UBS
Australian Share Fund

May 2024

Fund description

The Fund is an actively managed fund investing in a portfolio of 30–70 listed Australian equity securities listed on the Australian Securities exchange.

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 objective

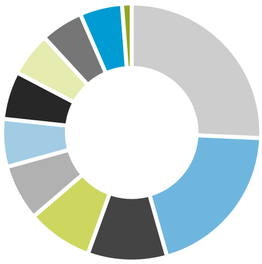
The Fund aims to outperform (after management costs) the S&P/ASX 300 Accumulation Index over rolling five-year periods.

Fund information

Inception date	15 July 1992
Fund size	$ 211.0m
Management fee*	0.80% pa
Minimum initial investment	$ 50,000
Typical number of holdings	30 to 70
Distributions	Semi-annually
Buy/sell spread	+/- 0.25%
APIR code	SBC0817AU

* The management fees and costs for the fund have been reduced from 0.90% p.a. to 0.80% p.a effective as at 9 November 2022.

Sector allocation (%)



Materials	25.7
Financials	19.9
Industrials	9.9
Consumer Discretionary	8.2
Health Care	7.0
Information Technology	6.0
Utilities	6.0
Communication Services	5.5
Energy	5.3
Real Estate	5.3
Cash	1.2

Active security positions

Overweight	Underweight
ResMed Inc.	National Australia Bank Limited
Woodside Energy Group Ltd	CSL Limited
Worley Limited	Wesfarmers Limited
Reliance Worldwide Corp. Ltd.	Macquarie Group, Ltd.
PEXA Group Limited	Goodman Group

Active industry positions

Overweight	Underweight
Utilities	Banks
Capital Goods	Pharmaceuticals Biotechnology & Life Sciences
Media & Entertainment	Financial Services
Materials	Real Estate
Software & Services	Consumer Staples Distribution & Retail

Investment performance

Fund	1 month %	3 months %	1 year %	2 years % pa	3 years % pa	5 years % pa	Since inception* % pa
Total return	(0.53)	0.35	6.32	8.05	6.59	7.16	9.51
Benchmark**	0.85	1.10	12.83	7.46	6.54	7.78	9.29
Added Value	**(1.39)**	**(0.75)**	**(6.51)**	**0.59**	**0.05**	**(0.62)**	**0.22**

* The UBS Asset Management price/value equities process was adopted on 1 April 1996.
** S&P/ASX 300 Accumulation Index. All Ordinaries Accumulation Index prior to June 2000.
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.

Performance/attribution comments

After fees and expenses, the Portfolio decreased by 0.53% during the month, underperforming its benchmark by 139 bps.

The largest positive contributors were Pexa, Xero, and James Hardie. Pexa outperformed following its announcement of a strategic partnership with UK bank NatWest while Xero rose following the release of its FY24 results. Our underweight position in James Hardie contributed to performance during the period as the stock fell, driven by the release of the fourth quarter and full year update, which indicated profit expectations had been missed.

The largest negative contributors were Bapcor, Tabcorp and Sims. Our modest overweight to Bapcor contributed to performance as the stock underperformed during the period following the release of a trading update as well as the announcement that the incoming CEO would no longer be joining the company. Tabcorp underperformed during the period with limited company specific news while Sims was a detractor following its guidance update for FY24.

Market review

The Australian Equities market was negative for the month of May.

The S&P/ASX 300 Accumulation Index returned +0.9% for the month, taking its 12-month return to +12.8%. Similarly, theASX200 Accumulation Index rose by +0.9% for the period and globally, the MSCI World Index returned +4.2%.

The largest sector contributor was Financials (+3.5%) with the big four banks largely contributing to the outperformance. Commonwealth Bank (CBA, +4.4%), National Australia Bank (NAB, 2.8%), Westpac (WBC, +3.5%) and ANZ (ANZ, +3.3%), all saw their share price rise during the period, having shaken off earlier concerns following higher than expected CPI results.

Information Technology (+4.5%) was also a positively performing sector. Xero (XRO, +10.6%) was the main driver of outperformance following stronger than expected FY24 results. Other notable performers were NextDC (NXT, +6.6%) and Wisetech Global (WTC, 4.2%).

In contrast, Communication Services (-2.8%) was the worst performing sector. Underperformance largely stemmed from Telstra (TLS, -5.5%) as the telco announced restructuring plans which included a reduction in its workforce.

Outlook

Global equity markets have clearly had a very strong rally from the October lows and, in the first half of calendar year 2024 developed market equities have returned 11.2%. Despite the sharp reappraisal of risk in April our expectations of a bounce back in May and June were realised as investors became less focussed on spillover risks from Gaza and the growth and inflation data both turned more supportive of major economy interest rate reduction.

After the stronger inflation data in 1Q and the sharp shift in interest rate expectations that attended the data, more recent data and communication from the US Federal Reserve supports the bigger picture view that inflation will continue to moderate and the easing cycle for US interest rates is still likely to commence in 2024. Specifically, core-PCE was better behaved than the CPI data and the subsequent data on producer prices, import prices and key labour market measures suggest little threat to the overarching theme that inflation is more likely to moderate than accelerate through the remainder of 2024.

Indeed, interest rate easing commenced with the Swiss National Bank in March, which was followed by Sweden's Riksbank in May and the Bank of Canada and ECD both cutting on June 6. The Bank of England and Norges are also likely to ease in 3Q. We continue to expect the Fed to ease in September and December this year.

Turning to Australia's prospects, a weak finish for economic growth in 2023 – expanding just 0.3%qoq, the start of 2024 was similarly unimpressive, expanding by just 0.1%qoq and 1.1%yoy. This completed four consecutive quarters of contracting GDP per capita, declining 1.3%yoy. Our view that Australia would avoid a technical recession appears to have been met and we continue to suggest that the economy will likely accelerate sequentially through 2024 with the improving global backdrop acting as a tailwind. No one should be disputing that the past 12 months likely felt like a recession for many Australians. A per capita recession and a negative income shock for those with high debt and young families has cascaded into weak discretionary spending as high interest rates coalesced with surging insurance, utilities, rates, education and food prices. Indeed, 2Q2024 has continued to be a subdued operating environment with retail sales, building approvals and consumer confidence all printing below market expectations. The RBA is caught between a relatively weak economy and persistent wage growth and consumer inflation, nevertheless, the bank should be buoyed by signs that the decline in productivity appears to have passed and wage pressures appear to have peaked. With respect to the latter, the 3.75% increase in awards, compared to the 5.75% in 2023, will help expedite an easing in wage pressures through 2H2024.

Australia, like many of its developed nation peers, also printed above consensus inflation in 1Q. However, we believe the upside surprise in Australia's CPI overstates the real-time price pressures. Much of the upside came via government administered prices, which tend to reflect where inflation was in the prior year rather than current cost pressures, and the prevalence of residual seasonality in inflation pressures at the start of the calendar year. Traded goods prices are trending lower and once administered prices are removed, private sector services prices expanded at a relatively subdued 0.7% qoq in 1Q. We remain of the view that underlying inflation will finish 2024 inside the RBA's target band of 2-3% and the RBA will commence a modest easing cycle for interest rates in 4Q 2024.

Against this moderation in inflationary pressure, we expect economic growth to accelerate sequentially through 2024. We expect the upswing in global industrial production to provide a tailwind for Australian economic growth. Rising capex intentions in concert with investment backlogs should support business investment growth and the consumer outlook should be supported by a recovery in real household income growth driven by ongoing wage growth, income tax cuts, cost of living support delivered in the Budget and the commencement of the rate easing cycle later in 2024.

As a consequence, we are relatively optimistic on the outlook for the Australian economy and constructive on the equity market outlook for 2024. We expect economic growth to average 2.0% v a consensus forecast of 1.4%, bond yields to finish the year at 4.5%, the $A/$US to reach 72c, and Australian equities to return 10% in in large caps and 15% in small caps. We are overweight the Utilities, Industrials and Materials sectors, and are underweight Financials, Consumer Staples and Health Care.

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