UBS Tactical Beta Fund – Conservative

July 2020

Fund description
The Fund is a diversified Australian and global portfolio with the long term neutral (or average) exposure to income and growth assets expected to be 70% / 30% respectively of the total portfolio.

Investment strategy
Our portfolio management team will build a diversified portfolio of income and growth assets, largely by using exchange traded funds (ETFs), both onshore and offshore, index funds, cash funds and derivatives. They will tactically allocate between asset classes and currencies based on their relative value, whilst managing the overall risk and return of the portfolio. Currency exposure is actively managed through an overlay strategy to take advantage of mis-valuations that arise.

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

Investment performance

<table>
<thead>
<tr>
<th>Fund</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>Total return</td>
<td>1.60</td>
<td>4.29</td>
<td>1.88</td>
<td>4.45</td>
<td>3.82</td>
<td>5.97</td>
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<tr>
<td>Benchmark**</td>
<td>1.49</td>
<td>4.54</td>
<td>2.42</td>
<td>5.51</td>
<td>5.40</td>
<td>6.79</td>
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<tr>
<td>Added Value</td>
<td>0.11</td>
<td>(0.25)</td>
<td>(0.54)</td>
<td>(1.06)</td>
<td>(1.58)</td>
<td>(0.82)</td>
</tr>
</tbody>
</table>

*Inception date: 14 May 2012. **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.
Performance review

After fees and expenses, the portfolio increased by 1.60% over the month, outperforming the benchmark by 1bps. At the end of July, the Fund’s equity weight was 1.1% overweight relative to the benchmark. A key overweight was held in emerging market versus developed market equities.

Tactical fixed income strategies included an overweight to investment grade credit across Australia and global markets as well as an overweight to EM hard currency debt and high yield credit. Duration remained long with a preference for $-bloc countries versus the Euro area and Japan where nominal yields anchored at zero or negative levels. Foreign currency exposure was at -0.7% with key underweight in CHF, CAD and USD, and overweight in JPY, EUR and BRL.

Asset allocation

Asset Allocation contributed positively over the month. With a bottoming in global growth this is expected to benefit EM markets along with policy support, relatively attractive valuations and the weakness in the US dollar. We added to our existing overweight in EM and reduced exposure to European markets. This was additive to performance as EM outperformed all markets in July. We also increased our overweight to EM hard currency debt and US high yield which along with IG credit contributed positively as spreads to Treasury bonds continued to narrow. The moderately long duration position was additive as Treasury yields fell over the month. FX performance was mixed. We opened a tactical underweight to USD and overweight to EUR at the start of the month to reflect our relative preference for European currencies. This was additive for performance as agreements by EU leaders on fiscal support and positive coronavirus vaccine news contributed to broad USD weakness. Overweight to JPY and BRL also contributed positively this month. This was partially offset by short positions held against the USD, such as CAD and AUD. We closed our short AUD position and added to our existing shorts in GBP and CHF in the latter half of the month.

Outlook

Global equities continue to price in a brisker economic normalization and associated earnings recovery than we think is likely. We are cognizant of the possibility that risk assets become divorced from fundamentals and overshoot to the upside amid an inflection point in economic activity. However, structurally higher multiples may ultimately be warranted should governments and central banks successfully implement countercyclical macroeconomic policy. We are neutral global equities and focused on relative value opportunities that offer attractively priced exposure to the turn in global growth.

The long end of sovereign curves can serve as a release valve for any signs of economic optimism as central bank commitments to keep policy rates low remain credible. Nonetheless, sovereign fixed income continues to play an important diversifying role in portfolio construction. IG credit and EMD hard debt is preferred to Treasury bonds as central banks and policy makers are increasingly coordinating to increase lending and credit support to the economy.
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