UBS

UBS Asset Management
For Professional / Qualified / Institutional Investors only
All data as at 31 December 2022

UBS International Share Fund

December 2022

Fund description

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

Target market

The Target Market Determination (TMD) for the UBS International Share Fund sets out the class of consumers for whom the product, including its key attributes, would likely be consistent with their likely objectives, financial situation and needs. For more information visit our website.

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 objective

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

Active security positions

Overweight	Underweight
Hess Corp	Apple Inc
Ameriprise Financial	Alphabet Inc-Cl A
Mondelez International	Alphabet Inc-Cl C
Tjx Cos.	Johnson & Johnson
Ingersoll-Rand Inc	Exxon Mobil Corporation

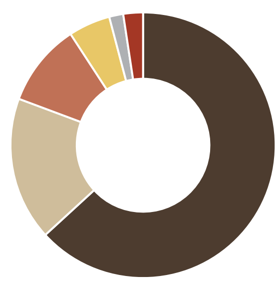
Active industry positions

Overweight	Underweight
Food, Beverage & Tobacco	Technology Hardware & Equipment
Software & Services	Utilities
Diversified Financials	Real Estate
Retailing	Semiconductors & Semiconductor Equipment
Media & Entertainment	Automobiles & Components

Fund information

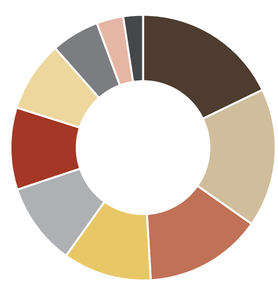
Inception date	15 October 1992
Fund size	$ 75.1m
Management fee	1.00% pa
Minimum initial investment	$ 50,000
Typical number of holdings	70 to 90
Distributions	Annually
Buy/sell spread	+/- 0.25%
Currency management	Actively managed
APIR code	SBC0822AU

Country/regional allocation (%)



North America	63.20
Europe Ex UK	17.48
United Kingdom	10.11
Japan	5.10
Dev Asia Pac Ex Japan	1.71
Cash	2.40

Fund positioning (%)



Information Technology	17.84
Financials	16.90
Health Care	14.34
Consumer Staples	10.80
Consumer Discretionary	10.01
Industrials	9.99
Communication Services	8.60
Energy	5.86
Materials	3.27
Cash	2.40

Investment performance

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	(4.11)	7.18	(8.76)	7.06	9.21	6.80
Benchmark**	(5.49)	3.95	(12.52)	6.22	9.25	7.70
Added Value	**1.38**	**3.23**	**3.76**	**0.84**	**(0.04)**	**(0.90)**

* 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.

Performance/attribution comments

In December, the International Share Fund outperformed the benchmark.

Positive stock selection in Communication Services and Consumer Discretionary added the most value, while stock selection in Materials and Health Care detracted slightly. In general, our positioning in Consumer Discretionary (0.34% total effect), Communication Services (0.3%) and Consumer Staples (0.27%) was the highest contributor to performance. On the other hand, Materials (-0.26%), Utilities (-0.13% t) and Real Estate (-0.03%) were the worst performin sectors. As it relates to country attribution, the United States and Ireland were the top contributors to performance, while the Netherlands and Denmark detracted the most.

Largest stock contributors

- **AIB Group** share price recorded positive performance as investors expect interest rates to stay higher for longer and the market recognized the resilience of the Irish economy, performing well relative to Europe. The concentration of the Irish banking market allows AIB to improve its ROE.
- Not owning **Apple** contributed positively to relative performance as shares sold off on supply chain challenges and worries over reduced iPhone demand.
- Not owning **Tesla** also boosted relative performance. Several factors weighed on the stock: demand and pricing concerns, a pause at the Chinese production facility and the CEO's multiple occupations.
- **AIA Group** shares continued to perform well amid improving market sentiment as China eases its Covid policies. This step towards a quicker normalization of cross border traffic will likely benefit regional insurers.
- **Metso Outotec** shares continued to trade well on the back of recent earnings which demonstrated strong operational performance with a full order book, acceleration in sales growth, and adjusted EBITDA margins up year-on-year. In December, it was announced that the company was awarded an order for the supply of key minerals processing technologies to the OZ Minerals West Musgrave Project in Western Australia – which also boosted Metso's share price.

Largest stock detractors

- **OCI** shares pulled back as nitrogen fertilizer prices fell in December.
- **Wells Fargo** underperformed in December as the bank was ordered to pay $2bn in redress to consumers and a $1.7bn civil penalty due to mismanagement of consumer loans.
- **World Wrestling Entmt** detracted as its share price corrected in December after strongly outperforming the broader market this year.
- **ON Semiconductor** shares were under pressure this month as investors feared they were the company that Wolfspeed signed a major silicon carbide wafer supply agreement with; but this was not the case, and ON's management reiterated they were on track for $1bn FY23 SiC revenue and on the path to being wafer independent by the beginning of 2024.
- **London Stock Exchange Group** underperformed the broader market as shares declined on news that Microsoft took a 4% stake in the company, though we believe this should allow LSEG to have more operationally scalable data analytics business by leveraging MSFT cloud, and enables them to develop cloud native analytics tools to compete with peers and accelerate revenue growth.

Market review

The global equity market rally that started in October ran out of the steam in the last month of the year, amid renewed anxiety over the pace of central bank tightening and the deteriorating growth outlook. Global stocks lost 3.9%, cutting the total return for the fourth quarter to 9.8%. The risk-off move was led by the US, with the S&P 500 delivering a negative total return of 5.8%-reducing the gain for the quarter to 7.6%. While optimism has continued to mount that price pressures are easing, policymakers in the US, Eurozone, UK, and Switzerland all warned in December that it was too early to declare victory in the effort to curb inflation. Notably, top officials at the Federal Reserve scaled up their forecasts for where they see rates peaking. The biggest shift in rate expectations, however, was in the Eurozone, leading to a roughly 60-basis-point increase in the yield on the 2-year German bund. The main exception to the risk-off shift in markets was in China, where the government moved swiftly to unwind pandemic restrictions. MSCI China returned 4.8% in December, the only major market to gain ground over the month which boosted the fourth quarter return to 12.5%. Equity rebounds in 2022 were relatively short-lived and several prior bounces failed to last, including a 17% rise in the S&P 500 between mid-June and mid-August. A full dovish pivot in central bank policy is still to come. While the Fed and others have slowed the pace of hikes, the task of bringing inflation back to target will continue into 2023. The tightness of the labor market will remain a key focus. Fed Chair Jerome Powell said in December that there were "only tentative signs of rebalancing" in employment conditions, with wage growth remaining "well above the levels that would be consistent with 2% inflation over time."

Outlook

While inflation and interest rates were firmly center stage this year, looking ahead to 2023, we believe that markets will be increasingly focused on employment and consumer health as global economies grapple with the aftermath of a challenging 2022 and elevated recession risks. Recently, we have seen inflation moderating with back to back months of inflation figures being lower than expected, and it is widely expected that the Fed will also moderate its hiking cycles – and futures are pricing in a terminal rate of just above 5%.

We anticipate downside earnings risk will also be a key focus for equity markets as stock correlations start to come down, and we are aiming to identify segments of the market where downside revisions are expected to moderate. For example, we think that a recession has been better telegraphed in the semiconductor industry with estimates having been revised down considerably; while on the other hand, some industrials earnings estimates have so far been more resilient but have more downside risk as they respond to the difficult economic environment in 2023. In light of this, we remain focused on companies with an asymmetric risk/reward profile and where downside risk is relatively muted.

From a geographic standpoint, we are more cautious on Europe where we believe recession risks remain more elevated, especially as it relates to energy exposure and risks stemming from forced natural gas rationing. We also aim to avoid companies that are more levered to the European consumer in light of potential economic weakness that we may witness in this region. Given the sharp market sell off this year, we have seen valuations of US equities become more reasonable and offer more attractive entry points than in previous years.

Looking ahead, we continue to see an environment of unusually elevated market and macroeconomic volatility as markets grapple with inflationary pressure, the depth and timing of a pending recession in the context of a highly volatile energy market. Generally speaking, we believe that investors are not paid to take excessive factor risk in this environment, and we aim to construct a balanced portfolio that highlights idiosyncratic risk while muting common factor exposure. Currently, the portfolio is overweight to Consumer Staples, Financials, and Communication Services; while mostly underweight Utilities, Real Estate, and Information Technology.

Client Services

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