception date	26 November 1992
Fund size	$115.7 m
Management fee	1.00% pa
Minimum initial investment	$10,000 (via online application $5,000)
Typical number of holdings	70 to 90
Distributions	Annually
Buy/sell spread	+/- 0.25%
Currency management	Actively managed
APIR code	SBC0822AU

Country/regional allocation (%)



North America	65.3
Europe Ex UK	13.7
United Kingdom	11.0
Japan	6.7
Dev Asia Pac Ex Japan	2.7
Cash	0.6

Fund positioning (%)



Information Technology	20.4
Financials	16.1
Health Care	14.8
Consumer Discretionary	11.4
Industrials	11.2
Communication Services	10.0
Consumer Staples	6.4
Energy	3.9
Materials	3.6
Real Estate	1.7
Cash	0.6

Active security positions

Overweight	Underweight
Hess Corp	Apple
Wells Fargo	Alphabet – CL C
Ameriprise Financial	Alphabet – CL A
Ingersoll-Rand	Tesla
Akamai Technologies	Nvidia

Active industry positions

Overweight	Underweight
Software & Services	Utilities
Pharmaceuticals, Biotechnology & Life Sciences	Semiconductors & Semiconductor Equipment
Telecommunication Services	Technology Hardware & Equipment
Commercial & Professional Services	Capital Goods
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	3.06	7.69	31.16	13.30	14.75	7.17
Benchmark**	4.71	9.33	27.50	14.49	14.72	8.22
Added Value	**(1.65)**	**(1.64)**	**3.66**	**(1.19)**	**0.03**	**(1.05)**

*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 portfolio lagged its benchmark in June.

Positive stock selection in Energy and Utilities added the most value, stock selection in Information Technology and Consumer Staples detracted the most. In general, the best performing sectors were Utilities (0.12% total effect), Energy (0.03% total effect) and Real Estate (-0.02% total effect). While Information Technology (-0.7% total effect), Consumer Staples (-0.25% total effect) and Financials (-0.21% total effect) had a negative impact. In regard to stock contribution, Cornerstone OnDemand (0.1% total effect, 17.31% port total return), Fortinet Inc (0.1% total effect, 8.99% port total return) and BT Group (0.09% total effect, 7.83% port total return) contributed positively to performance. Apple (-0.3% total effect), Southwest Airlines (-0.27% total effect, -13.62% port total return) and Anglo American (-0.19% total effect, -10.63% port total return) had the most negative impact on performance. On the topic of attribution by countries, France and Germany were the top contributors to performance, though exposure to United States and Austria detracted the most.

Largest stock contributors

- Cornerstone OnDemand 's outperformance was driven by the company's improving performance under new leadership combined with its relatively modest valuation.
- Fortinet Inc Share price continued to trend up in June for the software company. Year to date performance exceeded 60%.
- BT Group Shares of the UK's telecom company were up over 50% year to date and 74% over 12 months, nearing our price target.
- Avantor announced that it has acquired RIM Bio, a China-based manufacturer of single-use bioprocess bags and assemblies for biopharma manufacturing applications. This acquisition broadens AVTR's existing single-use manufacturing network and appears to be a solid bolt-on deal.
- JPMorgan Chase Not holding the US bank added to the peformance. Share price was negatively impacted by Fed's hawkish tone.

Largest stock detractors

- Apple Not holding Apple detracted this month whereas in general Apple shares have underperformed so far this year as the Street remains unconvinced that the pace of this iPhone supercycle growth story can continue into FY22.
- Southwest Airlines & Erste Group Bank Shares were both negatively impacted by the market trend where Growth outperformed Value in the last months, but we do believe Value has further room to run.
- Anglo American US Fed monetary policy decision weighed on share price of the coal miner.
- NVIDIA 's underperformance was driven by our underweight position in the stock coupled with continued strong demand for Nvidia's GPUs for gaming, artificial intelligence training and cryptocurrency mining.

Market review

The US economy continued to recover in June. With more than half of the population having received at least one dose of the vaccine, new COVID-19 cases are at their lowest levels since the early days of the pandemic, enabling more of the economy to reopen. The Atlanta Fed GDPNow tracker estimates that the economy expanded at an 8.3% annualized rate in 2Q. Economic data for May showed inflationary pressure building as the supply side struggled to keep up with strong demand. The ISM Services Index hit a record high, while the manufacturing purchasing managers' index (PMI) remained above 60. The US economy created a net 559,000 jobs in May, an increase from April but still below consensus expectations. The 3.8% rise in core CPI inflation was the fastest in almost three decades. But this looks likely to represent a peak for the current cycle.

Negotiations over the next fiscal package continued to progress, and it now appears likely that a bipartisan deal focused on traditional infrastructure will be enacted. Democrats intend to use the reconciliation process to pass additional spending without Republican votes. At the FOMC meeting on 16 June, the Fed signaled an earlier start to tapering and rate hikes. A majority of FOMC members now sees rate hikes beginning by 2023, with a significant minority looking for hikes in 2022. The Eurozone economy has continued to reopen as member states' vaccination programs advance. This has driven sentiment indicators higher, and growth should follow. The European Central Bank in June raised its economic growth projections to 4.6% this year and 4.7% next year, from 4.0% and 4.1%, respectively, in March. Despite the improving growth outlook, the ECB said it will maintain its "significantly higher" pace of bond buying under the PEPP over the coming months. The results of the central bank's strategic review are expected in September, and we think these are likely to keep policymakers on dovish footing. Preliminary data indicated that the CPI rose 1.9% year-over-year in June, edging down from 2.0% in May. With Germany's federal election on the horizon in September, the focus on political developments in the region has increased.

A shift in the opinion polls over the last month has helped the CDU/CSU at the expense of the Greens. Our base case is for a coalition between the CDU/CSU and the Green party. Economic activity data released in June painted a mixed picture of China's recovery. Retail sales growth moderated to 12.4% year-over-year in May from 17.7% in April, but external demand continued to support the recovery. Exports grew at a solid pace of 27.9% year-over-year in May after notching 32.3% growth in April. The manufacturing and services PMIs both declined in June but remained above 50. Producer price inflation accelerated to 9.0% year-over-year in May, driven by low base effects and rising commodity prices, while consumer price inflation edged higher to 1.3%. Following record 1Q GDP growth of 18.3% year-over-year, the Chinese economy is on track for more than 7% growth in 2Q. While growth may come under downward pressure in 2H as pent-up demand subsides and export growth slows, we think the uneven recovery is likely to prompt a more pro-growth policy stance, with targeted tools to support the real economy. At the 2Q Politburo meeting, policymakers underlined the need for stability and reiterated that there would be no sharp shifts in policy. Meanwhile, a resurgence in COVID-19 infections led to partial lockdowns in areas of Guangdong in June. However, the pace of vaccinations has accelerated, with over 1.1 billion doses delivered (and with 63% of the population having received at least one dose.)

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 Financials, Consumer Discretionary, and Energy stocks as we believe these areas stand to further benefit from the economic recovery. 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

Client Services

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