

UBS Australian Share Fund

March 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.

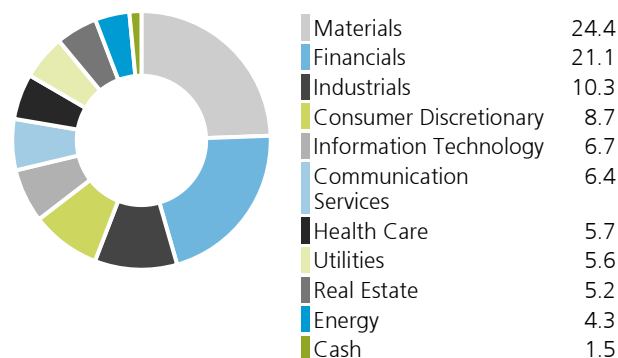
Fund information[^]

Inception date	15 July 1992
Fund size	\$ 228.1m
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 UBS Yarra Australian Share Fund has been renamed the UBS Australian Share Fund, effective as at 9 November 2022.

* 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 (%)



Active security positions

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

Active industry positions

Overweight	Underweight
Capital Goods	Banks
Utilities	Pharmaceuticals Biotechnology & Life Sciences
Media & Entertainment	Financial Services
Software & Services	Real Estate
Materials	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	3.86	5.83	11.06	7.56	9.63	8.75	9.69
Benchmark**	3.26	5.43	14.40	6.65	9.43	9.14	9.41
Added Value	0.59	0.40	(3.34)	0.91	0.20	(0.39)	0.28

* 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.

Portfolio performance

After fees and expenses, the Portfolio increased by 3.86% during the month, outperforming its benchmark by 59 bps.

The largest positive contributors were Resmed, Sandfire and Northern Star. Resmed outperformed following the uncertainty of timeframe for the return of the Philips CPAP device into US market. Our overweight in the copper producer, Sandfire, was a positive contributor with copper prices increasing by ~4.5% during the month. Northern Star also performed strongly during the month, with gold prices increasing by 9.1% during March to close at an all-time high of US\$2,230/oz.

The largest negative contributors were Goodman Group, Pilbara Minerals and Transurban. Our underweight position in Goodman was a detractor as the industrial property giant outperformed during the month without any major news. Pilbara Minerals underperformed despite improvements in benchmark lithium prices, as concerns on electric vehicle uptake weighed on the lithium industry. Transurban underperformed during the month with no major news announcements.

Market review

The Australian Equities market moved higher for the month of March.

The S&P/ASX 300 Accumulation Index returned +3.3% for the month, taking its 12-month return to +14.4%. Similarly, the ASX200 Accumulation Index performed +3.3% for the period and globally, the MSCI World Index returned +3.0%.

The largest sector contributor was Financials (+3.2%) as the RBA signaled that interest rates have peaked. Commonwealth Bank (CBA, +3.4%) led the gains while ANZ Group (ANZ, +3.3%) also rose following the announcement of the sale of 16.5% of its shareholding in AmBank.

Materials (+3.6%) also contributed to performance over the period. BHP Group (BHP, +3.3%) rose with no major company specific announcements while Newmont (NEM, +17.7%) also contributed on the back of rising gold prices.

In contrast, Communication Services (-0.8%) was the sole detracting sector, posting a mildly negative return for the period.

Market outlook

The Australian equity market returned a very solid 3.3% in March, completing a 5.3% gain for the March quarter – the strongest March quarter since 2019. In concert with the rally of late 2023 the ASX200 has delivered a six-month annualised return of 14%. Despite the strong performance in large caps, small capitalisation stocks outperformed, returning 4.8% in March and 7.5% for the quarter. The standouts in the month were REITS which have returned 9.2% in March and 16.6% CYTD and gold which returned 9.1% in March and 8.1% CYTD. The laggards in March were alternative assets and the Australian dollar.

Optimism continues to be driven by financial markets becoming increasingly convinced that central banks are now preparing to ease interest rates from mid-2024.

Good news on inflation has also been met with signs of economic resilience. Although Europe continues to toy with a technical recession, the strength of the recovery in Emerging Market industrial production bodes well for a recovery in European demand in 2024, and indeed survey evidence suggests a recovery in European demand has commenced. This strength in Emerging Market growth has largely been in spite of China rather than because of China. Nevertheless, the bout disinflation in China has largely run its course and economic data has become more mixed/positive rather than universally poor. We continue to expect China to deliver on a more meaningful infrastructure package in 2024 and further encourage credit expansion to the real economy which should underpin economic growth around 5% in 2024 – a target that the Chinese government also adopted in recent weeks. As such we expect China to begin to provide a more meaningful support to global economic growth as we move through 2024.

Turning to Australia's prospects despite a weak finish for economic growth in 2023 – expanding just 0.2% qoq and 1.5% yoy - we continue to suggest that not only will Australia avoid a recession it will likely accelerate sequentially through 2024 with the improving global backdrop acting as a tailwind. No one should be disputing that 2023 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. Nevertheless, economic growth was held up by several unusual features this economic cycle vis-à-vis prior cycles;

1. **Commodities.** Prior commodity price strength continued to underwrite double digit nominal economic growth and profitability.
2. **Backlogs.** Much has been made of the backlog of work in housing construction that has nullified the typical cyclical shock that is transmitted via the housing construction sector during rate hiking cycles. Approvals and affordability are at very poor levels yet the level of home building has barely declined at all. The backlog in work yet to be done is now peaking at a very high level suggesting we shouldn't be looking at the housing sector as a source of new economic growth, but equally we shouldn't be expecting a precipitous collapse in 2024. That may come in 2025 if interest rates remain at current levels, but that is not our expectation. But less has been made of the backlogs in non-residential building (led by offices, warehouses, health and transport) which equates to 7% of GDP and the backlog of engineering construction (led by roads, railways, electricity and mining which equates to 16% of GDP. This enormous backlog of work has kept upward pressure on the labour market and on input prices at a time when typically a global slow down would have seen investment tumble between 10-15%.
3. **Buffers and Asset prices.** Newly indebted households without other forms of income producing assets feel the full force of rate hikes. However, the economy wide impact of interest rates is diluted the more that growth in income producing assets outstrip the growth in debt. The rising trend in net household assets as a share of income over time means that income from term deposits, financial assets and investment property ownership have all risen over time and all produce an income stream which even after 13 rate hikes this cycle is still in excess of the rise in interest payments on the outstanding debt. This explains the bifurcated nature of spending growth. Older asset rich households are largely impervious to the rate hikes and as such luxury spending categories remain strong whereas younger indebted households cashflow has turned negative and spending is being seriously challenged. In aggregate a rate hike pack less of punch compared to prior cycles but the young and indebted are taking a disproportioned beating.
4. **Population pump priming.** Net immigration has surged well through government projections taking population growth close to 2.5%yoy growth in 2H23. Quite simply, it is very hard to record a recession with that type of population growth at your back. We do expect net migration to slow in 2024 as the government seeks to tighten up some education programs and entitlements, yet the risk remains that the flood of people entering Australia surprises on the upside until a more material rise in the unemployment rate is realised.

In 2024 some additional factors are worth noting that support a more positive outlook into 2024 and beyond.

1. **Commodity prices are rising again.** A falling USD and stronger global demand has seen commodity prices rising in Q4 which will provide a fillip for profits, tax revenue and nominal economic growth.
2. **Fiscal support and tax cuts.** Despite a change to the details of the Stage 3 income tax cuts, the package is equivalent to 1.0% of disposable income. In conjunction with the Federal Budget in surplus, the RBA rate cycle likely complete and an election looming in 2025 it is likely that addition fiscal support will be announced in 1H24 to support lower and middle income households.
3. **Inflation moderation to drive rate cuts.** We expect inflation to move into the top of the RBA target band before the end of 2024, setting up the prospect of the RBA easing in August and again in November 2024. While we are expecting a shallow rate easing cycle it will likely come earlier than most expect and importantly the RBA has renewed firepower to drive a more powerful economic recovery should inflation surprise on the downside.
4. **Capex intentions have lifted.** We were pleasantly surprised to see that the ABS measure of investment intentions rose through 2H23 and now suggests business investment will rise 10% in 2023-24 – well above the RBA's 1-2% forecast. Indeed, not only has business investment been robust, there are signs it is accelerating.

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 2.25% v a consensus forecast of 1.5%, bond yields to finish the year at 4.0%, the \$A/\$US to reach 74c, and Australian equities to return 10% in in large caps and 15% in small caps. We are overweight the Utilities, Information Technology and Industrials sectors, and are underweight Financials, Health Care and Consumer Staples.

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