UBS Asset Management

For professional / qualified / institutional investors only.

All data as at 30 September 2021

UBS International Share Fund

September 2021

Fund description

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

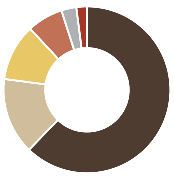
Investment strategy

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 (%)



North America	62.2
Europe Ex UK	16.5
United Kingdom	8.1
Japan	7.9
Cash	3.3
Dev Asia Pac Ex Japan	1.6

Fund information

Inception date	26 November 1992
Fund size	$ 107.4 m
Management fee	1.00% pa
Minimum initial investment	$50,000
Typical number of holdings	70 to 90
Distributions	Annually
Buy/sell spread	+/- 0.25%
Currency management	Actively managed
APIR code	SBC0822AU

Fund positioning (%)

Information Technology	21.7
Financials	17.1
Health Care	14.8
Industrials	12.5
Consumer Discretionary	11.1
Communication Services	8.7
Consumer Staples	6.0
Cash	3.3
Energy	3.2
Materials	1.6

Active security positions

Overweight	Underweight
Wells Fargo	Apple
Ameriprise Financial	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
Commercial & Professional Services	Utilities
Pharmaceuticals, Biotechnology & Life Sciences	Real Estate
Banks	Materials
Diversified Financials	Semiconductors & Semiconductor Equipment

Investment performance

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	(0.69)	5.41	36.51	12.92	15.07	7.30
Benchmark**	(3.05)	3.99	27.76	13.28	15.17	8.29
Added Value	**2.36**	**1.42**	**8.75**	**(0.36)**	**(0.10)**	**(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 portfolio saw strong preformance last month, outperforming MSCI World by more than 200 bps.

Positive stock selection in Industrials and Materials added the most value, though stock selection in Consumer Discretionary and Utilities detracted the most. In general, the best performing sectors were Industrials (0.36% total effect), Materials (0.3% total effect) and Financials (0.3% total effect). Consumer Discretionary (0.01% total effect), Real Estate (0.05% total effect) and Consumer Staples (0.07% total effect) were key detractors. In regard to stock contribution, Hess (0.28% total effect, 13.9% port total return), CF Industries (0.21% total effect, 22.9% port total return) and Erste Group Bank (0.2% total effect, 10.36% port total return) contributed positively to performance. Though Anglo American (-0.19% total effect, -16.28% port total return), Tesla (-0.1% total effect) and MSA Safety (-0.08% total effect, -10.53% port total return) had the most negative impact on performance. In terms of attribution by countries, United States and Netherlands were the top contributors to performance, on the other hand exposure to United Kingdom and Australia detracted the most.

Largest stock contributors

- Hess & CF Industries & OCI The surging energy/oil price lifted shares of these companies.
- Erste Group Bank shares traded strongly this quarter owing to a few key trends which boosted earnings, such as strong retail loan growth on the year (and acceleration in Q2) triggered by demand for housing loans, and fees & commissions trending higher.
- World Wrestling Entmt Shares of the entertainement company recovered in September after the weak July and August.

Largest stock detractors

- Anglo American shares sold off on the back of Iron ore fundamentals deteriorating faster than expected.
- Tesla Not holding Tesla detracted in September. Share trades on positive momentum over the month.
- MSA Safety Shares declined as MSA had a challenging quarter and made downward revisions to its earnings estimates. The company faced supply chain headwinds, particularly as it relates to electronic components and labor in some factories. However, we believe that MSA has a strong organic growth outlook as it has increasingly focused on productivity, margin expansion, and strong cash flow.
- AbbVie September saw multiple drug pricing headlines which weighed on the large-caps, the US Department of Health and Human Services Secretary Xavier Becerra published a report (LINK) describing the government's plan to address drug pricing.
- AGCO Shares were weak over the month, but performance over YTD and one year remain competitive.

Market review

September was a weak month for global equities, with worries over growth and central bank policy leading to the first monthly decline since the start of the year. The 4.1% decline in the MSCI All Country World Index for the month also erased gains for the quarter overall. Of the major markets, only Japan advanced in September. Global and US equities both hit fresh record highs at the start of September. But it was downhill from there. The MSCI All Country World Index lost 4.1% over September, the first monthly decline since January and the largest fall since March 2020.

The decline also erased index gains for the third quarter overall, with the index falling 1.1%. The S&P 500 delivered a negative return of 4.7% over the month and pared back total returns for the quarter to 0.6% and 15.9% year-to-date. However, the largest declines were in the Chinese market, with a loss of 5% in MSCI China for the month, Swiss equities, which fell 7.6%, and Eurozone stocks, which lost 5.2%. Japan was the only major market in positive territory, delivering a total return of 2.8%, amid optimism over the potential for renewed fiscal stimulus under a new prime minister. The yield on the 10-year US Treasury ended 22 basis points higher on the month, at 1.49%.

Market sentiment was undermined for part of September by anxiety over default risks at Evergrande, the largest issuer of high yield debt in Asia and one of China's largest property developers. While such fears have faded as markets were reassured that the situation did not pose systemic risks, other worries intensified during the month. These included fears over slowing global growth, the threat of energy shortages, and anxiety over the pace of central bank tightening, which pushed government bond yields sharply higher. On the economic front, evidence continued to mount of the slowdown in China, with virus restrictions weighing on consumption and worries over the government's recent regulatory crackdown seeming to impact business investment.

There were also indications that the continued spread of the delta variant in the US, though slowing, was hurting consumer optimism with the Conference Board sentiment index falling to a seven-month low. Despite some softer data, central banks remained focused on broader signs of economic recovery and took additional steps toward tightening. At its September policy meeting, the Federal Reserve gave its strongest indications yet that it was ready to slow the pace of bond purchases. Fed Chair Jerome Powell added to these worries later in the month, telling US lawmakers that "bottlenecks, hiring difficulties, and other constraints could again prove to be greater and more enduring than anticipated, posing upside risks to inflation." Elsewhere, the European Central Bank announced tapering in all but name, saying that it will run its Pandemic Emergency Purchase Program at a "moderately lower pace".

Norges Bank became the first G10 central bank to raise rates since the start of the pandemic. While the initial market reaction to the Fed's policy meeting was muted, yields rose during the month. The yield on the 10-year US Treasury rose 22 basis points higher to end the month at 1.49%. The speed of the move unsettled equity markets worldwide, taking a particularly heavy toll on "growth" stocks which are more sensitive to rising rates. Market sentiment was undermined by a fiscal deadlock in the US, raising the prospect that the government could run up against its borrowing limits by 18 October. Finally, tightness in energy markets has contributed to prices of fossil fuels from crude oil, natural gas, and coal reaching multiyear or record highs in some regions, adding to fears of more persistent inflation and weaker growth. While prices for natural gas and coal are likely to stay elevated amid low inventories, we expect them to decline next year as we think Russian, South African, and domestic. To summarize, September saw a weak end to a generally positive third quarter. Overall, the quarter was marked by rising confidence over progress to economic normalization along with confidence that inflation pressures will prove fleeting."

Outlook

The strategy is overweight Financials and Consumer Discretionary while our largest underweights are to Information Technology and Utilities. In terms of countries, the strategy's largest overweights are to the United Kingdom and Hong Kong and the largest underweights are to Canada and France.

While the US has been quite resilient during the pandemic, regions like the UK and Europe have experienced a longer-lasting impact and therefore should offer more recovery potential. Our exposure to these recovering regions should allow our portfolios to capture some of this upside. As economies re-open, we believe we can find some exciting businesses in these regions, where there is much stronger long term growth potential.

Amid a few systemic risks that are dampening the markets, such as central bank tightening, energy shortages, and fears over slowing global growth, we remain disciplined in our intrinsic value investment process and will continue to invest in high quality companies. Looking ahead, we believe we are well-balanced as we move into the fourth quarter.

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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