Portfolio report

UBS International Bond Fund
Global Aggregate Bond
Client report from 01.04.2024 to 30.06.2024

Summary

as at 30-Jun-24

After fees and expenses, the portfolio decreased by 0.22% over the quarter, underperforming its benchmark by 0.06%.

% Return (Net)	Fund[1]	Benchmark*	Difference
3 months	(0.22)	(0.16)	(0.06)
1 year	2.61	2.67	(0.06)
3 years	(3.11)	(2.73)	(0.38)
5 years	(0.84)	(0.69)	(0.15)
10 years	1.84	2.04	(0.20)
Calendar Year to Date	(0.58)	(0.48)	(0.10)
Since inception (09/93)	5.07	6.07	(1.00)

[1] Performance figures are net of ongoing fees and expenses.

* Barclays Global Aggregate Index ($A hedged)

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.

Source: UBS Asset Management. These figures refer to the past. Past performance is not a reliable indicator of future results.

Performance review

Performance Attribution

The fund underperformed its benchmark on a net-of-fee basis (-6bps) over the quarter. Absolute performance was negative (-22bps).

Within duration management, underweight duration positioning in Japan was the primary positive contributor to relative returns, whilst our overweight positioning in Europe and the UK detracted from performance.

Positioning

During the quarter, we pivoted from a marginal overweight duration position to an underweight position. We made this transition via reducing the magnitude of our duration overweight in the US and Europe. Furthermore, we reduced the size of our underweight duration position in Japan.

Fixed Income Analytics

as at 30-Jun-24

Yield Curve Distribution

	Fund	Benchmark	Mod Duration- Fund	Mod Duration - Benchmark
0-1	7.89%	1.34%	0.03	0.01
1-3	15.92%	23.90%	0.32	0.45
3-5	19.86%	19.67%	0.84	0.73
5-7	17.01%	13.72%	1.04	0.74
7-10	15.10%	20.19%	0.89	1.45
10+	24.21%	21.18%	3.19	3.10
Total	**100.00%**	**100.00%**	**6.31**	**6.48**

Sector Diversification

	Fund	Benchmark	Mod Duration - Fund	Mod Duration - Benchmark
Treasuries	29.24%	53.70%	2.94	3.85
Gov- Related	16.76%	10.96%	0.79	0.54
Semi Govt	0.52%	2.96%	0.02	0.22
Corporate	36.13%	18.57%	1.86	1.10
Asset Backed	15.36%	13.82%	0.70	0.78
Cash, Money Markets & Other	2.00%	0.00%	0.00	0.00
Total	**100.00%**	**100.00%**	**6.31**	**6.48**

Credit Rating

	Fund	Benchmark	Mod Duration - Fund	Mod Duration - Benchmark
AAA	11.44%	11.98%	0.61	0.71
AA	30.89%	42.63%	2.19	2.76
A	26.41%	31.13%	2.03	2.17
BBB	24.63%	14.25%	1.36	0.85
HY	4.55%	0.00%	0.13	0.00
NR	1.23%	0.00%	0.00	0.00
Cash, Money Markets & Other	0.85%	0.00%	0.00	0.00
Total	**100.00%**	**100.00%**	**6.31**	**6.48**

Market review

Second quarter of 2024 started off on a weak note for global bond markets driven by concerns on progress with inflation in the US and investors continuing to re-assess the timing and magnitude of the US Fed policy rate cuts. This was somewhat countered by softer labour market data as the quarter progressed. Political risk also started emerging, first with snap French elections driving Franch spread over Germany notably higher, followed by UK elections which had more muted reaction and finally US elections starting to come to the forefront. On central bank front the US Fed FOMC struck a hawkish tone keeping rates on hold over the period and revising forecasts published in June from three to only one policy rate cut over the course of 2024. Over in Europe the ECB cut policy rates by 25bps in June as expected while Bank of England decided to keep rates on hold. US Treasury 2 Year Yield rose 13bps to 4.76% over the quarter while 10 Year rose 20 bps to 4.40%. In Eurozone 2 Year German Bund Yield fell 2bps to 2.83% while 10 Year Yield rose 20bps to 2.50%. Corporate credit outperformed government bonds driven by relatively higher yields despite some very modest spread widening.

Outlook and strategy

Yields have trended higher during 1Q and early 2Q, especially following slower-than-expected progress on disinflation, particularly in the US. The backdrop for rates has since improved as 2Q progressed, as concerns regarding sticky inflation have since eased somewhat, supported by more favourable data. We are still leaning towards bullish a duration view as we continue to expect policy rate cuts to materialise this year. Additionally, we see a high probability that monetary tightening cycle will become a major drag on growth as households and corporates have to roll their mortgage and debt into new debt at much higher interest rates. We believe risk reward for fixed income has shifted in a more positive direction outside of Japan as real bond yields have risen to sufficiently high level with prospect for rate cuts.

We continue to believe corporate bonds are attractive from both an income/carry, and total return perspective. We have a neutral position in the front-end of the credit curve, and are overweight the intermediate part of the credit curve. Overall, corporate fundamentals remain stable as low unemployment and strong wages have offset tightening financial conditions.

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