UBS

UBS Defensive Investment Fund

May 2021

Fund description

The Fund is a diversified portfolio of growth and income assets, with a long term neutral (or average) exposure expected to be around 30% and 60% respectively of the total portfolio. The remaining 10% is expected to be allocated to various alternative asset strategies, which are likely to provide a combination of both income and growth potential.

Investment strategy

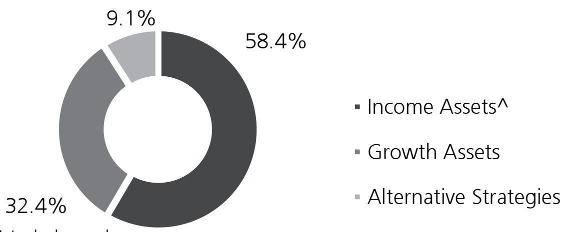
Our portfolio management team will build a diversified portfolio by allocating to differing asset classes anywhere within the allowable ranges by normally investing in other UBS managed funds, third party funds and through a range of instruments.

Investment return objective

The Fund aims to outperform (after management costs) the Benchmark over rolling five year periods. The Benchmark is based on the return on the market indices based on the Neutral Allocation of assets (refer to the individual asset class benchmark weights opposite in the 'Fund tactical and strategic allocations' graph).

Growth income asset split strategy

Tactical asset allocations



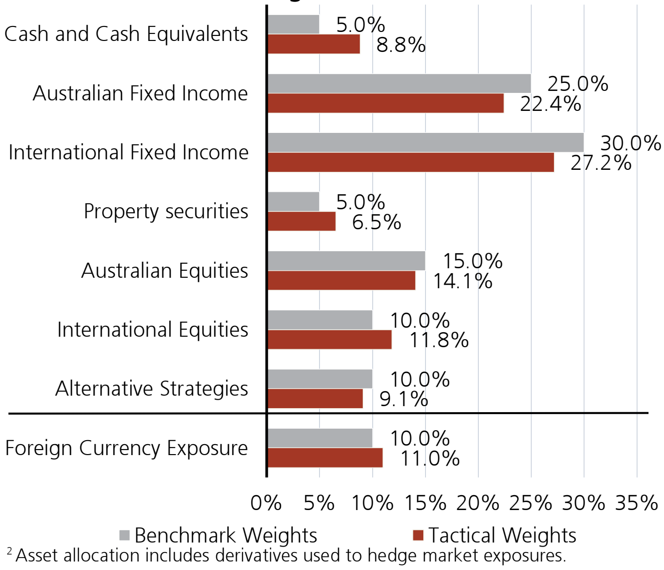
^ Includes cash

Fund information

Inception date	15 June 1992
Fund size	$ 123.4 m
Management fee	0.85% pa
Indirect costs	0.03% pa[1]
Minimum initial investment	$10,000 (via online application $5,000)
Distributions	Quarterly
Buy/sell spread	+ 0.15% / - 0.15%
APIR code	SBC0814AU

[1] Estimate of the fees the Fund will incur through the Fund's investment in underlying funds. These fees and expenses will vary from time to time.

Fund tactical and strategic allocations[2]



[2] Asset allocation includes derivatives used to hedge market exposures.

Investment performance

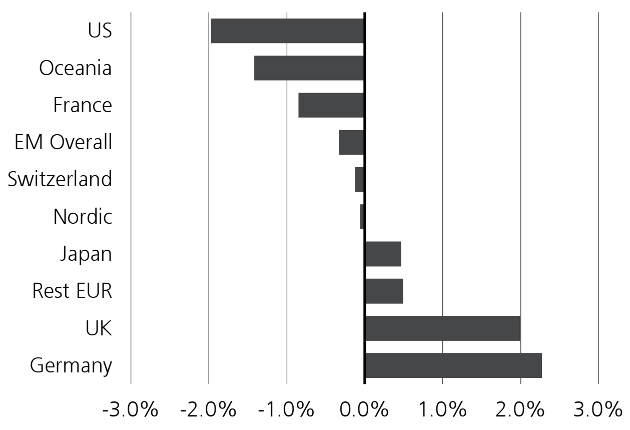
Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	0.93	3.76	9.06	5.00	4.47	6.84
Benchmark**	0.70	3.11	6.93	5.89	5.30	7.20
Added Value	**0.23**	**0.65**	**2.13**	**(0.89)**	**(0.83)**	**(0.36)**

*Inception date: 15 June 1992. **Neutral Allocation (refer to PDS).

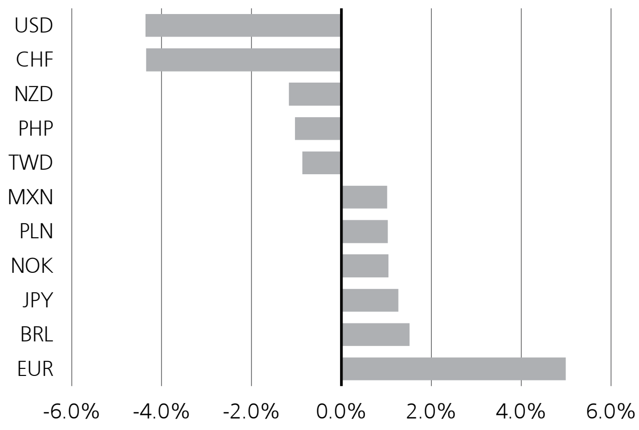
Performance figures are net of ongoing fees and expenses. The performance figures quoted are historical, calculated using end of month redemption prices, and do not allow for the effects of income tax or inflation. Total returns assume the reinvestment of all distributions. Performance can be volatile and future returns can vary from past returns.

Active portfolio positioning

Equities (%)



Foreign currency (%)



Market review

Equities continued to rally in May while bond yields held relatively steady. Concerns that higher inflation could lead the US Federal Reserve to withdraw monetary stimulus brought intra-month volatility. The equity rally over the month was mainly driven by reflation trades and value stocks which have outperformed the technology sector and growth equities more broadly. We think the reflation trade has further room to run as there is more evidence of the broadening economic recovery and policy remains supportive. Government bond yields had a more muted month as compared to equities. IG corporate and high yields bonds produced positive returns and fared better than treasury bonds. EM debt also produced positive returns as commodity prices continued to rise.

Locally, Australian equities outperformed global equities and delivered positive return. Australian 10-year government bond decreased marginally over the month which was in line with the movement in US Treasury yields over the month. The Australian dollar strengthened against the US dollar aided by the US dollar weakness.

Performance review

After fees and expenses, the portfolio return of 0.93% (gross of fees return of 1%) in May outperformed its benchmark of 0.70% by 23bps. At the end of May, the Fund's equity weight was 0.9% overweight relative to the benchmark. We maintained our exposure to pro-cyclical relative value trades such as US equal weighted relative to the US market cap index and increased our existing exposure to long European banks versus European equities earlier in the month. In addition, we added long global financial equities versus global equities which was a new trade we introduced toward the end of the month. In terms of regional equity views, we continue to hold a preference for UK, Germany, Japan and Europe over the US and Australian equities.

In fixed income, we continued to hold an overweight in US 2 year relative to US 10 year Treasury yields. Duration was kept short relative to the benchmark over the month. We remained broadly neutral in Australian and US dollar duration, underweight to Europe and Japan and overweight to hard currency EM debt.

Foreign currency exposure was at 11% with key underweights in CHF, NZD, PHP, TWD, KRW, AUD and USD and overweights in BRL, EUR, JPY, SEK, MXN, NOK and PLN.

Asset Allocation and security selection

Asset Allocation and currency decisions in aggregate contributed positively to the relative performance this month. Our preference for Europe versus the US and long European banks versus European equities, which we've added exposure to at the beginning of the month, both had a standout month followed by long US equal weighted relative to the US market cap index which also outperformed this month. This was partially offset by detraction from regional overweights to the UK and German equities. Long global financial equities versus global equities and overweight to Japan equities had a muted impact on relative performance this month. Duration positioning and our positioning in US 2 year relative to US 10 year Treasury yields did not make a meaningful impact this month as rates volatility remained low and the shape of the curve remained broadly unchanged. Overweight hard currency EM debt made a positive contribution to performance in May.

Active currency trades in aggregate were additive this month driven by positive contribution from our overweight to BRL as a rise in commodity prices facilitated its strengthening in May. Overweight to MXN, PLN and EUR also contributed positively while overweight to SEK and JPY and underweight to AUD and CHF did not make a meaningful impact to relative performance. This was partially offset by detractions from underweight to NZD, TWD, KRW and PHP.

Security selection was mixed this month. Australian Share Fund outperformed its benchmark which was partially offset by underperformance from Australian Small Companies Fund. International Share Fund outperformed this month but the Emerging Markets Equity Fund underperformed. Diversified Fixed Income Fund outperformed its benchmark. Our allocation to alternatives as well as our overweight to REITs contributed positively this month.

Outlook

Our outlook for stocks over the next 12 months remains positive. The economic recovery is likely to continue this year on the back of additional global fiscal stimulus, still accommodative financial conditions, and progress on the broad administration of effective COVID-19 vaccines. However, we believe much of the equity market returns in 2021 have been front-loaded, particularly in the US. The belly and long end of sovereign curves are serving as release valves for any signs of economic optimism as central bank commitments to keep policy rates low remain credible. We expect both increases in real rates and market-based measures of inflation compensation to contribute to further increases in yields.

Client Services

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