

UBS Balanced Investment Fund

March 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

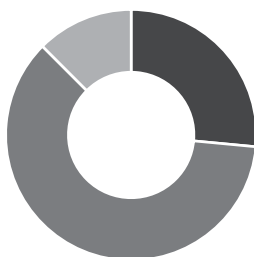
The Fund comprises a diversified portfolio through allocation to differing asset classes anywhere within the allowable ranges, by normally investing in other UBS managed funds, third-party funds and through a range of instruments.

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 [^]	26.5%
Growth Assets	61.0%
Alternative Strategies	12.5%

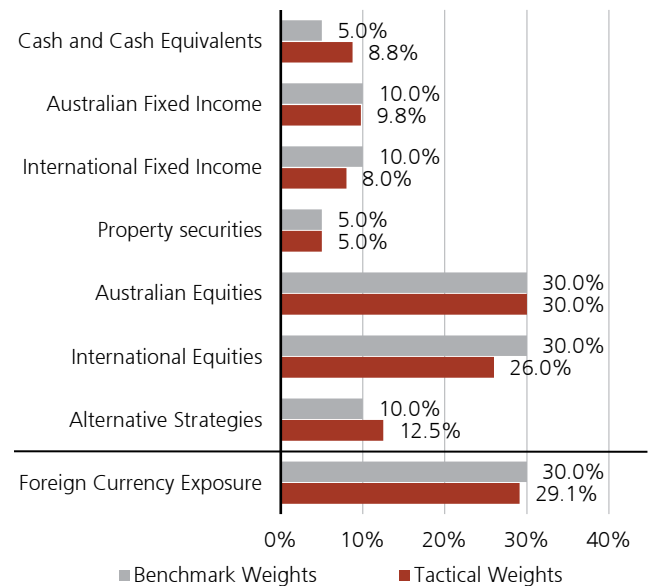
[^] includes cash

Fund information

Inception date	3 November 1992
Fund size	\$ 623.3m
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	0.87	2.61	(3.97)	7.33	3.48	7.28
Benchmark**	1.47	4.47	(0.16)	8.43	6.18	8.00
Added Value	(0.60)	(1.86)	(3.81)	(1.10)	(2.70)	(0.72)

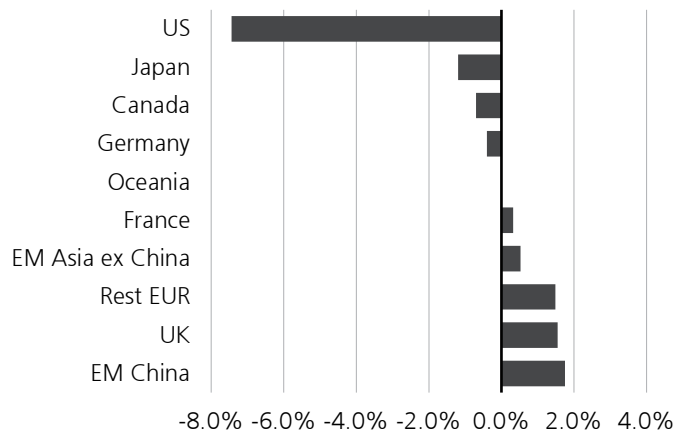
* Inception date: 3 November 1992.

** Neutral Allocation (refer to PDS).

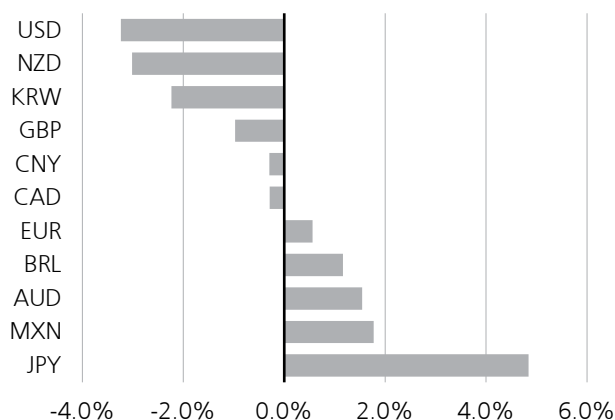
Performance figures are net of ongoing fees and expenses. The performance figures quoted are historical, calculated using end of month redemption prices, and do not allow for the effects of income tax or inflation. Total returns assume the reinvestment of all distributions. Performance can be volatile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

Active portfolio positioning

Equities



Foreign currency



Market review

Global stocks delivered a positive return in March, despite concerns over the health of the banking system in both the US and Europe. Market sentiment was undermined earlier in the month by the collapse of two mid-sized lenders in the US, Silicon Valley Bank and Signature Bank, forcing US regulators to take urgent action to shore up confidence. That was followed by news, a week later, that UBS would acquire Credit Suisse. The positive gain at the end of the month reflected confidence that regulators had acted with sufficient speed and force to avert a full-blown banking crisis. Among major equity markets, the best performer in March was China, amid continued confidence over the economic outlook following the end of pandemic restrictions. US equities also delivered a positive return and held up well relative to global equities while European equities, especially UK equities lagged in March. In terms of fixed income, the concerns around the banking sector contributed to a sharp fall in government bond yields, with investors assuming that economic headwinds from the banking system could potentially lead to an early end of central bank rate hikes. The yields on US Treasury bonds declined over the month, though the yield curve remain inverted.

Locally, Australian equities were relatively flat in March, lagging behind global equities. The Australian 10-year bond yield declined over the month which was in line with US Treasury yields. The Australian dollar marginally depreciated against the US dollar over the month.

Broad commodities were almost flat in March. Banking stress and concerns about the economic growth outlook weighed on the commodity sector in the first half of March, though broad commodity indexes regained ground toward the end of the month.

Performance review

After fees and expenses, the portfolio returned 0.87% (gross of fees return of 0.96%) in March which underperformed its benchmark return of 1.47% by 60bps. At the end of March, the Fund's equity weight was -4% underweight relative to the benchmark as we marginally increased the directional underweight to equities for downside protection, amid market turbulence brought by the negative news from financial sectors over the month.

Foreign currency exposure was at 29.1% with key underweights in USD, NZD, KRW and GBP and overweight in JPY, MXN, AUD, BRL and EUR.

Positioning review

Within equities, we tilted to a more defensive stance in response to the negative news stemming from the banking sector over the month. We retained our regional preference for the UK given its defensive characteristics. We added to overweight position in Europe ex-UK equities funded out of US and emerging market equities in the first half of the month, on the back of a better-than-expected macro data pointing to a more resilient economy in the Eurozone. We retained our overweight position in China equities as the latest macro data pointed to a more positive picture, particularly the consumption number which continued to be strong and property sales also picked up significantly in March. We retained an aggregate overweight position in emerging market equities. US equity remained the largest underweight position followed by Japan equities. From an equity sector perspective, we closed our overweight position in energy equities for additional protection on the back of the abrupt collapse of the two US lenders in mid-March, should sensitivity of Energy to global demand expectations pull performance to the downside. Though we recalibrated the

portfolio towards a more defensive stance, we still see opportunities for commodities and retained our exposure to our broad commodities position, playing this theme more directly. We also retained select pro-cyclical positions as diversifiers in the portfolio, namely overweight position to European banks, as well as our preference to US small cap over US large cap equities.

At the end of March, we were approximately neutral in aggregate duration which remained intact throughout the month. We opened an underweight position in US high yield spreads as we saw a potential spread widening stemming from the fundamental weakness, accelerated from potentially tightening financial conditions following bank stress in the US. We retained our preference for Canadian and Australian duration relative to the US on potential for diverging pace of interest rate hikes. We also retained our overweight position to short-term US IG credit on the back of attractive yield pickup and underweight to 5-year US treasury bonds which reflected our view on steepening of this part of the curve. We also prefer Italy over Germany government duration as we see a relative opportunity at current 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 the US dollar.

We moderated our underweight position in USD funded out of AUD and KRW in early March. We added back to the underweight position in USD at the end of the month amid the potential for USD weakening should the US Federal Reserve alleviate the rate-hiking pressure on broader banking sector. We closed our overweight position in NOK funded out of GBP in mid March as conviction of forward-looking outperformance waned. We opened an overweight position in EUR funded out of USD amid relative stabilization of EUR. We trimmed our paired position of overweight in AUD and underweight GBP, as well as our overweight position in MXN given the surge in market volatility following bank stress events in mid March.

Asset Allocation

Asset allocation detracted from performance in March, with our equity allocations detracting the most. Our positions in fixed income didn't add value meaningfully, and our active currency trades and allocation to alternatives were flat over the month.

As the equity market rebounded in March, our aggregate underweight position to equity detracted from relative performance over the month. Our pro-cyclical equity trades detracted as the overweight positions in the European banks underperformed on the back of market sell off followed by the collapse of two lenders in US. Our overweight to US small cap against US large cap position was also a key detractor from relative performance, while our overweight to the energy sector, closed over the month, also underperformed. Our defensive positions were unable to counterbalance performance in March, with our overweight position to UK equities delivering a negative return. Nevertheless, our overweight position to China delivered a positive return and partially offset the detractions.

Our overweight in commodities was almost flat and didn't make a meaningful impact to relative performance this month.

Fixed income positioning did not contribute meaningfully in March. Our overweight position in Italian duration against German duration added value, while it was offset by the deduction from our overweight position in short-dated US IG credit as well as our holdings in emerging market bonds.

Active currency trades in aggregate were flat this month. Our overweight position in MXN, JPY, BRL and EUR as well as underweight in cyclical Asian currency contributed positively over the month. This was mostly offset by our overweight position in AUD as well as underweight position in GBP and NZD. The overweight position in NOK, which we closed over the month, detracted from relative performance in March.

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

Asset Allocation and Currency Strategy

Equity markets gained in March and over the first quarter, pointing to optimism that regulators on both sides of the Atlantic had acted forcefully enough to prevent an economically damaging banking crisis. Heading into the banking sector turmoil, the inflation threat had not gone away yet, with both US and Eurozone monthly core CPI posting a rising trend. The US Federal Reserve raised policy rates by 25 basis points in March, and the European Central Bank delivered on its promised 50bps hike. On the other hand, Chinese equities were the top performer among the major markets, with positive sentiment brought by the strong domestic consumption as well as stabilization of property sales. 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, and we believe earnings estimates are biased lower from here, especially as credit conditions tighten. Risks to global activity are high amid ongoing banking stress, and the distribution of possible outcomes has widened. Long-term bond yields should be volatile and 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 a recession is rising amid signs of stress in the financial sector.

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.

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