

UBS Balanced Investment Fund

February 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 [^]	24.5%
Growth Assets	62.0%
Alternative Strategies	13.4%

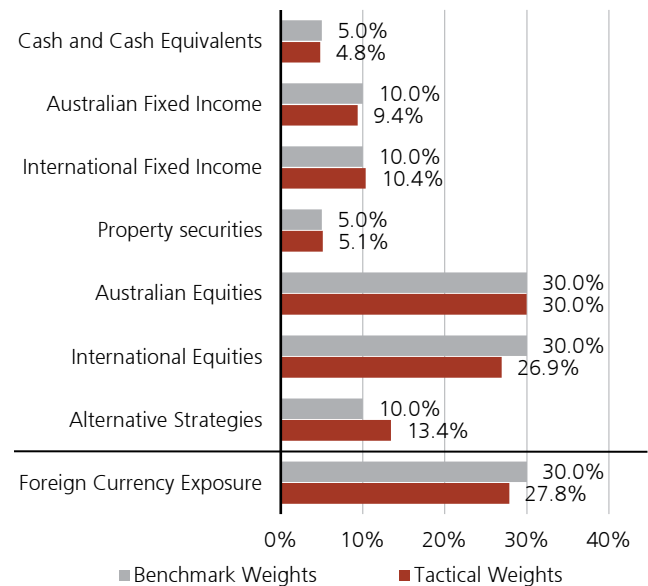
[^] includes cash

Fund information

Inception date	3 November 1992
Fund size	\$ 618.6m
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	(1.29)	(0.83)	(3.89)	2.16	3.11	7.27
Benchmark**	(0.75)	(0.16)	(0.34)	4.11	5.66	7.97
Added Value	(0.54)	(0.67)	(3.55)	(1.95)	(2.55)	(0.70)

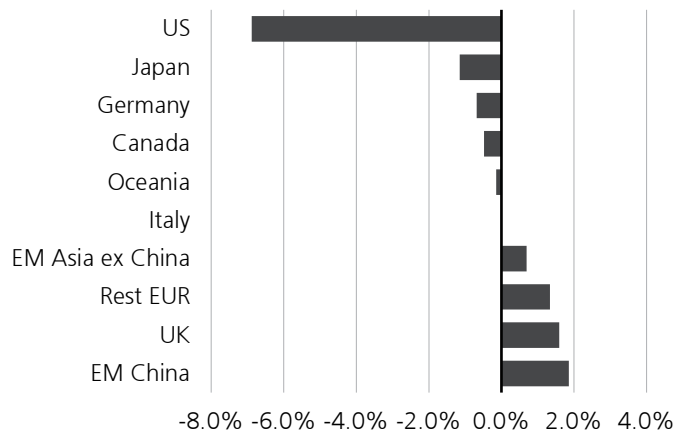
* Inception date: 3 November 1992.

** Neutral Allocation (refer to PDS).

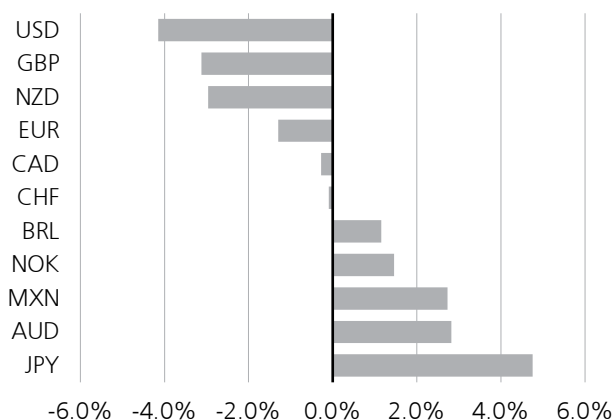
Performance figures are net of ongoing fees and expenses. The performance figures quoted are historical, calculated using end of month redemption prices, and do not allow for the effects of income tax or inflation. Total returns assume the reinvestment of all distributions. Performance can be volatile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

Active portfolio positioning

Equities



Foreign currency



Market review

After an upbeat start to the year, markets turned pessimistic again in February, with major equity markets delivering negative returns over the month, except for Japan, UK and the Eurozone. The main concern was that stubbornly high US inflation and robust jobs data would force the US Federal Reserve to raise rates higher than expected and keep monetary policy restrictive for longer. The potential for a steeper and longer rate cycle contributed to a decline in the S&P 500 in February. At the same time, it boosted the US dollar which added to the headwinds for emerging markets, reducing liquidity and adding to the burden of dollar-denominated debt. Emerging market and China equities suffered the most among the major markets despite further evidence that consumption in China is recovering faster than expected following the dismantling of pandemic restrictions. On the other hand, Eurozone and UK equities delivered positive returns in February, benefiting from signs that the region's economy is weathering the winter better than previously feared. Japan equities also delivered positive returns over the month. Fixed income assets mostly fell in value over the month, amid renewed concerns over elevated inflation and central bank tightening. The yield on 10-year and 2-year US Treasury bonds both climbed over the month, and yield curves remain inverted.

Locally, Australian equities dropped in February which was in line with the downward trend of global equities. Australian 10-year bond yield reversed its January decline and climbed a bit over the month, creating a headwind for fixed income markets broadly. The Australian dollar depreciated against US dollar over the month.

Commodities faced a challenging month and delivered negative return in February. The oil price was volatile during the month and eventually delivered a negative return amid

pull and push among the geopolitical escalation in Ukraine and the recovery of Chinese demand.

Performance review

After fees and expenses, the portfolio returned -1.29% (gross of fees return of -1.21%) in February which underperformed its benchmark return of -0.75% by 54bps. At the end of February, the Fund's equity weight was -3.1% underweight relative to the benchmark as we retained a small underweight to equities in aggregate throughout the month.

Foreign currency exposure was at 27.8% with key underweights in USD, GBP, NZD, EUR and KRW and overweight in JPY, MXN, AUD, NOK and BRL.

Positioning review

Within equities, we continued to focus on sector diversification between defensiveness and cyclicity over the month. We retained our regional preference for the UK given its defensive characteristics and kept a neutral stance in Europe ex-UK equities, on the back of better-than-expected macro data pointing to a more resilient economy in the Eurozone. We also retained our overweight position in China and emerging market equities as China's COVID reopening remains a source of strength. US equities remained the largest underweight position followed by Japan equities. From an equity sector perspective, we further rotated to cyclicals by closing our overweight position to healthcare on expectation of earnings headwinds. We also opened an overweight to European banks, which is pro-cyclical, amid strengthening growth expectations and recent positive momentum. We retained our preference to US small cap over US large cap. We also maintained our position in energy

equities and added more exposure to broad commodities positions amid recent weakness.

At the end of February, we were approximately neutral in aggregate duration in aggregate which remained intact throughout the month. We retained our preference for Canadian and Australian duration relative to the US on potential for diverging pace of interest rate hikes. We retained our overweight position to short-term US IG credit on the back of attractive yield pickup and underweight to the 5-year US treasury bonds which reflected our view on steepening of this part of the curve. We also prefer Italy over German duration as we see an opportunity at current relative spread levels. We kept our positions in emerging market bonds as we are expecting a favorable environment for this asset class amid a slowdown in rate hikes and a potential weakening of US dollar.

To balance the equity cyclical sector exposures we have added throughout the month, we have made various adjustments to our active currency trades. We reduced our cyclical currency exposures by adding to our underweight position in NZD. We also further trimmed our underweight position in USD amid the potential for USD strength should US rate hikes persist, which was funded out of cyclical Asian currency.

Asset Allocation

Asset allocation detracted from performance in February; while our defensive positions in the portfolio added value amid the correction seen over the month, exposures to commodity-linked and EM assets, and underweight to USD more than counterbalanced. In aggregate, our equity allocations, active currency trades as well as our allocation to alternatives detracted from the relative performance, while our positions in fixed income did not contribute meaningfully this month.

As global risk assets lost ground in February, our underweight position to equity contributed positively to performance. Our defensive equity relative value trade such as UK equities, as well as overweight to healthcare sector which we closed over the month were additive to performance. Our newly opened overweight to European banks was also one of the key contributors in February. Our overweight to US small cap against US large cap position marginally added value to performance. This was mostly offset by our overweight position to China and Emerging market equities as well our underweight to Japan equities. Overweight to energy equity sector was mostly flat in February.

Our overweight in commodities detracted from the relative performance amid a challenging month for most commodity markets this month.

Fixed income positioning did not contribute meaningfully in February. Our overweight position in Australian and Canadian durations against US duration as well as our overweight position in Italian duration against German duration also added value. This was partly offset by our holdings in emerging market bonds amid the continuous rate hikes over the month. Our overweight position in short-dated US IG credit was flat over the month.

Active currency trades in aggregate detracted this month. Our underweight position in NZD and GBP, and overweight position in MXN contributed positively over the month, which was mostly offset by our overweight position in JPY amid a continuous strengthening of USD in February. Our overweight in BRL, NOK and AUD also detracted from the relative performance in February.

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

Asset Allocation and Currency Strategy

After rallying in January, global equities lost ground in February as signs of stubbornly high US inflation and a still-tight jobs market prompted concerns about higher-for-longer Fed policy rates. In the US, the Q4 earnings season revealed a contraction in profits year over year, with much of the effect of last year's monetary tightening still to be felt. The sticky inflation and concerns of longer than expected rate cycled dragged the performance of US equity over the month. Chinese equities consolidated in February, delivering a negative total return over the month after rallying more than 40% from their November lows. China's performance weighed on emerging market equities more broadly, with emerging market also delivering negative return over the month. 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.

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 square 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

Telephone: (03) 9046 4041 **Freecall:** 1800 572 018 **Email:** ubs@unitregistry.com.au www.ubs.com/am-australia

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.

The PDS for this fund is only available to persons receiving the PDS (electronically or otherwise) while physically in Australia, unless expressly authorised by us in writing. The offer does not constitute an offer or invitation in any place in which, or to any person to whom, it would be unlawful to make such an offer or invitation. This Fund (or the PDS) has not been registered under the laws of any jurisdiction outside Australia. The Fund may not be offered or sold in the United States of America or to 'U.S. Persons' (as defined in 'Regulation S' of the Securities Act of 1933, as amended).

This document may not be reproduced or copies circulated without prior authority from UBS Asset Management (Australia) Ltd.

© UBS Group AG 2023. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.

