

UBS International Share Fund

August 2021

Fund description

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

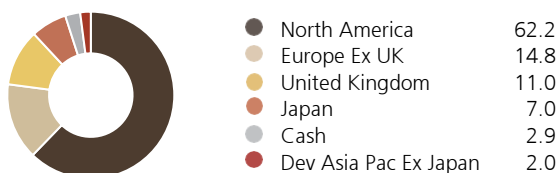
Investment strategy

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.

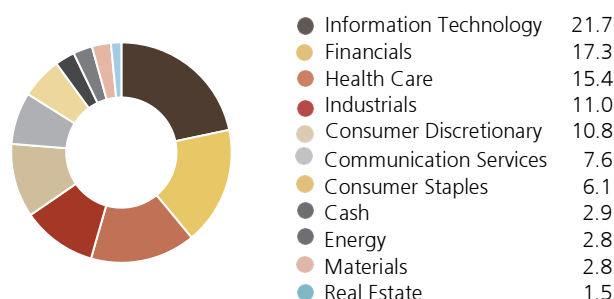
Country/regional allocation (%)



Fund information

Inception date	26 November 1992
Fund size	\$ 108.4 m
Management fee	1.00% pa
Minimum initial investment	\$10,000
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
Ameriprise Financial	Apple
Wells Fargo	Facebook
Snowflake	Alphabet Inc-Cl A
Ingersoll-Rand	Alphabet Inc-Cl C
Hill-Rom Holdings	Tesla

Active industry positions

Overweight	Underweight
Software & Services	Technology Hardware & Equipment
Pharmaceuticals, Biotechnology & Life Sciences	Utilities
Diversified Financials	Media & Entertainment
Commercial & Professional Services	Semiconductors & Semiconductor Equipment
Banks	Consumer Services

Investment performance

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	2.73	9.39	37.92	13.09	15.06	7.35
Benchmark**	3.10	12.31	31.37	14.67	15.58	8.43
Added Value	(0.37)	(2.92)	6.55	(1.58)	(0.52)	(1.08)

*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 August.

Positive stock selection in Health Care and Materials added the most value, though stock selection in Communication Services and Consumer Discretionary was the most negative. In general, the best performing sectors were Health Care (0.2% total effect), Materials (0.05% total effect) and Real Estate (-0.01% total effect). On the other hand Communication Services (-0.24% total effect), Consumer Discretionary (-0.23% total effect) and Information Technology (-0.23% total effect) were key detractors. On the topic of stock contribution, Fortinet Inc (0.22% total effect, 15.76% port total return), Ulta Beauty (0.16% total effect, 15.34% port total return) and Cornerstone OnDemand (0.12% total effect, 19.52% port total return) contributed positively to performance.

However Hess (-0.21% total effect, -10.06% port total return), Terminix Global Holdings (-0.17% total effect, -20.7% port total return) and Aptiv (-0.15% total effect, -8.79% port total return) detracted the most. Concerning attribution by countries, United Kingdom and Switzerland were the top contributors to performance, exposure to United States and Japan detracted the most.

Largest stock contributors

- Fortinet Inc Against a high bar, Fortinet delivered an exceptional quarter, highlighted by 41% product revenue growth, 35% billings, ~30% services billings and 49% FCF margin.
- Ulta Beauty announced record second quarter results, boosting share price.
- Cornerstone OnDemand Cornerstone OnDemand said private equity firm Clearlake Capital would take the cloud computing and management software provider private for about \$3.8 billion, share rose following the news.
- Alcon's Q2 results dissipated all concerns around the share and margin that Q1 had triggered. The results demonstrate that the company is well on track towards its 2025 revenue target of \$10bn in sales. Shares jumped.
- Spectris Solid earning release boosted share price over the month.

Largest stock detractors

- Hess Shares were still weak due to the announcement of quarterly profit fall.
- Terminix Global Holdings Terminix UK has acquired Conquer Pest Control, for an undisclosed sum. Shares fell following the news.
- Aptiv detracted the most as the company said its quarterly profit was hit by higher prices of chips and copper, which are their biggest commodity exposure.
- Fidelity National information Shares sold off after the earnings release, but to our eyes, the almost -10% share price fall was surprising since Q2 results seemed strong. Group organic growth was 16% (-7% in Q2 20), with 7% in Banking (+4% in Q2 20) and 41% in Merchant (-19% in Q2 20). With growth accelerating in all 3 divisions, management raised full year guidance. Therefore, we believe FIS is performing very well and that the shares look highly attractive at the current levels.
- Dollar Tree cut its full-year profit forecast as the discount retailer joined rival Dollar General Corp in flagging that surging supply chain costs were squeezing its margins.

Market review

US economic data released in August indicated robust growth and continued inflationary pressure as the supply side struggled to keep up with demand. Nonfarm payrolls increased by 943,000 in July, the most since August 2020. The ISM Services Index hit a record high as consumers shifted their spending toward services. Core CPI rose by 0.3% month-on-month, the smallest increase since February. However, the spread of the delta variant caused new COVID-19 cases to rise in August, with record high infections and hospitalizations in some areas. It is too early to see the impact in most of the key monthly economic indicators, but some high-frequency indicators (for example, the number of airline passengers) have deteriorated. Consumer sentiment also suffered a big decline. Most states have refrained from imposing new social distancing restrictions, helping to minimize the economic impact. Fiscal and monetary policy remains accommodative.

The US Senate passed a bipartisan agreement on infrastructure with USD 550bn of fresh spending, and Democrats also passed a USD 3.5tr budget blueprint using reconciliation. Prospects for passage are uncertain as the Democrats' narrow advantage makes it difficult to lock in a majority of votes in both chambers of Congress. In his speech at the Jackson Hole symposium, Fed Chair Powell said that he expects the Fed to begin tapering its USD 120bn per month asset purchases by the end of the year, though he emphasized that tapering and rate hikes are two separate decisions. Eurozone economic activity, as measured by PMI surveys, continued to show a strong recovery in August.

Supply-chain disruptions are still affecting key parts of the manufacturing sector, but it is services that are likely to drive the current phase of the bounce-back. Inflation in the Eurozone rose to 3% in August, the highest level in a decade. Base effects, in particular from energy prices, and the timing of seasonal sales explain the move, but these are unlikely to persist. In our view, inflation will fall back below the ECB's 2% target next year, implying that monetary policy will remain accommodative for some time to come. While COVID-19 infections have risen across the Eurozone, they have not increased as much as feared, and hospitalizations are low compared to previous waves.

We continue to expect that further restrictions will be avoided in the coming months. China's economic activity data continued to cool over the past month. The official non-manufacturing purchasing managers' index (PMI) fell to 47.5 in August from 53.3 in July, signaling a contraction for the first time since early 2020, while the manufacturing PMI came in at 50.1 (vs. 50.4 in July). Export growth moderated to 19.3% year-on-year in July from 38.6% in the first half, and consumption growth was slower than expected at 8.5%. July CPI stayed mild at 1% year-on-year, though PPI edged up to 9% from 8.8% in June. Amid outbreaks of COVID-19 infections, China imposed local restrictions and temporarily closed a terminal at the Ningbo-Zhoushan container port.

However, in late August the country reported zero new domestic COVID-19 cases and the National Health Commission said the risk of a nationwide lockdown had been contained. Against the backdrop of an uneven economic recovery, the policy tone has turned more pro-growth, and we think more reserve requirement ratio cuts, faster local government bond issuance, and greater fiscal spending are likely in the second half. Chinese authorities' regulatory stance remains in focus, particularly toward socially sensitive sectors such as property. At the 10th meeting of the Central Committee for Economic and Financial Affairs, President Xi Jinping reiterated the goal of "common prosperity."

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.

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