

UBS Balanced Investment Fund

January 2023

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 [^] | 25.9% |
| Growth Assets | 61.5% |
| Alternative Strategies | 12.6% |

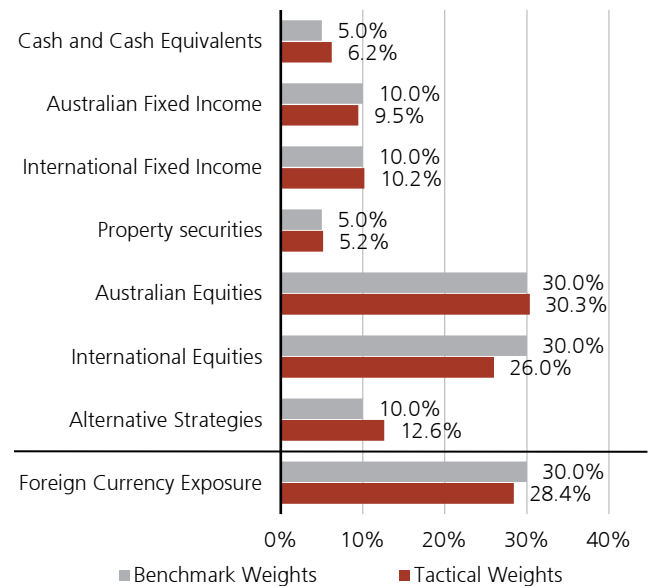
[^] includes cash

Fund information

| | |
|----------------------------|-----------------------|
| Inception date | 3 November 1992 |
| Fund size | \$ 627.2m |
| 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 allocations²



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 | 3.05 | 3.17 | (4.44) | 1.04 | 3.33 | 7.33 |
| Benchmark** | 3.73 | 4.08 | (1.01) | 3.00 | 5.75 | 8.02 |
| Added Value | (0.68) | (0.91) | (3.43) | (1.96) | (2.42) | (0.69) |

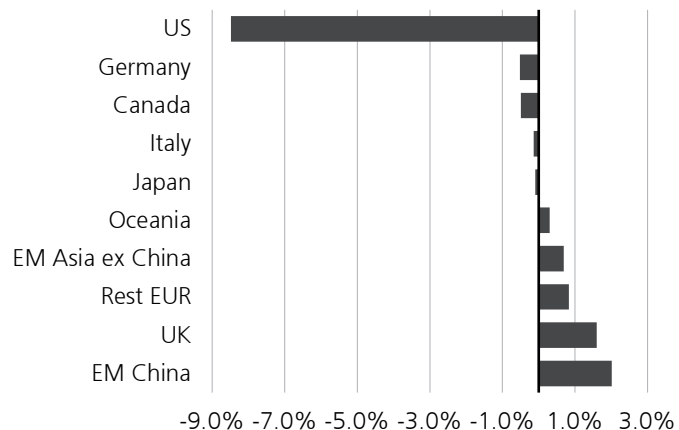
* Inception date: 3 November 1992.

** Neutral Allocation (refer to PDS).

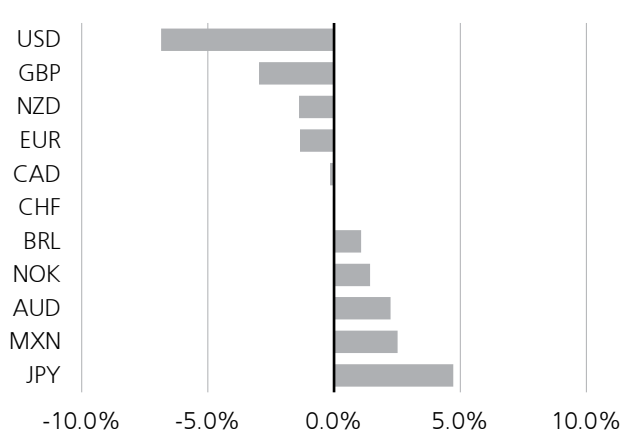
Performance figures are net of ongoing fees and expenses. The performance figures quoted are historical, calculated using end of month redemption prices, and do not allow for the effects of income tax or inflation. Total returns assume the reinvestment of all distributions. Performance can be volatile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

Active portfolio positioning

Equities



Foreign currency



Market review

After a bleak 2022, the new year has gotten off to a strong start, with global stocks delivering a positive total return in January. However, the performance of major markets reflected divergences in the growth outlook. China equities was the top performer over the month amid continued optimism as the economy fully reopens, boosting the emerging market equities in January as well. European equities posted a positive return over the month, reflecting a more resilient economy than expected as a mild winter helped avert a major energy shortage. US equities also delivered positive returns in January, however, lagged the European and China equities as economic data for December was mostly weaker as higher interest rates weighted on business activity and retail sales. The bond market also delivered positive return across the major markets. US Treasury yields fell in January, as continuing signs of ebbing inflation added to market confidence that the end of rate hiking cycle is in sight. The yield on 10-year and 2-year US Treasury bonds both declined along with the policy rate, however, yield curves remain inverted.

Locally, Australian equities posted a positive return in January and followed the growth trend of global equities. Australian 10-year bond yield fell over the month, amid easing inflation pressures. The Australian dollar appreciated against US dollar over the month.

Commodities marginally rallied in January, with the performance driven by the metals sector. China's reopening, with the country accounting for a significant percentage of global industrial metal demand, supported copper and aluminum prices. While energy sector and crude oil came under strong pressure at the start of the year.

Performance review

After fees and expenses, the portfolio returned 3.05% (gross of fees return of 3.13%) in January which underperformed its benchmark return of 3.73% by 68bps. At the end of January, the Fund's equity weight was -3.5% underweight relative to the benchmark as we retained a small underweight to aggregate equities at beginning of the month. Within equities, we retained our regional preference for the UK given its defensive value exposures, however the magnitude of overweight was reduced during the month as we saw incremental signals skewed towards a cyclical style. At the same time, we brought Europe ex-UK equities to neutral from underweight, given better-than-expected macro data showing a more resilient economy and market in the Euro zone. We further added to our overweight position in China and emerging market equities as our convictions strengthened. We opened a cyclical trade to overweight US small cap against US large cap as a diversifier to the portfolio. US equities remained the largest underweight position in the portfolio in terms of regional allocation. From an equity sector perspective, we retained our preference for defensive sectors such as healthcare, although size of the overweight was trimmed during the month. We also liked our position in energy equities and maintained exposure in broad commodities over the month.

At the end of January, we had a marginal overweight in aggregate duration. We retained our preference for Canadian and Australian durations relative to the US on potentially diverging pace of rate hikes. We retained our overweight position in US IG credit and underweight in the 5-year point of the US treasury yield curve. We like the attractive yield pickup for the former trade while the latter reflected our bet on the steepening of this part of the curve. We opened a new trade to overweight Italian against German duration as we see relative opportunities without taking credit risks. We also

bought emerging market bonds in during January as we saw a more favourable environment for this asset class amid a slowdown in rate hikes and a potential weakening dollar.

Foreign currency exposure was at 28.4% with key underweights in USD, GBP, NZD and EUR and overweight in JPY, MXN, AUD, NOK and BRL. We closed our underweight position in PHP during January as we became more constructive on emerging markets. At the same time, we reduced overweight in BRL to fund purchase of MXN.

Asset Allocation and security selection

Asset allocation was marginally positive in January, with our active bets in currency contributing the most, while this was offset by the negative contribution from our equity allocations. Our positions in fixed income were flat this month, and our allocation to alternatives contributed positively over the month.

Amid the rally of risk assets in January, underperformance from equities this month was mainly driven by underweight to aggregate equities and our defensive equity relative value trades such as healthcare and UK equities, which were trimmed during the month. This was partially offset by the positive contribution from our position in China equities and emerging markets, which were further increased over the month. Our newly opened trade to overweight US small cap against US large cap contributed marginally over the month, while overweight to energy equities didn't contribute meaningfully over the month.

Our overweight in commodities contributed positively to relative performance this month.

Fixed income positioning was largely neutral to active performance in January. Positive contributions came from our overweight position in Australian and Canadian durations against US duration, as well as overweight position in short dated US IG credit. However, this was offset by negative contribution from our underweight position in European duration, as well as overweight position in emerging market bonds. The newly opened trade to overweight Italian against German duration did not meaningfully contribute to the performance.

Active currency trades in aggregate contributed positively this month. Our overweight position to MXN, BRL and AUD contributed positively over the month, while this was partially offset by our overweight position in NOK and JPY, as well as underweight position in NZD. The underweight in PHP, which was closed over the month, also detracted relative performance in January.

Security selection was a detractor this month. International Share Funds, Emerging Market Equities and Diversified Fixed Income outperformed their respective benchmarks over the month, while Global Opportunity, Australian Share and Australian Small Companies underperformed their respective benchmarks. Our alternatives allocation contributed positively to performance in January after the drop in December.

Asset Allocation and Currency Strategy

Tailwinds boosted the broader market across asset classes and regions in January, as market gained more confidence that rate hikes slowdown is in sight and macro data showed a more resilient economy than expected. In the US, real income growth and excess savings decline provided support for consumer spending. Residential investment, a leading indicator for the economy, also appeared to be less of a drag. In Europe, the economy and market have turned out to be more resilient than expected, as the hit from energy shock seems to be much less severe than feared. In addition, China is set to reclaim its role as the engine for global economic growth, as Covid related mobility restrictions abandoned.

Market outlook

In our view, the risk-reward proposition for global equities at an index level is not particularly attractive. Stocks remain expensive vs. bonds based on the equity risk premium, and we believe earnings estimates are biased lower from here. 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 as robust labor market data and resilient economies squares up against the fact that central bank tightening cycles are well advanced and that the risk of an eventual recession has not gone away.

Client Services

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Investors should consider the PDS and seek professional financial and taxation advice before deciding whether the product is appropriate for them and whether to acquire, or to continue to hold the investment. Your investment in the Fund does not represent deposits or other liabilities of UBS or any member company of the UBS Group including UBS Asset Management (Australia) Ltd (ABN 31 003 146 290) (AFS Licence No. 222605), the issuer of the Fund. Your investment is subject to investment risk, including possible delays in repayment and loss of income and capital invested. The repayment of capital or income is not guaranteed by any company in the UBS Group. Offers of interests in the Fund are contained in the Product Disclosure Statement dated 26 September 2022. Any potential investor should consider the relevant product disclosure statement (PDS) in deciding whether to acquire, or continue to hold, units in a fund. UBS has also issued a target market determination (TMD) that describes the class of consumers that comprises the target market for each UBS fund and matters relevant to their distribution and review. A copy of the PDS, PDS addition information and TMD is available from UBS Asset Management (Australia) Ltd, the issuer of the UBS Funds, on our website <https://www.ubs.com/au/en/asset-management.html> or by calling (03) 9046 4041 or 1800 572 018.

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