

# UBS Balanced Investment Fund

July 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	\$ 636.5m
Management fee	0.95% pa
Indirect costs	0.02% pa <sup>1</sup>
Minimum initial investment	\$ 50,000
Distributions	Quarterly
Buy/sell spread	+ 0.20% / - 0.20%

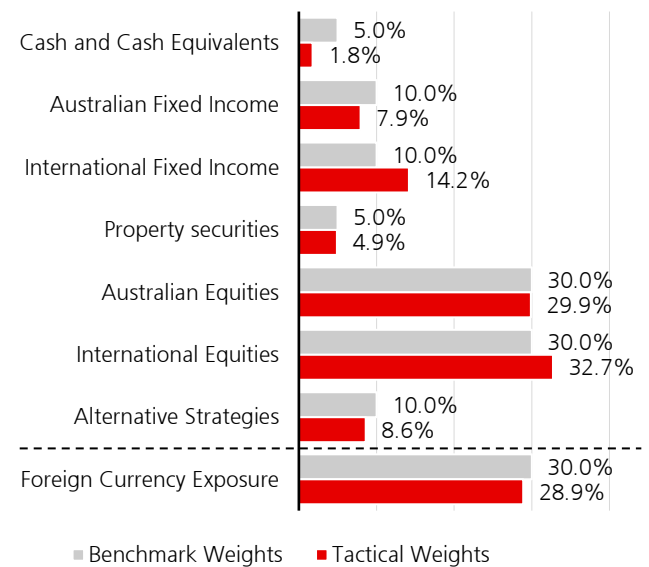
<sup>1</sup> Estimate of the fees the Fund will incur through the Fund's investment in underlying funds. These fees and expenses will vary from time to time.

## Tactical asset allocations



<sup>^</sup> includes cash

## Fund tactical and strategic allocations<sup>2</sup>



<sup>2</sup> 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	1.93	1.69	4.91	(1.47)	5.31	3.31	7.31
Neutral**	1.85	2.45	7.82	1.62	7.05	5.88	8.05
<b>Added Value</b>	<b>0.08</b>	<b>(0.76)</b>	<b>(2.91)</b>	<b>(3.09)</b>	<b>(1.74)</b>	<b>(2.57)</b>	<b>(0.74)</b>

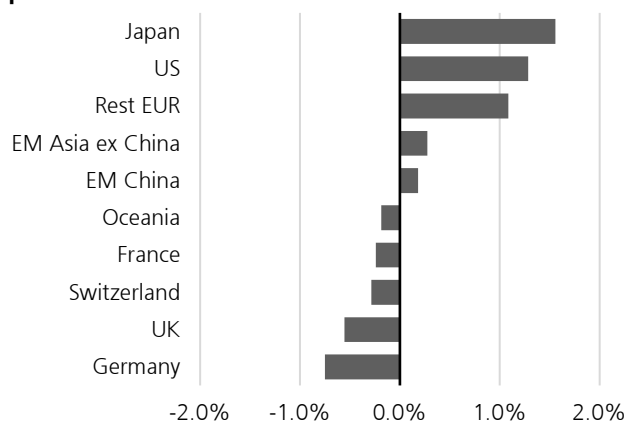
\* Inception date: 3 November 1992.

\*\* Neutral Allocation (refer to PDS).

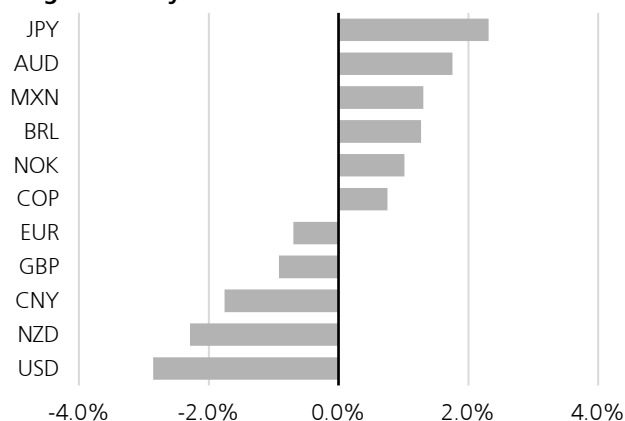
Performance figures are net of ongoing fees and expenses. The performance figures quoted are historical, calculated using end of month redemption prices, and do not allow for the effects of income tax or inflation. Total returns assume the reinvestment of all distributions. Performance can be volatile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

## Investment strategy

### Equities



### Foreign currency



## Market review

Global markets reflected investors' increasing embrace of the potential for soft landing in July, with a risk-on tone as data continued to signal US economic strength while inflation prints from most developed market showed price pressures ebbing by more than anticipated.

Global equities posted another strong month of gains. Chinese stocks led the way as stimulus hopes and increasingly pro-business rhetoric from Beijing buoyed sentiment. US treasury yields moved higher over the course of the month despite softening inflation, as labor market and production data continued to post solid results.

Broad commodities posted a back-to-back monthly gain for the first time this year on the back of durability of the US expansion, curbs in OPEC+ supply, falling US dollar and hopes that Chinese stimulus would spur a pick-up in activity.

Locally, Australian equities posted a positive return but lagged the US market over the month and the Australian 10-year yields finished the month marginally higher in line with the US treasuries as recession fears receded and the 'higher yields for longer' sentiment remained in place. There wasn't a meaningful movement in the Australian dollar over the month.

## Performance review

After fees and expenses, the portfolio returned 1.93% (gross of fees return of 2.01%) in July which outperformed its benchmark return of 1.85% by 8bps. At the end of July, the Fund's equity weight was 2.6% overweight relative to the benchmark.

Foreign currency exposure was at 28.9% with key underweight in CNH, NZD, USD, GBP and EUR as well as overweight in MXN, JPY, BRL, AUD, COP and NOK.

## Positioning review

We remained directionally overweight to equities and retained our preference for more cyclical parts of the US equity market including the US mid-caps, which we've added to over the month on the back of soft-landing odds having gone up with increasing evidence of solid activity and disinflation, as well as the US equal weight index. We funded our overweight US equity exposure out of European equity including the UK which remained our key underweight on the back of soft manufacturing and stubborn inflation data. However, we like the pro-cyclical nature of European banks and continue to hold an overweight position, funded out of broader European equities. In addition, we remained overweight to Japan equities which still looks attractive from a valuation perspective even after the recent gains followed by a marginal overweight to EM equities to which we have reduced conviction as Asia excluding China remains supported by technology sector rebound, but outperformance will require more China stimulus moving forward.

We kept our overall duration exposure close to the benchmark over the month with a slightly long tilt as it continues to diversify against our procyclical positioning in risk assets. We retained our overweight position to short-term US IG credit despite relatively narrow spreads due to attractive carry.

In foreign exchange, we further diversified our currency trades this month by introducing an overweight to Columbian peso which was funded out of our existing position in Mexican peso, added an overweight to Norwegian krone funded from euro to further enhance procyclicality of our active positioning and initiated an underweight to British pound to hedge our UK equity underweight on the prospect of peaking inflation in the UK. We also increased our existing overweight to the Japanese yen in favor of the Chinese yuan ahead of the upcoming BOJ and Politburo meeting over the month. We retained our underweight to the New Zealand and US dollars as well as our overweight to Australian dollar and the Brazilian real.

### **Asset allocation**

Asset allocation was additive this month. In July, the outperformance was driven by our equity allocations which made a strong positive contribution, followed by active currency trades which were also additive. Fixed income allocations didn't make a meaningful contribution to the relative performance this month.

Our overweight to equity in aggregate contributed positively to relative performance over the month. In addition, our regional preference for the US via the mid-cap and equal weight indices as well as our overweight to European banks were the key drivers for outperformance in July.

Fixed income trades in aggregate did not make a meaningful contribution to the relative return this month. Marginal overweight to duration detracted but it was mostly offset by positive contributions from our preference for short-dated US IG bonds.

Active currency trades also contributed positively this month. Our emerging market currency trades particularly overweight to Mexican peso, Brazilian real and the Columbian peso were the key drivers for outperformance this month. Underweight to the euro and the British pound also contributed positively. This was partially offset by deductions from our underweight to the New Zealand dollar, Chinese yuan and overweight to Norwegian krone.

Security selection contributed positively to the relative performance this month. Key positive contributors were the International Share Fund which strongly outperformed its reference index as well as the Diversified Fixed Income Fund which also comfortably outperformed its benchmark this month. Australian Share and Australian Small Companies Funds also outperformed this month and was additive to relative performance. This was partially offset by deductions from Global Opportunity which was the largest detractor, followed by Global Property Securities and Emerging Market Equity Funds which also detracted but to a lesser degree. Alternative allocations were also additive to the relative return as Income Solution and

Global Infrastructure Securities Funds both contributed positively over the month.

### **Asset allocation and currency strategy**

Global equities ended the month at their highest level since April 2022, with double digit gains in Chinese stocks leading the way. Treasury bonds were modestly negative on the month except for European government bonds which managed to finish the month with a positive return as relative growth differentials are firmly in favor of the US. While the US Federal Reserve is nearing the end of its tightening cycle in a position of economic resilience, the European Central Bank is doing so amid more worrying signs of economic deterioration.

### **Market outlook**

A soft landing has become a more likely scenario, but it has also become more priced into financial markets. Although we continue to scrutinize risks to a soft-landing materializing, we still have conviction that core inflationary pressures will moderate while growth remains resilient over the shorter-term horizon. We believe that the best way to express this macroeconomic view is through overweight position in equities rather than bonds. We favor more cyclical parts of the US equity market such as US equal weight index and mid-caps. We retain a neutral weight towards government bonds which play an important role in diversifying our more risk-on procyclical positions. The outlook for growth is still solid but this limits how much bond yields can fall, even as inflation move lower.

## Client Services

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