

UBS Balanced Investment Fund

May 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

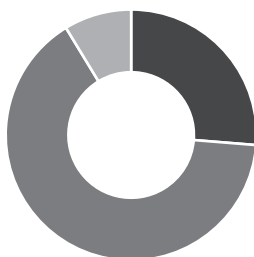
The Fund comprises a diversified portfolio through allocation to differing asset classes anywhere within the allowable ranges, by normally investing in other UBS managed funds, third-party funds and through a range of instruments.

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 [^]	26.3%
Growth Assets	65.0%
Alternative Strategies	8.7%

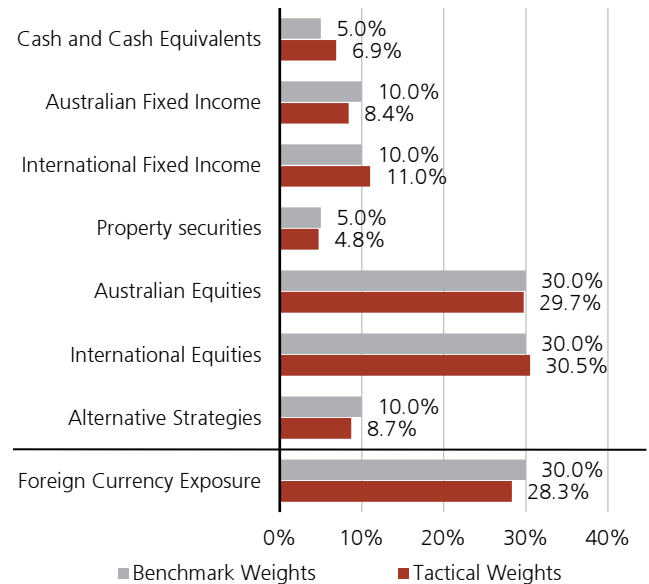
[^] includes cash

Fund information

Inception date	3 November 1992
Fund size	\$ 624.1m
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 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	(1.38)	1.02	(0.39)	4.81	3.23	7.24
Benchmark**	(0.75)	2.32	3.92	6.44	5.82	7.99
Added Value	(0.63)	(1.30)	(4.31)	(1.63)	(2.59)	(0.75)

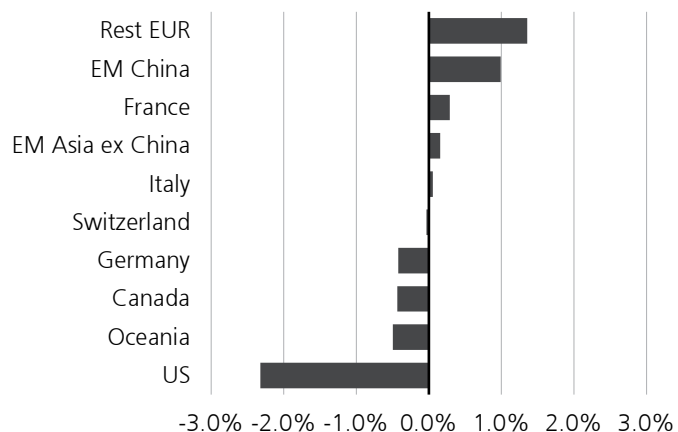
* Inception date: 3 November 1992.

** Neutral Allocation (refer to PDS).

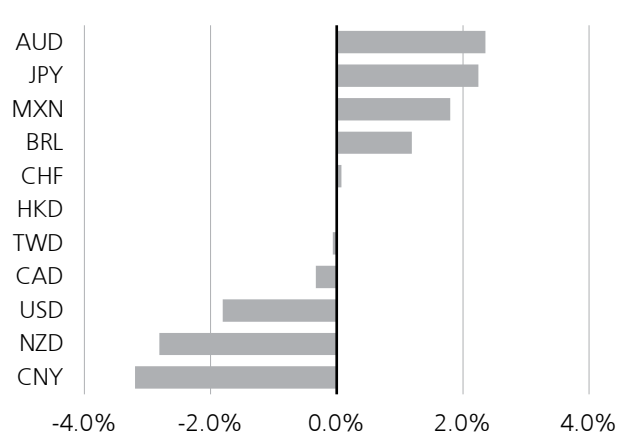
Performance figures are net of ongoing fees and expenses. The performance figures quoted are historical, calculated using end of month redemption prices, and do not allow for the effects of income tax or inflation. Total returns assume the reinvestment of all distributions. Performance can be volatile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

Active portfolio positioning

Equities



Foreign currency



Market review

Global equities declined in May, delivering a modest negative total return. China equities fared the worst among the major markets amid further evidence of sluggish growth and headline risk. The latest manufacturing PMI came in below market consensus, marking the second straight month of contraction. Both new orders and production showed weakness, while still-soft export and import orders pointed to weak external and domestic demand. Value underperformed growth by a large margin this month with more inexpensive markets like the UK and European equities trailing the US equities where we saw continuous strong outperformance from mega cap names. Japanese equities had a standout month, on the back of the recently announced programs aiming to improve Japanese shareholder return. On the other hand, fixed income markets were unsettled by the combination of continued high inflation and the potential for further rate hikes. US Treasuries and credit both delivered negative returns while European fixed income markets fared better and delivered positive returns over the month.

Locally, Australian equities also lost grounds in May on the back of a hawkish stance from the Reserve Bank of Australia (RBA), with the latest inflation print coming in above the RBA's target. The Australian 10-year bond yield rose higher along with the resumption of rate hikes, which came as a surprise to the market. The Australian dollar marginally depreciated against the US dollar over the month.

Broad commodities declined for the sixth consecutive month, with the broad commodity index ending May at its lowest level since 2021.

Performance review

After fees and expenses, the portfolio returned -1.38% (gross of fees return of -1.3%) in May which underperformed its benchmark return of -0.75% by 63bps. At the end of May, the Fund's equity weight was 0.3% overweight relative to the benchmark as we closed our directional underweight to equities at the end of the month.

Foreign currency exposure was at 28.3% with key underweights in CNH, NZD, USD and overweight in AUD, JPY, MXN, and BRL.

Positioning review

We closed our directional underweight to equity to a neutral stance at the end of the month, as economic data maintained its resilience, while market momentum remained strong. Within equity, we retained our overweight position to China equities but rotated part of our offshore China equities exposure into onshore China equities at beginning of the month, as we believe that the introduction of onshore China equities is a more risk aware way of maintaining our exposure to the China growth theme while momentum remains subdued. We removed our overweight position to UK equities in mid May, reducing our exposure to defensive value. At the same time, we trimmed our overweight position to EM equities funded out of our overweight position in Japan equities and US equities. At the end of the month, we closed our overweight position to Europe ex-UK equities and underweight position to Japan equities as the case for building exposure to Japan grew. We retained our underweight position to US equities over the month, albeit at reduced levels. From an equity sector perspective, we retained our pro-cyclical position namely overweight to European banks over the month. We closed our overweight position to commodities on the back of downtrend at the end May.

Our portfolio duration was unchanged and remained broadly neutral throughout the month. We closed our overweight position to Australian duration funded out of US duration due to reduced conviction as evidence of inflationary pressure persisted, while we retained our preference for Canadian duration over the month. At the same time, we trimmed our overweight position to emerging market bonds funded out of our underweight position to US high yield, on the back of elevated valuation and potential headwinds brought by a stronger US dollar in the past month. We retained our underweight position in US high yield, albeit at reduced levels. 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.

In terms of our active currency trades, we moderated our overweight position to JPY in two tranches over the month, with the goal to reduce its active risk concentration as the direction of BOJ policy and yield curve control remains uncertain. The first tranche was funded out of EUR and GBP in early May, while the second tranche was funded out of KRW at month end. We closed our overweight position in EUR funded out of USD at the end of the month, due to our neutral view towards EUR. We also closed our overweight position to KRW as a funding source due to its high volatility and rotated into CNH which in our view is more stable, at the month end.

Asset Allocation

Asset allocation detracted from performance in May, with our equity allocations detracting the most. Our positions in fixed income and alternatives as well as our active currency trades also marginally detracted from the relative performance in May.

Our equity positions detracted from relative performance over the month. Our overweight to China equities was the biggest detractor in May, as weak market sentiments driven by softer economic data prints de-rated the Chinese equity market. Our underweight position to Japan equities also detracted, although we progressively reduced our underweight over the month as market developments unfolded. Our overweight position to European banks, as well as overweight position to UK equities which we closed this month were flat in May. Our overweight position to emerging market marginally detracted from relative performance.

Our overweight position in commodities, which was closed at the end of the month, also detracted from the relative performance.

Fixed income positions marginally detracted from relative performance in May. Negative contribution came from our overweight position in short-dated US IG credit, our holdings in emerging market bonds, as well as overweight position in Australian and Canadian durations against US among which we closed the overweight Australian duration during the month.

Active currency trades in aggregate didn't contribute meaningfully this month. Positive contributions came from our commodity related currency trades, namely overweight position in MXN and AUD as well as underweight position in NZD. Our newly added underweight position in CNH also added value this month. This was offset by deduction from our overweight in EUR and underweight in KRW which we closed over the month. Our overweight position in JPY and BRL also marginally detracted from relative performance.

Security selection contributed negatively this month. Positive contributions came from strong outperformance of Australian Share Fund, followed by Emerging Market Equity Fund. On the other hand, laggards this month included Global Opportunity, International Share, and Diversified Fixed Income Funds which underperformed their respective benchmarks. Australian Small Companies Fund was flat over the month. Our alternatives allocations contributed negatively to performance in May.

Asset Allocation and Currency Strategy

Global equities declined in May on the back of the on-going negotiations of US debt ceilings, mixed with the substantial outperformance from semiconductors and US mega-cap tech. Japan equities outperformed all the major markets with a positive return over the month, while China equities underperformed the most amid weak fundamental macro data prints. US 10-year Treasury yields were volatile, rising as much as 50 basis points over the course of the month before a sharp rally at the end of the month, as expectations for a June rate increase evaporated in the face of commentary from key Federal Reserve officials indicating a desire to keep the policy rate unchanged at that meeting.

Market outlook

In our view, the risk-reward proposition for global equities at an index level is not particularly attractive but is becoming more positive. Stocks remain expensive, but we believe earnings estimates will remain resilient as tight labor markets support consumer spending while profit margins remain relatively elevated. Risks to global activity are higher following banking stress in March and the possibility of a disorderly failure to raise the US debt ceiling, 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 economic activity is poised to decelerate amid tightening access to credit.

Client Services

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

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