

UBS Balanced Investment Fund

September 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.

Fund information

Inception date	3 November 1992
Fund size	\$ 613.0m
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%

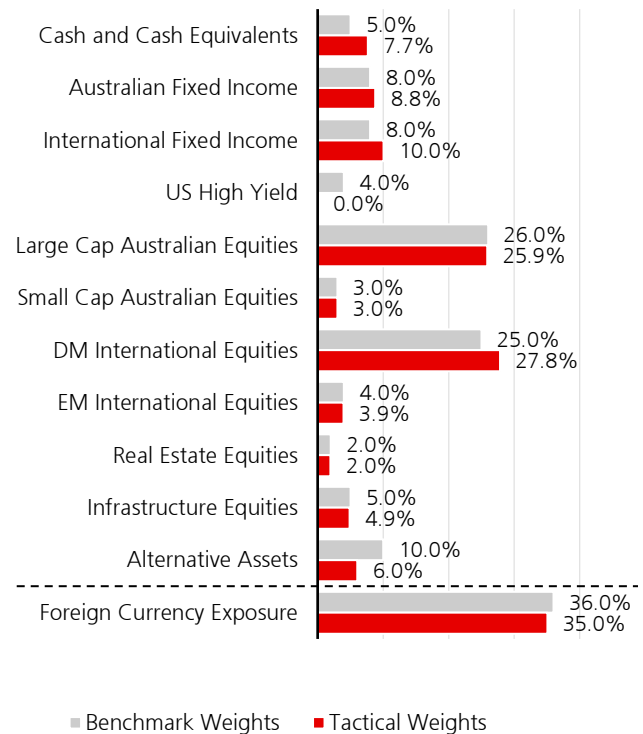
¹ Estimate of the fees the Fund will incur through the Fund's investment in underlying funds. These fees and expenses will vary from time to time.

Tactical asset allocations



[^] includes cash

Fund tactical and strategic allocations²



² Asset allocation includes derivatives used to hedge market exposures

Investment performance

	1 month %	3 months %	1 year %	2 years % pa	3 years % pa	5 years % pa	Since inception* % pa
Total return	(3.05)	(1.62)	6.44	(3.39)	3.94	2.54	7.14
Neutral**	(2.64)	(0.75)	10.60	0.43	5.90	5.06	7.92
Added Value	(0.41)	(0.87)	(4.16)	(3.82)	(1.96)	(2.52)	(0.78)

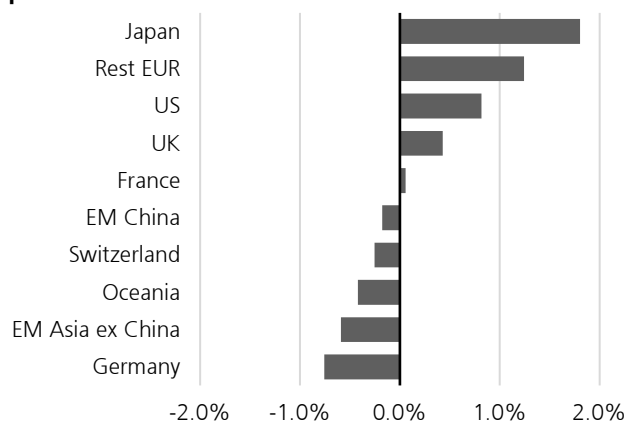
* Inception date: 3 November 1992.

** Neutral Allocation (refer to PDS).

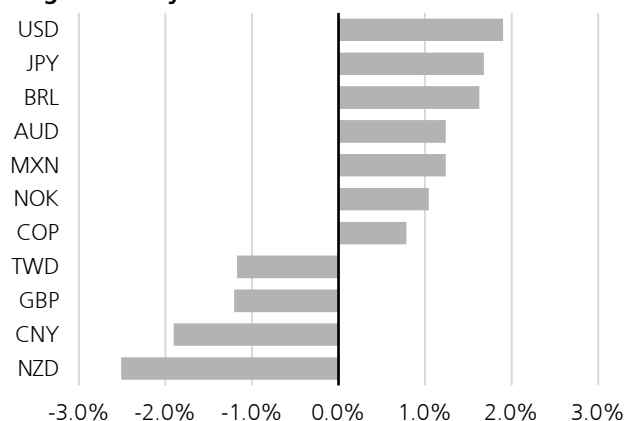
Performance figures are net of ongoing fees and expenses. The performance figures quoted are historical, calculated using end of month redemption prices, and do not allow for the effects of income tax or inflation. Total returns assume the reinvestment of all distributions. Performance can be volatile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

Investment strategy

Equities



Foreign currency



Market review

Good news on the US economy was bad news for risk assets in September. Resilient activity data and increasing supply put sharp upward pressure on bond yields, which challenged equity valuations and contributed to some widening in credit spreads in the final third of the month.

Global equities posted their biggest monthly losses in a year, with US equities leading the way down on multiple compression. The US 10-year Treasury yield peaked at its highest level since 2007.

The Bloomberg Commodity Index fell despite a fourth month of gains in Brent oil futures, which rose to fresh 2023 highs. Gold futures suffered their worst monthly losses since June 2021, with potent headwinds coming from rising US real yields and a strengthening US dollar.

Locally, Australian equities fell over the month but managed to outperform global equities. Australian 10-year yields rose amidst expectations for higher rates, however, it finished the month marginally lower than US treasuries. The Australian dollar depreciated further against the US dollar in September.

Performance review

After fees and expenses, the portfolio returned -3.05% (gross of fees return of -2.97%) in September which underperformed its benchmark return of -2.64% by 41bps. At the end of September, the Fund's equity weight was 1.5% overweight relative to the benchmark.

Foreign currency exposure was at 35% with key underweights in NZD, CNH, GBP, CZK, TWD and EUR as well as overweights in USD, JPY, BRL, MXN, NOK and COP.

Positioning review

In September, we transitioned to a new benchmark. Key changes versus the previous benchmark are reduced allocation to Australian equities but increased allocation to Australia small cap equities, reduced allocation to traditional global equities in favor of infrastructure equities and reducing REITs and adding a dedicated allocation, funded from broader fixed income, to high yield fixed income.

Our equity position remained directionally overweight with a preference to US Midcaps and US equal weighted index relative to the market cap index; this overweight is funded out of European equity which we maintained as our key underweight on the back of soft manufacturing, stubborn inflation, and China softness. We also maintained our key overweight position in Japan equities which is still attractive from a valuation perspective even after recent gains, solid earnings, and ongoing corporate reforms. We added to commodity exposure in the portfolio amidst climbing oil prices with a small overweight to US Energy equities mid-month. Within

European equities, we retained a preference for European banks.

In fixed income, we are close to neutral in duration. We closed our overweight exposure to short-term US IG credit while taking an underweight position in US High Yield relative to government bonds amidst tight spreads as we transition to new performance benchmarks.

In FX, we re-initiated a US dollar overweight, largely funded through initiation of an underweight to Taiwan dollar. We also initiated an underweight to Czech koruna which looks overvalued given the reduction in political risk premia since the Russia/Ukraine war. In addition, we retained our underweight to the British pound, New Zealand dollar, and Chinese yuan as well as our overweight to Japanese yen, Brazilian real, Mexican peso, Columbian peso, Norwegian krone and the Australian dollar.

Asset allocation

Asset allocation detracted from performance this month driven mainly by our fixed income allocation. Our active positions in equities was flat and currencies marginally detracted from the relative performance this month.

Our directional overweight to equity detracted from performance over a risk off month followed by our overweight to the US equal weight index which also detracted but to a lesser degree. This was mostly offset by positive contributions from our regional preference to Japan, our preference for European banks and our overweight in US energy equity.

In fixed income, our marginal overweight tilt to duration early in the month was a small detractor from overall active performance as yields rose over the month, while our preference for short-dated US IG bonds was neutral.

Active currency trades marginally detracted from performance this month. Key detractors came from our overweight position to Japanese yen and our overweight to Mexican peso, which was partially offset by positive contributions from our underweight position to the British pound and the euro.

Security selection was negative this month. The main detractor was the Diversified Fixed Income Fund, which notably underperformed with its overweight duration position in September followed by the Australian Share Fund. Global Property Securities Fund and Emerging Market Equities Fund also detracted but to a lesser degree. Global Opportunity strategy was a key positive contributor, followed by the International Share Fund. In terms of allocation to alternatives, Global Infrastructure Securities Fund was slightly positive, though this contribution was more than offset by the detractors from the Income Solution Fund.

Asset allocation and currency strategy

Global equities fell in September as surging interest rates continued to cause valuation pressure, though energy stocks were the lone sector to post positive returns on the month, buoyed by the rally in crude oil. US Treasury yields surged in September on resilient activity and reduced expectations for Federal Reserve easing in 2024. Despite a smaller rise in yields, European sovereign bonds underperformed Treasuries on higher duration. A larger than expected projected budget deficit for Italy also contributed to the weakness.

Market outlook

In our view, the headwinds from rises in rates, and to a lesser extent oil prices, will not be a major source of incremental downside for stocks. Investors have become much more upbeat on the outlook for growth at a time when US activity is poised to moderate and inflation has meaningfully decelerated, evolving in a manner increasingly consistent with a soft landing. We remain overweight equities as we expect bond yields to stabilize on a much improved inflation picture and a gentle cooling of US growth. In our view, a stabilization in bond yields is all that is needed for the stock market to better reflect the steady improvement in fundamentals and decrease in inflation risk. Going forward, we will be more selective in our equity exposures in light of the market's enhanced faith in the durability of the US expansion, which has left cyclically-oriented expressions more vulnerable in the event that recession fears reemerge. However, there is a lot of scope for US activity to cool without raising risks of a growth scare, in our view. Labor markets remain tight, with initial jobless claims near historical lows, and positive inflation-adjusted income growth should allow for increases in real consumer spending.

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