

# UBS Balanced Investment Fund

May 2024

## 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	\$ 604.9m
Management fee	0.95% pa
Indirect costs	0.08% pa <sup>1</sup>
Minimum initial investment	\$ 50,000
Distributions	Quarterly
Buy/sell spread	+ 0.20% / - 0.20%

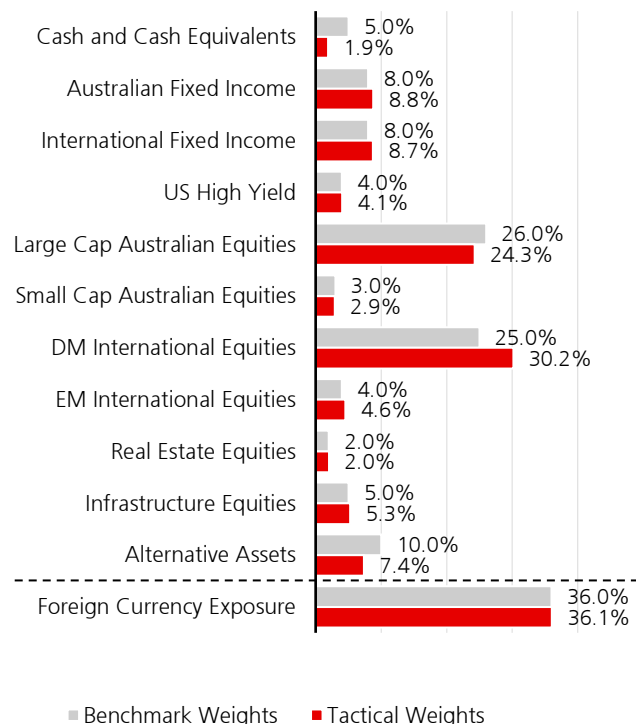
<sup>1</sup> Estimate of the fees the Fund will incur through the Fund's investment in underlying funds. These fees and expenses will vary from time to time.

## 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	0.72	0.90	8.60	4.00	1.78	4.25	7.28
Neutral**	0.99	1.18	11.20	7.49	4.96	6.43	8.09
<b>Added Value</b>	<b>(0.27)</b>	<b>(0.28)</b>	<b>(2.60)</b>	<b>(3.49)</b>	<b>(3.18)</b>	<b>(2.18)</b>	<b>(0.81)</b>

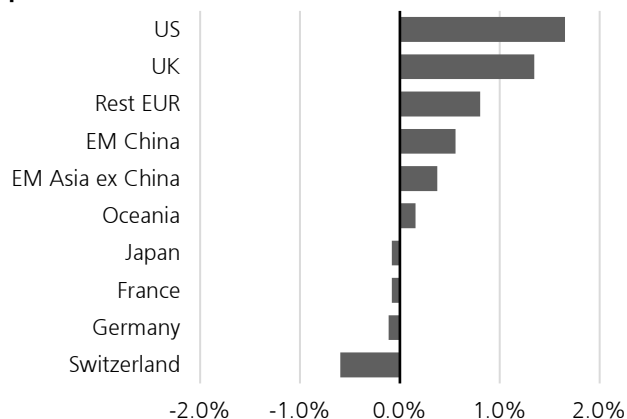
\* Inception date: 3 November 1992.

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

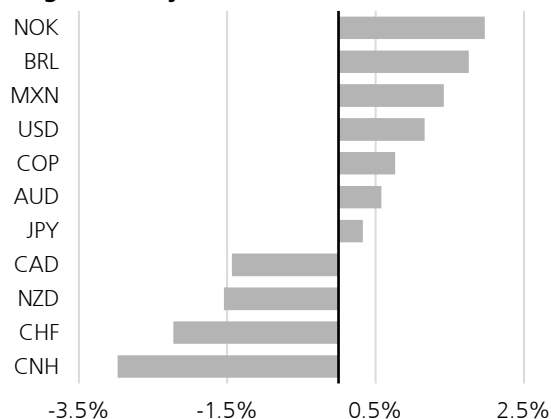
Performance figures are net of ongoing fees and expenses. The performance figures quoted are historical, calculated using end of month redemption prices, and do not allow for the effects of income tax or inflation. Total returns assume the reinvestment of all distributions. Performance can be volatile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

## Investment strategy

### Equities



### Foreign currency



## Market review

Macro data published in May generally supported the outlook for a US soft landing and has lifted both global stocks and US bonds. The Dow Jones and S&P 500 reached new highs, though both experienced some softening afterwards. European equities lagged this month despite further improvement in growth data, as the dominant US tech sector saw stellar performance. Chinese stocks outperformed significantly in the first half of the month as newly announced government measures to support the property sector lifted sentiment. But doubts about the sufficiency of these measures to improve the growth outlook caused a pullback later in the month.

US 10-year Treasury yields ended the month lower, but government bonds in Europe and Japan weakened in May. US credit spreads remained relatively stable around historically tight levels.

Locally, Australian equities rose over the month, driven by IT and utilities, but still lagged international peers. Australian 10-year yield rose in May whereas US treasury fell, meanwhile, the Australian dollar appreciated against the US dollar.

## Performance review

After fees and expenses, the portfolio returned 0.72% (gross of fees return of 0.80%) in May which underperformed its benchmark return of 0.99% by 27bps. At the end of May, the fund's equity weight was 4.2% overweight relative to the benchmark.

Foreign currency exposure was at 36.1% with key underweights in CNH, CHF, CAD, and NZD as well as overweights in JPY, COP, USD, MXN, BRL, and NOK.

## Positioning review

In equities, we modestly increased our overweight position at the beginning of May, this was done by adding to our US equities overweight. We also adjusted our key regional exposures by adding to emerging market and Japanese equities which was funded by Australian and Swiss equities. Additionally, we took profit from European banks while rotating to broad European equities as we expect the ECB to cut interest rates this summer. In the middle of the month, we decreased our directionality by reducing our US equities overweight as weakening macro data and faltering earnings momentum lowered our conviction. We also closed our long Italy and short Switzerland positions as Italian equities earnings deteriorated while that of its Swiss counterpart improved. Moreover, we reduced our exposure to Japanese equities as our conviction was brought down modestly towards the later part of the month.

In fixed income, no changes were made as we maintained our overweight position to European High Yield due to ongoing signals of room to advance, attractive all-in yields and limited near term triggers of default.

In FX, we increased our overweight to USD, funded by CNH, given the dollar's positive carry and favorable risk-off hedge properties. We also trimmed down our short NZD vs USD position to adjust risk hedges. Meanwhile, we maintained our key underweights in CHF and CAD as well as overweights in JPY, COP, BRL, and NOK.

## Asset allocation

Asset allocation was additive to performance over the month. This was driven by both our equities allocations and active FX positions, while fixed income allocations were flat in May.

In equities, the positive contributions to performance was largely driven by our long US equities position as the market rallied in early May, followed by gains from our European banks profit taking and Italian equities closure. This was partially offset by detractions from our short Swiss equities position, which we have now closed, as well our long Japan position.

Active FX trades in aggregate were additive to performance over the month. The key contributors came from our long NOK position as well as our long Latin American currencies exposures, particularly our overweight to COP and BRL. Our short position to CNH also contributed to performance but to a lesser degree. Meanwhile, other currency positions remained largely flat over the month.

Security selection detracted from overall performance this month. The largest detractors were from our equity managers, driven by the Australian Share strategy, International Share fund and Global Opportunities sleeve. Meanwhile, this was partially offset by positive contributions from our fixed income managers, particularly the Diversified Fixed Income and Global Infrastructure fund. In alternatives, the Income Solution fund was additive to performance over the month.

## Asset allocation and currency strategy

We are overweight European equities and credit this summer, as part of still broadly pro-risk positioning, with the region potentially outperforming amid a broadly constructive backdrop for risk assets. Meanwhile, we remain overweight global equities and neutral fixed income as global nominal GDP remains healthy and bond volatility subsides.

While the US and Japan have dominated equity returns this cycle, we think it is Europe's turn to deliver outperformance. Still, our optimistic European outlook should be viewed in the context of broader pro-cyclical, risk-on global positioning we have held this year. The bottom line is that developed market nominal GDP is growing at a healthier pace than in the last economic cycle even as we expect a global monetary easing campaign.

As long as the global economy remains in good shape, which we expect to be the case, we believe risk assets should deliver value, even if the pace of monetary easing is slower than some would like. We expect global bonds to continue trading within a range, as the disinflation process takes time and growth remains resilient. As progress is made towards central bank targets, bond volatility should decline, supporting carry in credit and currencies.

## Market outlook

Europe will be in the spotlight this summer. We argue that, for global investors, European markets should be equally in focus. The ECB easing into a growth acceleration is a uniquely positive backdrop for Europe's risk assets. And this powerful combination comes at a time when European equity valuations are near record lows relative to global equities. European credit spreads, while historically narrow, still offer more cushion than their US counterparts.

Falling inflation is the common theme with regard to both rate cuts and a rebound in the consumer and business outlook. If the disinflation process stalls, the ECB will be forced to limit the speed and scope of its easing cycle. That said, if rate cuts are limited because of solid growth rather than sticky inflation, European markets should stay resilient.

Geopolitical tensions also have the potential to generate volatility for European assets. The Russia-Ukraine war remains active, although Europe's impressive shoring up of natural gas storage and sourcing from alternative suppliers has significantly reduced dependence on Russian gas. Trade tensions are another concern, with Europe potentially raising tariffs on Chinese EVs and opening itself up to retaliation. There is, however, some upside risk that China's latest announced property measures shore up consumer confidence and demand for European goods more broadly.

As the US election captures investor focus into the fall, investors will need to consider the potential for a Trump victory leading to higher tariffs on imports from all US trading partners, including Europe. We are already positioned short EURUSD due to our expectation for monetary policy divergence, but also favor this to hedge against this election scenario.

## Client Services

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