UBS International Bond Fund
July 2020

Fund description
The Fund is an actively managed and globally diversified portfolio of predominantly investment grade fixed income assets.

Investment strategy
The strategy is managed employing both top-down macroeconomic research and bottom-up security specific analysis to build a portfolio with the core defensive characteristics of the fixed interest asset class. The Fund actively allocates across sectors and regions in seeking to maximise returns, while minimising risk. We aim to hedge foreign currency exposure to the Australian dollar.

Investment return objective
The Fund aims to outperform (after management costs) the Bloomberg Barclays Global Aggregate Index ($A hedged) over rolling three year periods.

Key statistics

|                   | Fund   | Benchmark
|-------------------|--------|-----------
| Modified duration (yrs) | 7.50   | 7.29      |
| Spread duration^2 (yrs)   | 3.90   | 4.19      |
| Weighted avg maturity (yrs) | 8.82   | 8.95      |
| Average credit quality | A1     | A1        |
| Yield to maturity^1 (%)   | 1.20   | 0.82      |

^1 Benchmark statistics do not reflect month end rebalancing for new issues and reinvestment of coupons.
^2 Option adjusted spread duration ex Treasury.
^3 Yield to Maturity (YTM) is the estimated annualised rate of return that would be received if the Fund’s current securities were all held to maturity. Note that YTM does not account for fees or taxes. YTM is not a forecast, and is not a guarantee of the future return of the Fund.

Credit quality (%)

- AAA: 30.2
- AA: 12.6
- A: 27.6
- BBB: 15.6
- BB or lower: 1.1
- Cash and other: 13.0

Note: Credit ratings for physical holdings only. ‘Cash and other’ includes the effect of derivatives.

Investment performance

<table>
<thead>
<tr>
<th></th>
<th>1 month</th>
<th>3 months</th>
<th>1 year</th>
<th>3 years</th>
<th>5 years</th>
<th>Since inception*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund</td>
<td>1.14</td>
<td>2.75</td>
<td>5.34</td>
<td>4.77</td>
<td>4.52</td>
<td>6.23</td>
</tr>
<tr>
<td>Benchmark**</td>
<td>1.03</td>
<td>1.79</td>
<td>5.54</td>
<td>4.96</td>
<td>4.72</td>
<td>7.36</td>
</tr>
<tr>
<td>Added value</td>
<td>0.11</td>
<td>0.96</td>
<td>(0.20)</td>
<td>(0.19)</td>
<td>(0.20)</td>
<td>(1.13)</td>
</tr>
</tbody>
</table>


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.
Market highlights
- Australian and global bond markets return positive performance over July
- Risk asset gain over the month, credit spreads tighten along with market optimism
- Fed extends emergency lending programs, EU agrees terms of the recovery fund
- RBA prepared to scale-up bond purchases and ‘will do whatever is necessary’ to keep bond markets functional

Performance review
After fees and expenses, the portfolio increased by 1.14% over the month, outperforming its benchmark by 11bps. Risk assets marched higher in July buoyed by a combination of factors including continued fiscal and monetary easing by policy makers; optimism that a vaccine for Covid-19 could be made commercially available by year-end; and better-than-expected Q2 earnings particularly by large US companies. Within fixed income, both spread sensitive and rate sensitive assets performed well as government bond yields moved lower and credit spreads tightened. By region, European bonds outperformed their US and emerging market counterparts while by asset class high yield outperformed investment grade. Commodities soared during the month with gold and silver posting record gains, a sign that investors were still skittish about the state of the global economy. Finally, in currencies, the US Dollar depreciated against all G10 currencies during the month with gold and silver posting record gains, a sign that investors were still skittish about the state of the global economy.

Outlook
Financial markets have settled into a tight trading range with government bonds reflecting a lower for longer stance and risk premium in corporate bond spreads grinding lower towards pre Covid-19 levels. 10 Year US Treasury yields fell a further 13bps in July finishing at 0.53%, marking the lowest yield on record and 1bp off their historical lows. The move lower was mirrored across developed government bond markets with German 10-year government bond yields finishing the month at -0.53% (9bps lower) and peripheral Europe outperforming. Specifically Italian bond yields performed well (-25bps lower), supported by the agreed EU Recovery Fund of EUR750bn. We continue to believe developed market government bond yields will remain low as central banks maintain accommodative policy stance with ZIRP and sizable asset purchases. We believe that US bond yields will trade around the current extremely low yields near term before we see positive developments in the control of the virus and economic growth rebound thereafter. The Fed has cut rates to 0% in ‘emergency’ cuts and provided USD 2tn in fiscal stimulus (around 10% of GDP), which in the medium term should support TIPS and also put a cap on the upper bound in yields. We remain long duration in the US, Canada, China, and New Zealand as the Fed easing should open space for other central banks to deliver substantial monetary easing.

We think monetary policies are likely to remain supportive of investment grade bonds in all developed bond markets as a result of record low policy rates and direct purchases by central banks in bond markets. The intervention of policy makers has brought back some normalcy into certain parts of the fixed income market. US Treasury yields – which had hitherto fallen as investors fled all asset classes in favour of government money market funds – appear to have found a footing. Corporate bond yields have also fallen significantly as the Fed has become an incremental buyer of those bonds. We therefore see the risk/reward for selective carry-oriented investment in developed markets remaining favourable as markets recover from market turmoil experienced earlier in the year. In addition to holdings in agencies, supranationals and investment grade corporates, we see selective opportunities in some emerging market sovereign and corporate bonds.
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