

UBS Balanced Investment Fund

January 2022

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

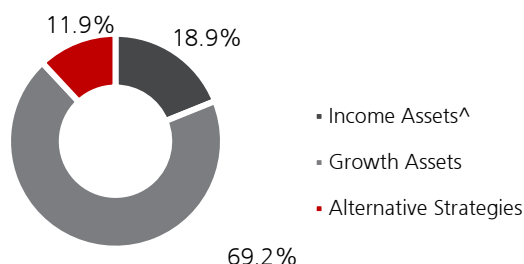
Our portfolio management team will build a diversified portfolio by allocating to differing asset classes anywhere within the allowable ranges by normally investing in other UBS managed funds, third party funds and through a range of instruments.

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	(3.60)	(2.00)	9.52	7.73	6.55	7.76
Benchmark**	(3.02)	(0.51)	10.13	9.12	8.15	8.34
Added Value	(0.58)	(1.49)	(0.61)	(1.39)	(1.60)	(0.58)

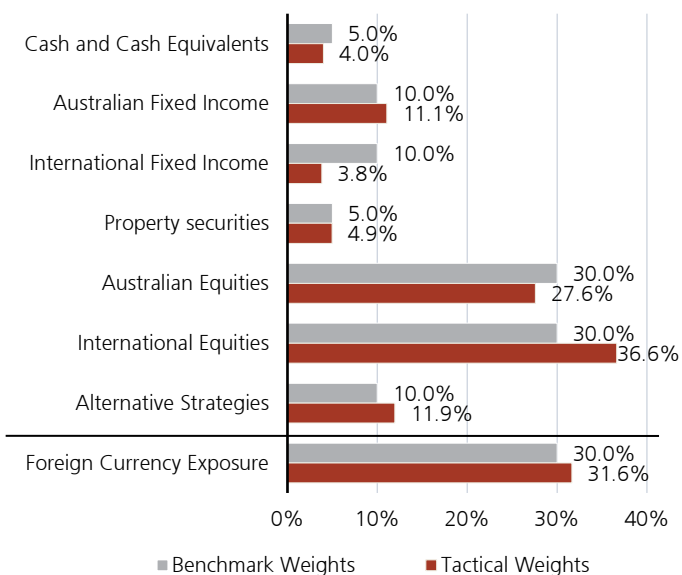
*Inception date: 3 November 1992. **Neutral Allocation (refer to PDS). Performance figures are net of ongoing fees and expenses. The performance figures quoted are historical, calculated using end of month redemption prices, and do not allow for the effects of income tax or inflation. Total returns assume 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	\$ 748.6 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.

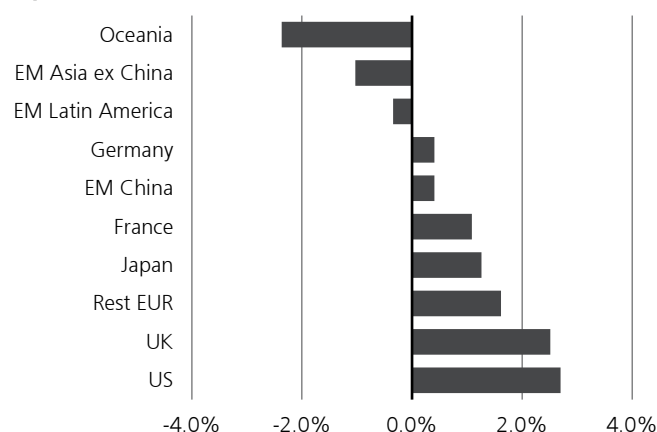
Fund tactical and strategic allocations²



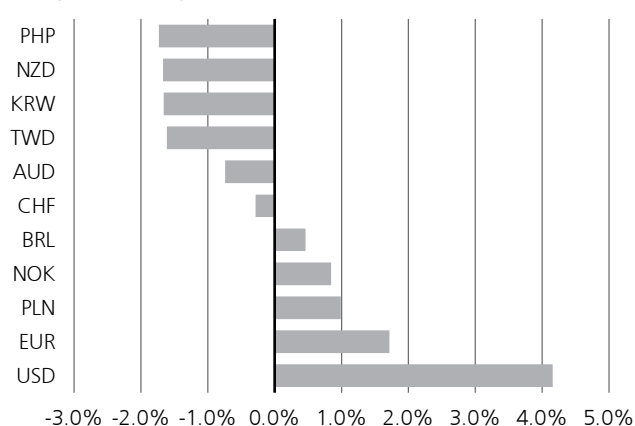
² Asset allocation includes derivatives used to hedge market exposures.

Active portfolio positioning

Equities (%)



Foreign currency (%)



Market review

After starting the year close to record highs, global equities came under pressure in January in what was a volatile month as investors adjusted to a more hawkish policy stance from the US Federal Reserve. The rise in bond yields weighted on growth stocks while value stocks such as energy relatively outperformed the broader index.

Locally, Australian equities posted a negative return in January underperformed global equities over what was a risk off month. Australian government bond yields rose over the month which was in line with the trajectory of US treasury yields. Australian dollar depreciated against the US dollar over the month.

Tensions between Russia and the West over a potential invasion of Ukraine as well as frigid temperatures in the US drove commodity and energy prices higher.

Performance review

After fees and expenses, the portfolio return of -3.60% (gross of fees return of -3.53%) in January underperformed its benchmark return of -3.02% by 58bps. At the end of January, the Fund's equity weight was 4.2% overweight relative to the benchmark. We maintained our overweight positions in the UK, Europe, Japan and US equities as well as an underweight to Australia and EM equities (excluding China). We retained our relative value trades such as long European banks versus European equities and US equal weight versus US equities. We also retained our sector preference for global financial, healthcare and energy equities, while maintaining our long position in commodities.

Duration remained short relative to the benchmark. We maintained our overweight to Australia duration over the month and kept our neutral stance to USD duration and our underweight to Europe, UK and Japan. We continued to hold an overweight to Asia high yield hard currency.

Foreign currency exposure was at 31.6% with key underweights in PHP, NZD, TWD and KRW and overweight in USD, EUR, NOK, PLN and BRL.

Asset Allocation and security selection

Asset Allocation decisions were broadly neutral in contributing to relative performance in January. Our directional overweight to equities detracted over what was a risk off month, and we marginally increased this overweight during the month. From a relative value equity perspective, key positive contributions came from our sector overweight to energy and financial equities, which we increased over the month, as well as overweight to EMU banks. Our regional overweight to UK and European equities also contributed positively to performance this month which was partially offset by detractions from our overweight to Japan and underweight to EM equities, of which Europe and Japan we added to during January. An intra-regional preference for China relative to EM Equities added to performance. Other notable detractions came from our sector overweight to healthcare equities and preference for US small cap equities, which we closed in January.

Short duration positioning contributed positively as developed government bond yields generally rose over the month while our overweight to Asia high yield hard currency detracted from performance. We opted to reduce our position in Asia high yield during the month amidst a small re-rating off its recent lows. Our overweight to commodities made a strong positive contribution to performance this month.

Active currency trades in aggregate had a positive contribution this month. Key contributors to performance this month were overweight to BRL and underweight to NZD which we increased intra-month. Underweight to CHF which we closed and underweight to KRW and TWD which we added to also made marginal positive contributions. This was partially offset by detractions from our overweight to European FX versus USD which we added intra-month via increasing our exposure to EUR, and late in the month added NOK in favor of RUB which we sold.

Security selection detracted this month. International and Australian Share Funds strongly outperformed their benchmarks despite posting a negative return over a risk-off month, counterbalanced by Global Opportunity which strongly underperformed its benchmark. Emerging Market Equity and Australian Small Companies Funds lagged their benchmarks this month to a smaller extent. Diversified Fixed Income Fund also outperformed its benchmark despite posting a negative return. Allocations to alternatives detracted from the relative performance in January.

Outlook

Our outlook for stocks over the next 12 months remains positive. The economic recovery is likely to continue in 2022 on the back of strong starting points for consumer and business balance sheets, still accommodative financial conditions, and improving public health outcomes.

Long-term bond yields are slated to continue trending higher as most global central banks withdraw monetary stimulus. Inflation risks remain tilted to the upside and global economic activity is poised to remain robust. We expect real rates to be the key contributor to higher long term yields, even after their recent surge. Global yields have increased even as risks to activity from Omicron have flared, a sign that central bank policy is a more important driver. Sovereign fixed income remains as an important diversifier in portfolios and effective in hedging downside in procyclical relative value equity positions.

Client Services

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