UBS Balanced Investment Fund

December 2022

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 65% and 25% 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.

Target market

The Target Market Determination (TMD) for the 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. To access to the TMD and other Fund documentation visit our website.

Investment strategy

The Fund comprises a diversified portfolio through allocation 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 objective

The Fund aims to outperform (after management costs) the Benchmark (see Investment guidelines) over rolling five year periods.

Key statistics

Tactical asset allocations

Income Assets^	26.2%
Growth Assets	61.1%
Alternative Strategies	12.7%

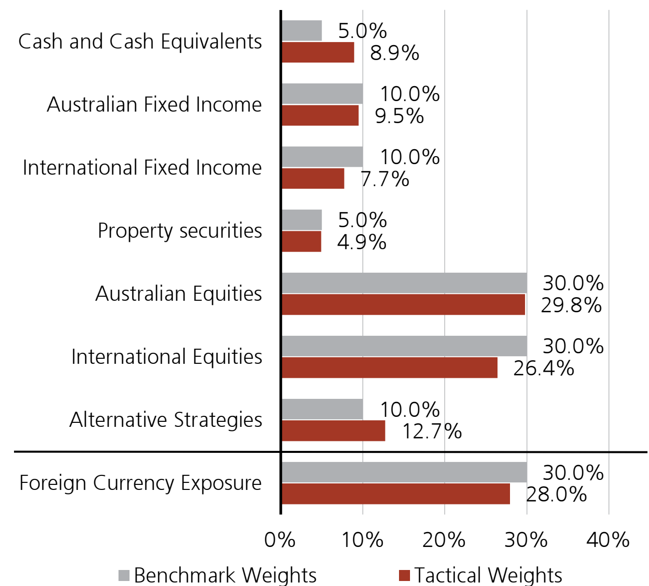
^ includes cash

Fund information

Inception date	3 November 1992
Fund size	$ 608.1m
Management fee	0.95% pa
Indirect costs	0.02% pa[1]
Minimum initial investment	$ 50,000
Distributions	Quarterly
Buy/sell spread	+ 0.20% / - 0.20%

[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

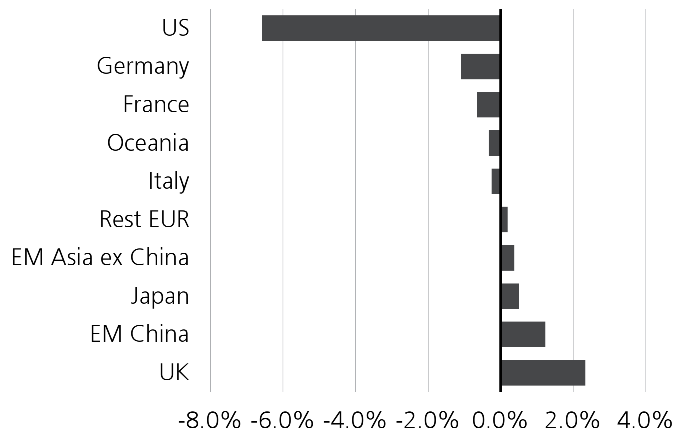
Investment performance

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	(2.71)	3.86	(10.79)	0.81	2.72	7.24
Benchmark**	(3.03)	4.37	(7.45)	2.80	5.06	7.91
Added Value	**0.32**	**(0.51)**	**(3.34)**	**(1.99)**	**(2.34)**	**(0.67)**

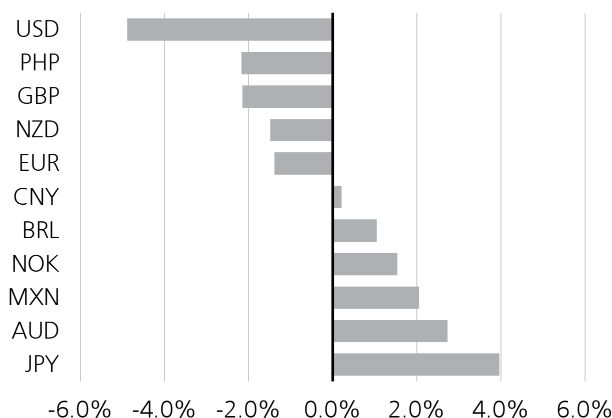
* Inception date: 3 November 1992.
** Neutral Allocation (refer to PDS).
Performance figures are net of ongoing fees and expenses. The performance figures quoted are historical, calculated using end of month redemption prices, and do not allow for the effects of income tax or inflation. Total returns 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

Global equities lost ground in December, as worries over the pace of central bank tightening resurfaced and all major markets except China moved lower. US equities suffered the most among developed markets after US Federal Reserve signaled its intention to continue raising rates in December, and Japan equities was also among the biggest losers for the month after the Bank of Japan surprised the market by saying it would tolerate a higher yield on 10-year government bonds. Defensive markets such as UK equities returned a modest negative performance in December. On the other hand, China was a bright spot and delivered a positive return in December, boosted by a swift move toward easing Covid-19 restrictions, and ended the fourth quarter with double-digit gain. The bond market was less volatile than equities in December. The yield on 10-year and 2-year US Treasury bonds both continued their rising trend along with the policy rate hikes, however yield curves remain inverted.

Locally, Australian equities followed the downtrend of developed markets, posting a negative return in December. The Reserve Bank of Australia hiked interest rates by 25bps as widely expected in its December meeting, with the Australian 10-year bond yield rising over the month. The Australian dollar was mostly flat against US dollar over the month.

Commodities were mixed in December, with the energy sector suffering the most from a drop in US natural gas prices due to milder temperature, while precious metals performed positively, benefitting from a weakening US dollar.

Performance review

After fees and expenses, the portfolio returned -2.71% (gross of fees return of -2.64%) in December which outperformed its benchmark return of -3.03% by 32bps. At the end of December, the Fund's equity weight was -3.9% underweight relative to the benchmark as we opened a small underweight to aggregate equities at beginning of the month. We retained our regional preference for UK as we still favoured it for its mix of defensive and commodity characteristics to allow it to serve as an attractive hedge in the late cycle environment with higher real rates. At the same time, we kept underweight to Europe ex UK and US equities over the month. We added to overweight Japan equities in early December given its positive earnings prospects. We also added to China equities and bought broad emerging market equities back to neutral and then overweight as our convictions strengthened. We reduced our overweight to Brazil equities in early December, and further closed the position in the middle of the month amidst uncertainty from political risk. From an equity sector perspective, we retained our preference for defensive sectors such as healthcare equities. We closed our position in world minimum volatility. We added slightly to our position in energy equities in early December following the recent sell off, and we also maintained exposure in broad commodities over the month.

At the end of December, we remained an aggregate neutral duration. We retained our preference to Canada and Australia duration relative to the US on potentially diverging pace of rate hikes. We opened a new position in short-term US IG credit in mid December, given its attractive yield pick up potential. At the same time, we opened underweight to the 5 year point of the US treasury yield curve, which also reflected our bet on steepening in this part of the curve, which is highly inverted at the current time.

Foreign currency exposure was at 28.0% with key underweights in USD, PHP, GBP, NZD and EUR and overweight in JPY, AUD, MXN, NOK and BRL. We closed our overweight to USD through the month, going from overweight to underweight as extended positioning began to reverse. This was accomplished through a series of transactions. We closed our underweight to CNY at the beginning of the month amid the strong momentum brought by China re-opening, and we also moderated NZD underweight at the same time. In addition, we added to JPY overweight in early December as we see more stabilization, and further added to it when Bank of Japan modified yield curve control in middle of the month. We also added to our underweight GBP against AUD, as AUD might benefit from an export rebound amid China reopening while GBP is a less likely beneficiary from this theme.

Asset Allocation and security selection

Asset allocation contributed positively to performance in December, with our equity allocations the biggest contributor. Our active bets in currency and positions in fixed income was flat this month, and our allocation to alternatives detracted over the month.

Outperformance from equities this month was mainly driven by underweight to aggregate equities and our defensive equity relative value trades such as our preference to healthcare sector, and position in minimum volatility which we closed over the month. Our position in China equities also contributed positively amid a strong rebound in December. Our overweight in Japan equities and energy equities added value marginally, while our overweight in UK was flat over the month.

Our overweight to commodities detracted marginally to relative performance this month.

Our fixed income positioning was largely neutral to active performance in December. Our newly opened position in short term US IG credit contributed positively over the month, however, this was offset by negative contribution from our overweight position in Australia and Canada duration against US duration.

Active currency trades in aggregate were flat this month. Our overweight position to JPY and AUD, as well as underweight position to GBP contributed positively over the month, while this was offset by our underweight position to PHP and overweight position to NOK. Our overweight position in BRL and MXN, as well as underweight position to NZD also detracted from performance marginally in December.

Security selection was a strong contributor this month. Australian Share, Global Opportunity, International Share Funds and Diversified Fixed Income outperformed their respective benchmarks over the month, while Emerging Market Equities underperformed its respective benchmark. Australian Small Companies was in line with its benchmark. Our alternatives allocation detracted the performance in December after a couple of strong months.

Asset Allocation and Currency Strategy

Global equity markets continued to face headwinds in December, as the central banks retained their hawkish posture. Japan equities suffered in December as the central bank caught investors off guard at their policy meeting by indicating that they would allow the yield on 10-year bonds to rise as high as 0.5% instead of the previous 0.25% cap. The silver lining came from China, posting a positive performance over the month as the government moved faster than expected to unwind its zero-Covid policy. Fixed income delivered a mild negative return in December in concert with central banks' hawkish stance. Commodity performance was mixed in December.

Market outlook

In our view, the risk-reward proposition for global equities is less attractive than for high grade credit. Stocks remain expensive versus bonds based on the equity risk premium, and we believe earnings estimates are biased lower from here. In our view, we are more optimistic on global economic activity than consensus for 2023, but there are better ways to express this view than through equities at the index level. Long-term bond yields should be rangebound due to the combination of enduring recession risks, sticky-high inflationary pressures, and US labor market resilience. Central banks' commitment to tightening – albeit at a slower pace – should drive even more flattening of yield curves.

Client Services

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