

UBS Balanced Investment Fund

July 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

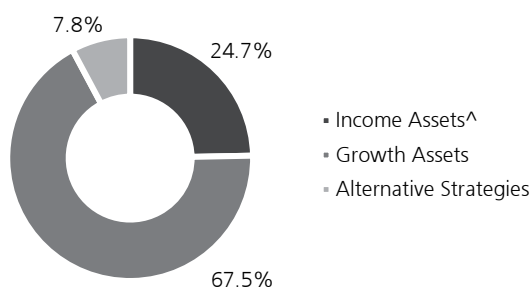
Our portfolio management team will build a diversified portfolio by allocating to differing asset classes anywhere within the allowable ranges by normally investing in other UBS managed funds, third party funds and through a range of instruments.

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	1.25	4.42	20.31	6.62	7.36	7.95
Benchmark**	1.69	5.22	18.82	8.82	8.65	8.51
Added Value	(0.44)	(0.80)	1.49	(2.20)	(1.29)	(0.56)

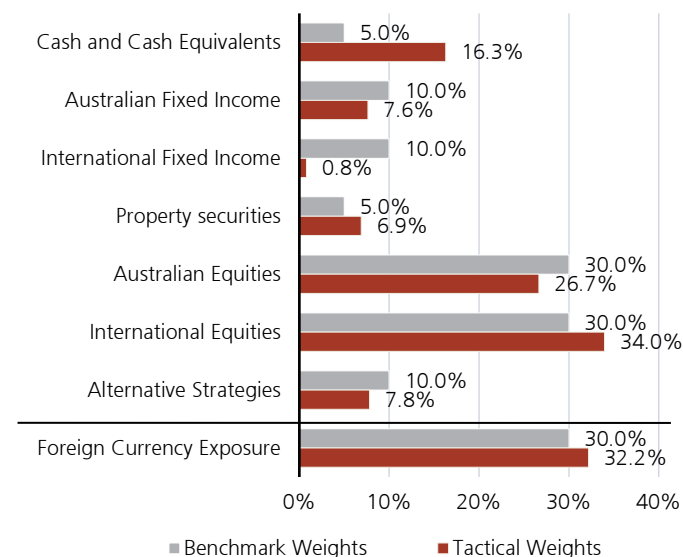
*Inception date: 3 November 1992. **Neutral Allocation (refer to PDS). Performance figures are net of ongoing fees and expenses. The performance figures quoted are historical, calculated using end of month redemption prices, and do not allow for the effects of income tax or inflation. Total returns assume 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	\$ 797.8 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.

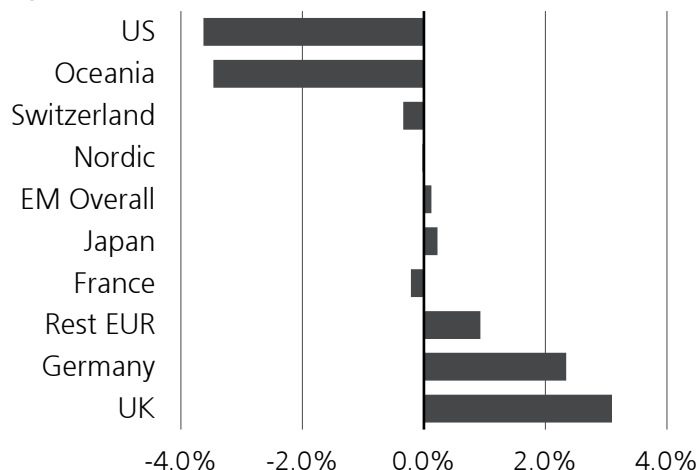
Fund tactical and strategic allocations²



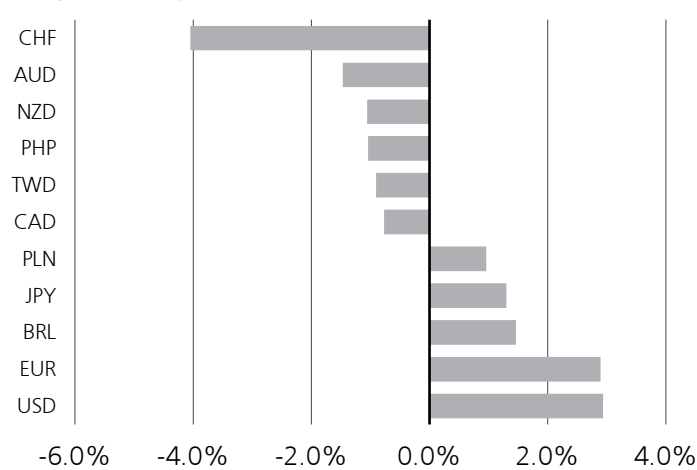
² Asset allocation includes derivatives used to hedge market exposures.

Active portfolio positioning

Equities (%)



Foreign currency (%)



Market review

Global equities continued its rally in July, supported by strong recovery in corporate earnings especially in the US and monetary policy support which helped investors look through the ongoing spread of the more infectious Delta COVID-19 variant. Risk arising from China was in this spotlight this month as stricter curbs on after school tutoring industry exposed China and the broader emerging markets with idiosyncratic risks in what was a volatile month. Government bond yields declined over the month on the back of strong demand for safer assets with global growth momentum slowing. In credit, while growth concerns led to a modest widening of spreads across the main credit segments, higher beta segments such as high yield finished in the positive territory as well as EM Sovereign bonds which was slightly up over the month. However, spreads on Asia high yield expanded significantly due to ongoing negative news flow around the Chinese property sector.

Locally, Australian equities delivered a positive return despite lagging behind US and European equities. Australian 10 year yield declined which was in line with the 10 year US treasury yield. AUD weakened against the USD as Australian lockdown restrictions were extended.

Performance review

After fees and expenses, the portfolio return of 1.25% (gross of fees return of 1.33%) in July underperformed its benchmark return of 1.69% by 44bps. At the end of July, the Fund's equity weight was 0.6% 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. 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 remained 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 Australian duration, underweight to US, UK, Europe and Japan.

Foreign currency exposure was at 32.2% 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. 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 detracted from performance. We closed our US equal weight position which had also detracted from performance month to date prior to closure. From a regional equity perspective overweight to Europe including the UK and Japan as well as underweight to Australia and the US detracted from performance. We reduced our overweight to Europe versus the US over the month. Duration positioning detracted from performance this month as treasury yields decreased over the month. We closed our overweight to hard currency EM debt position which did not make a meaningful contribution. Our overweight to REITs contributed positively to performance in July.

Active currency trades were mixed this month. Positive contributions came from our underweight to AUD, CAD, PHP, KRW and TWD and overweight to USD, EUR, PHP, and JPY. Negative contributions came from underweight to CHF and overweight to PLN. Underweight to NZD did not make a meaningful impact to performance this month.

Security selection was mixed this month. Global Opportunity strategy and Australian Small Companies Fund outperformed its benchmark this month which was more than offset by deductions from Australian Share, Emerging Market Equity and International Share Funds. Diversified Fixed Income Fund also lagged its benchmark this month. Allocations to alternatives made a positive contribution to performance.

Outlook

The economic recovery is likely to continue on the back of additional global fiscal stimulus, still accommodative financial conditions, and progress on the effective administration of COVID-19 vaccines. However, in the near term we expect a choppy environment for equities, as it is common during the second year of a new bull market. Long-term bond yields have retraced aggressively ahead of the turn in global growth momentum and signs of incrementally hawkish US Federal Reserve. However, inflation risks remain tilted to the upside and global economic activity is poised to remain robust into 2022. We expect increases in real rates and market-based measures of inflation compensation to contribute to a renewed rise in yields. Sovereign bonds continues to play an important diversifying role in portfolio construction, and remains particularly effective in hedging downside in procyclical relative value equity positions.

Client Services

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