

UBS International Share Fund

July 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 (%)



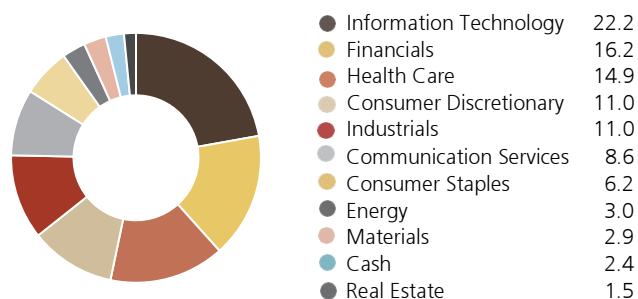
Active security positions

Overweight	Underweight
Wells Fargo	Apple
Ameriprise Financial	Facebook
Ingersoll-Rand	Alphabet Inc-CI A
Akamai Technologies	Alphabet Inc-CI C
Hill-Rom Holdings	Tesla

Fund information

Inception date	26 November 1992
Fund size	\$111.7 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

Fund positioning (%)



Active industry positions

Overweight	Underweight
Software & Services	Technology Hardware & Equipment
Pharmaceuticals, Biotechnology & Life Sciences	Utilities
Commercial & Professional Services	Media & Entertainment
Telecommunication Services	Capital Goods
Banks	Consumer Services

Investment performance

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	3.32	7.87	37.27	13.61	14.97	7.27
Benchmark**	4.03	10.23	31.85	15.05	15.17	8.34
Added Value	(0.71)	(2.36)	5.42	(1.44)	(0.20)	(1.07)

*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 July.

Positive stock selection in Financials and Health Care added the most value, at the same time stock selection in Communication Services and Industrials was the most negative. In general, the best performing sectors were Financials (0.29% total effect), Health Care (0.24% total effect) and Real Estate (0.07% total effect). However Communication Services (-0.77% total effect), Industrials (-0.31% total effect) and Energy (-0.25% total effect) were key detractors. Key contributors to the portfolio's performance were our holdings in Hill-Rom (0.26% total effect, 21.89% port total return) and Fortinet Inc (0.19% total effect, 14.3% port total return). Though Hess (-0.28% total effect, -12.46% port total return) and World Wrestling Entmt (-0.22% total effect, -14.7% port total return) were top detractors. In regard to attribution by countries, United Kingdom and Australia were the top contributors to performance, though exposure to United States and Netherlands detracted the most.

Largest stock contributors

- Hill-Rom delivered another quarter of outperformance, its underlying sales growth acceleration suggests plenty of upside potential for the future.
- Fortinet Inc reported on an impressive results against high expectations, highlighted by 41% product revenue growth.
- Anglo American boosted shareholder payouts to a record \$4.1 billion for the first six months of the year, sending its stock up more than 5%.

Largest stock detractors

- Hess was among the biggest detractors due to the announcement of quarterly profit fall.
- World Wrestling Entmt Shares were negatively impacted by the surge of Delta variant, but the company easily exceeded 2Q estimates and we see this as a positive signal.
- BT Group Delayed overseas projects by the telecoms group's multinational customers damaged first-quarter revenue, despite a better-than-expected earnings and the progress in building its fibre network.

Market review

In the US, second quarter GDP growth of 6.5% annualized fell short of an 8.5% forecast. But the disappointment appeared mostly due to pandemic-related disruptions and inventory drawdowns. Leaving this aside, however, consumer spending was strong - with growth accelerating to 11.8% annualized, from 11.4% in the first quarter. Forward-looking indicators were also positive, with the ISM manufacturing and services survey readings both above 60 for June, well above the 50 level that separates expansion from contraction. Net job creation for the month was the strongest since last August at 850,000.

Meanwhile, although the delta variant of COVID has been spreading, with cases rising in all 50 states, we don't currently expect this to lead to a significant economic drag. State and local officials have been reluctant to reimpose distancing restrictions or even mask wearing requirements. The pace of vaccinations has started to pick up in some areas hard hit by delta. With an improving economic outlook, the Federal Reserve concluded its July policy meeting by saying for the first time that "the US economy has made progress toward" the Fed's goal. That marked another step towards a tapering of bond purchases, though the Fed has set a high economic bar for a withdrawal of stimulus. Meanwhile the US Congress made some progress toward passing a slimmed down USD 550bn bipartisan infrastructure package. Eurozone data released in July showed stronger-than-expected growth for the second quarter, with GDP expanding 2% from the prior three months, versus a forecast for 1.5%. The outperformers in the region included Italy and Spain, while Portugal's tourism-heavy economy grew by 4.9%.

The data shows the eurozone economy responding well to the easing of restrictions, a trend we expect to continue in the summer months as restrictions are eased further. Meanwhile, the July meeting of the European Central Bank was the first since it shifted from an inflation target of "below, but close to 2%" to a symmetrical 2% inflation target. This was reflected in a more dovish tone, with the ECB strengthening its forward guidance to markets, pledging to keep rates deeply negative to combat persistently low inflation. The ECB is likely to remain accommodative for the foreseeable future while other central banks, including the Fed and the BoE, prepare to remove some policy accommodation. China was in focus in July for a further tightening of regulations on businesses. After months of imposing stricter curbs on parts of the nation's technology sector, the government announced that the after-school tutoring industry would be forced to go non-profit. This sparked concern that other industries might be subject to similar restrictions, or that China would become less welcoming to foreign capital. Meanwhile, data in July continued to point to an uneven recovery. GDP growth slowed to 7.9% year-on-year in the second quarter, after a record 18.3% expansion in 1Q21. Exports and industrial production returned well above pre-COVID-19 levels; but the pace of recovery in consumption has been slower than expected and recovery in investment has been restrained by the infrastructure and property sectors. But against this patchy background, the Chinese authorities did introduce more pro-growth policies. The People's Bank of China delivered a 50 base point general required reserve ratio (RRR) cut on 15 July, the first broad-based cut since January 2020. The cut released CNY 1tr of liquidity into the banking system.

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

Telephone: (03) 9046 4041

Freecall: 1800 572 018

Email: ubs@unitregistry.com.au

www.ubs.com/am-australia

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