

UBS Balanced Investment Fund

June 2021

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.

Investment strategy

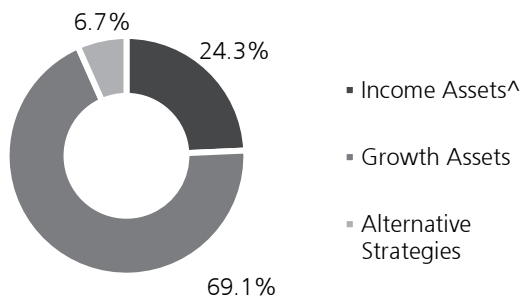
Our portfolio management team will build a diversified portfolio by allocating to differing asset classes anywhere within the allowable ranges by normally investing in other UBS managed funds, third party funds and through a range of instruments.

Investment return objective

The Fund aims to outperform (after management costs) the Benchmark over rolling five year periods. The Benchmark is based on the return on the market indices based on the Neutral Allocation of assets (refer to the individual asset class benchmark weights opposite in the 'Fund tactical and strategic allocations' graph).

Growth income asset split strategy

Tactical asset allocations



[^] Includes cash

Investment performance

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	1.87	5.46	19.48	6.57	7.76	7.92
Benchmark**	2.24	5.89	17.68	8.65	8.92	8.48
Added Value	(0.37)	(0.43)	1.80	(2.08)	(1.16)	(0.56)

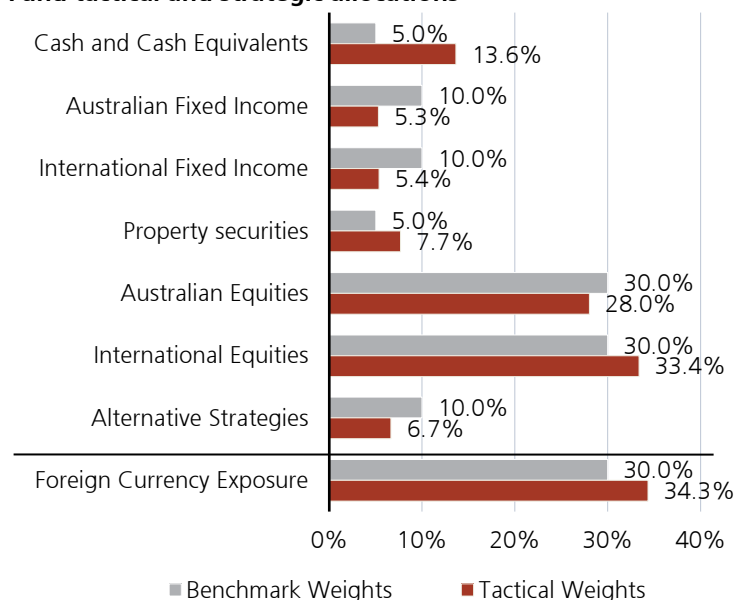
*Inception date: 3 November 1992. **Neutral Allocation (refer to PDS). Performance figures are net of ongoing fees and expenses. The performance figures quoted are historical, calculated using end of month redemption prices, and do not allow for the effects of income tax or inflation. Total returns assume the reinvestment of all distributions. Performance can be volatile and future returns can vary from past returns.

Fund information

Inception date	3 November 1992
Fund size	\$ 834.7 m
Management fee	0.95% pa
Indirect costs	0.02% pa ¹
Minimum initial investment	\$10,000 (via online application \$5,000)
Distributions	Quarterly
Buy/sell spread	+ 0.20% / - 0.20%
APIR code	SBC0815AU

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.

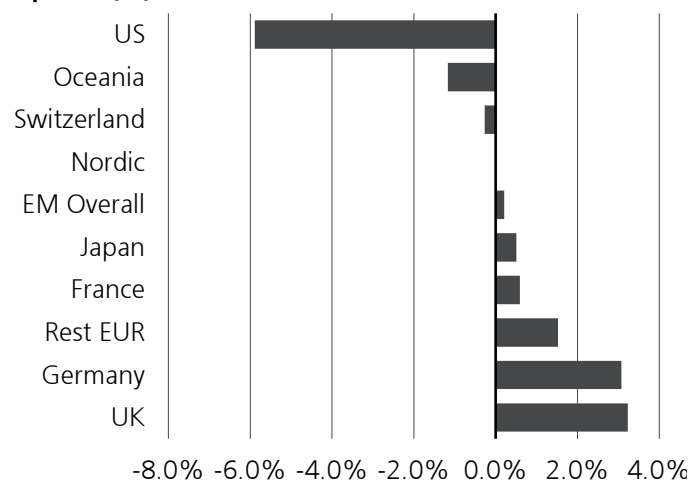
Fund tactical and strategic allocations²



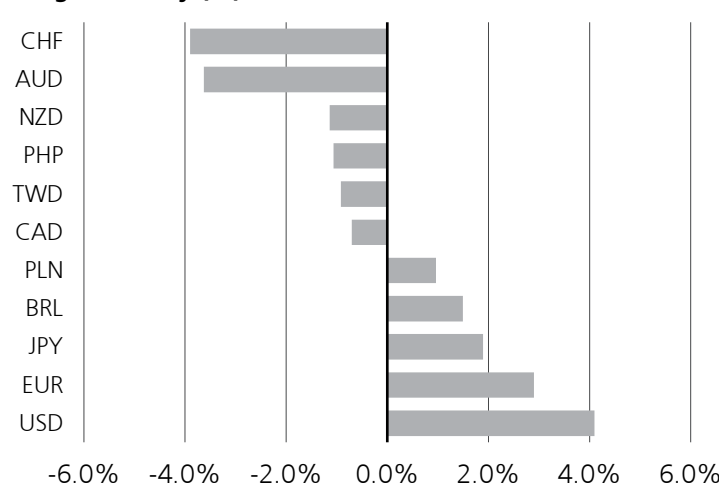
² Asset allocation includes derivatives used to hedge market exposures.

Active portfolio positioning

Equities (%)



Foreign currency (%)



Market review

Global equities hit new records highs in June capping a strong second quarter. This was followed by declining US treasury yields as worries over a sustained rise in inflation appeared to abate. The focus of the month was on the US Federal Reserve's policy meeting which showed officials now forecasting two rate hikes in 2023 (up from zero in March). This hawkish message prompted a brief selloff in equities which recovered to finish the month in a positive territory. Bond yields declined over the month despite a more hawkish FOMC meeting but we believe this reflects increasing confidence among investors that the recent rise in inflation will prove to be transitory.

Locally, Australian equities outperformed global equities and delivered positive return. Australian 10-year government bond decreased over the month which was in line with the movement in US Treasury yields over the month. The Australian dollar weakened against the US dollar as hawkish message from the US Federal Reserve saw the USD appreciate against most other currencies.

Performance review

After fees and expenses, the portfolio return of 1.87% (gross of fees return of 1.95%) in June underperformed its benchmark return of 2.24% by 37bps. At the end of June, the Fund's equity weight was 1.4% overweight relative to the benchmark. We maintained our exposure to pro-cyclical relative value trades such as long European banks versus European equities and long global financial equities versus global equities, as well as a long US equal weighted index relative to the US market cap index position. In terms of regional equity views, we continue to hold a preference for UK, Germany, Japan and Europe over the US and Australian equities. We also added to our existing overweight to Global REITs at the end of the month.

In fixed income, duration was kept short relative to the benchmark over the month. We remained broadly neutral in US dollar duration, underweight to Australia, Europe and Japan and overweight to hard currency EM debt.

Foreign currency exposure was at 34.3% with key underweights in CHF, NZD, PHP, TWD, KRW, AUD, CAD and overweights in USD, BRL, EUR, JPY and PLN.

Asset Allocation and security selection

Asset Allocation decisions detracted this month which was partially offset by positive contributions from our active currency trades. Our relative value equity trades were responsible for majority of the underperformance as our preference for long European Banks versus EMU equity, global financial equities and US equal weighted basket vs US market cap index detracted from performance. We took profits on a portion of our US equal weight position at the end of the month. From a regional equity perspective overweight to Europe including the UK and Japan as well as underweight to Australia, opened early in the month, and the US detracted from performance. Duration positioning detracted slightly from performance this month as treasury yields decreased over the month while our overweight to hard currency EM debt made a marginally positive contribution to performance in June. We closed our US 2 year vs. 10 year steepener trade following the US Federal Reserve developments in June.

Active currency trades in aggregate were additive this month. The largest positive contribution came from our overweight to BRL as sentiment at the beginning of the month was more supportive for EM currencies and on the back of better than expected growth data in Brazil. Through the month we made adjustments to our FX trade set; in the middle of the month to neutralize our USD underweight and then to move overweight USD at the end of the month. Our underweight to NZD, increasing an underweight to AUD and opening an underweight to CAD also made positive contribution over the month as well as our overweight to PHP and underweight to CHF, KRW and TWD. Detractions came from our overweights to JPY, EUR and PLN. Through the month we also closed long positions in NOK, SEK and took profits on MXN, while reducing our overweight to EUR.

Security selection was mixed this month. Australian Share Fund and the Global Opportunity Equity sleeve outperformed their benchmark while Australian Small Companies, International Share and Emerging Market Equity Funds underperformed this month. Diversified Fixed Income Fund outperformed its benchmark. Our allocation to alternatives as well as our overweight to REITs contributed positively this month.

Outlook

Our outlook for stocks over the next 12 months remains positive. The economic recovery is likely to continue this year on the back of additional global fiscal stimulus, still accommodative financial conditions, and progress on the broad administration of effective COVID-19 vaccines. However, we believe much of the equity market returns in 2021 have been front-loaded, particularly in the US. The belly and long end of sovereign curves are serving as release valves for any signs of economic optimism as central bank commitments to keep policy rates low remain credible. We expect both increases in real rates and market-based measures of inflation compensation to contribute to further increases in yields.

Client Services

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