

UBS Balanced Investment Fund

September 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.

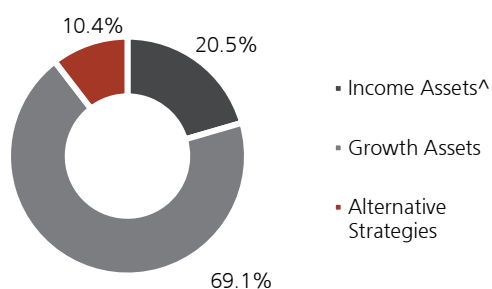
Investment strategy

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



[^] Includes cash

Investment performance

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	(1.77)	1.65	20.32	6.69	7.38	7.91
Benchmark**	(1.99)	1.44	17.73	8.26	8.67	8.45
Added Value	0.22	0.21	2.59	(1.57)	(1.29)	(0.54)

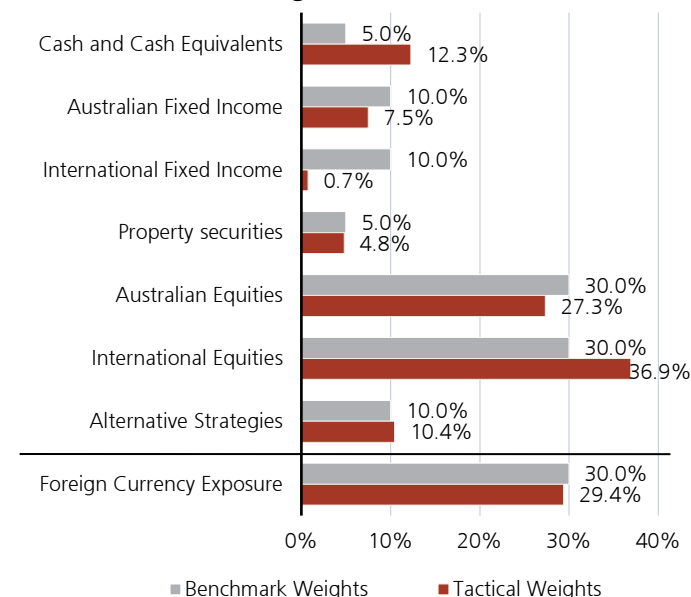
*Inception date: 3 November 1992. **Neutral Allocation (refer to PDS). Performance figures are net of ongoing fees and expenses. The performance figures quoted are historical, calculated using end of month redemption prices, and do not allow for the effects of income tax or inflation. Total returns assume 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	\$ 796.9 m
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%
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.

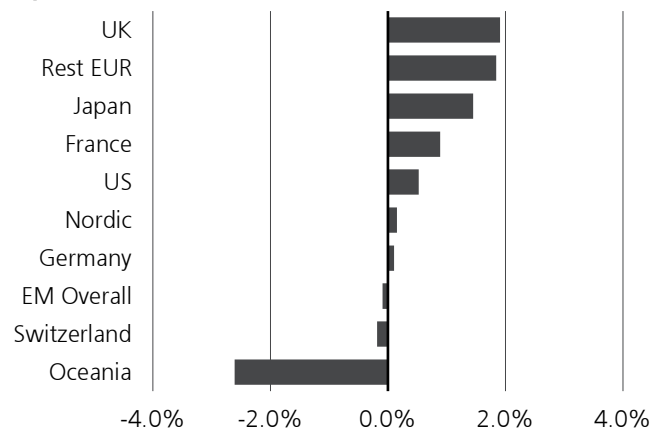
Fund tactical and strategic allocations²



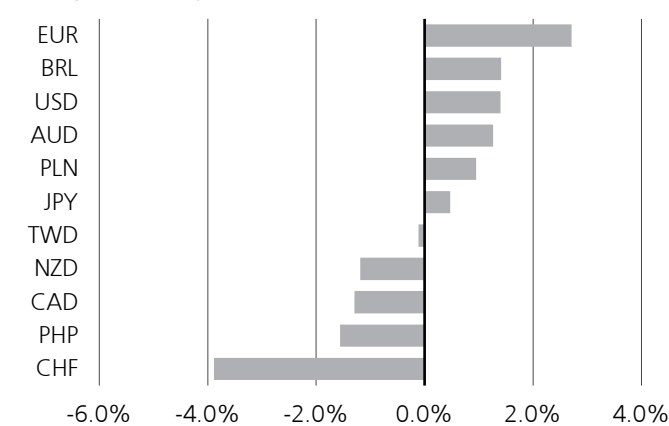
² Asset allocation includes derivatives used to hedge market exposures.

Active portfolio positioning

Equities (%)



Foreign currency (%)



Market review

September was a weak end to a generally positive third quarter which was marked by rising confidence over progress of economic normalization along with belief that inflation pressures will be transitory. Global equities hit a fresh record high at the start of September, but things went downhill from there. Market sentiment was undermined by anxiety over default risks at Evergrande, the largest issuer of high yield debt in Asia and one of China's largest property developers along with fears over slowing global growth and the threat of energy shortages. The largest declines in equities were in the Chinese market followed by Europe with Japan being the only major market to finish in the positive territory over the month. Government bond yields rose sharply higher in September due to anxiety over the pace of central bank tightening.

Locally, Australian equities delivered a negative return but outperformed US and European equities and underperformed Japan equities. Australian government bond yields rose which was in line with global bond yields and the Australian dollar depreciated against the US dollar as the US dollar was supported by the hawkish sentiment shift from the US Federal Reserve.

Performance review

After fees and expenses, the portfolio return of -1.77% (gross of fees return of -1.70%) in September outperformed its benchmark return of -1.99% by 22bps. At the end of September, the Fund's equity weight was 4.3% 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 long global healthcare equity which is a utility trade which helps to diversify our active trade set. We recalibrated our regional equity views as we trimmed our overweight in UK, increased our overweight to Japan and retained our overweight to Europe and closed our overweight in Germany. US and Australian equities remained as our key regional equity underweights. We closed our tactical overweight to REITs.

Duration was kept short relative to the benchmark over the month. We remained broadly neutral in Australian duration and underweight to Europe, US, UK and Japan duration. We opened an overweight to EM debt hard currency this month.

Foreign currency exposure was at 29.4% with key underweights in CHF, NZD, PHP, CAD and overweight in USD, BRL, EUR, JPY and PLN.

Asset Allocation and security selection

Asset Allocation decisions contributed positively to relative performance in September. While our directional overweight to equities underperformed, our relative value equity trades such as our preference for European Banks and Japan which we added to over the month stood out as major positive contributors for September. Our preference for global financial, Europe and UK equities, which we trimmed over the month, also contributed positively was partially offset by detractions from preference for global healthcare, and German equities which was closed over the month. Short duration positioning was additive for performance as global government bond yields moved up but our overweight to EM debt hard currency detracted this month. Overweight to REITs which we closed intra-month did not make a meaningful impact to the relative performance.

Active currency trades were mixed this month. Positive contribution came from our overweight to USD as it strengthened on the back of more hawkish than expected Fed. An underweight to NZD and CAD which we reduced and increased over the month respectively, as well as underweight to PHP which we increased in September also added to performance. The largest detraction came from overweight to BRL as its large export basket to China negatively impacted the currency as well as its higher than expected inflation and fiscal setbacks. While PLN detracted to a smaller extent, JPY was approximately neutral for performance as was our preference for EUR relative to CHF. We reduced our position in JPY and closed our underweight in KRW and TWD.

Security selection performance was positive in September. Most equity strategies outperformed their benchmarks, with Australian Share, International Share and Australian Small Company outperforming their respective benchmarks by over 1%, with one exception in Global Opportunity Strategy that underperformed its benchmark. Diversified Fixed Income Fund also managed to outperform its benchmark this month. Allocations to alternatives made a negative contribution over September, which was a risk-off month.

Outlook

Our outlook for equities 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. Long-term bond yields have risen well off their year-to-date lows as major central banks begin to signal the withdrawal of policy support. Inflation risks remain tilted to the upside and global economic activity is poised to remain robust well into 2022. We expect increases in real rates, as well as measures of inflation compensation, to contribute to this renewed rise in yields. Global yields have increased even as macroeconomic risks increased, a sign that there was previously too much pessimism priced in.

Client Services

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