



Portfolio report

UBS Australian Share Fund

Asia Pacific Equity Indexed

Client report from 01.09.2024 to 30.09.2024



Performance Comments

After fees and expenses, the Portfolio increased by 7.75% during the quarter, underperforming its benchmark by 6bps.

The largest positive contributors were Reliance Worldwide, JB Hi-Fi and Vicinity Centres. Reliance Worldwide outperformed during the period on the expectation of improving sales growth and operating leverage while JB Hi-Fi outperformed following the release of its FY24 results which demonstrated improved operating momentum through 4Q24. Vicinity Centres contributed over the quarter following its FY24 result which was broadly in line with guidance, with a supportive FY25 outlook provided.

The largest detractors during the period were Tabcorp, Woodside Energy and Origin Energy. Tabcorp underperformed during the period following the release of its FY24 results as the wagering operator has been impacted by weaker conditions in the domestic wagering market and operating deleverage. Woodside Energy underperformed following a fall in crude oil prices during the period while Origin Energy underperformed following successive downgrades to FY25 EBITDA expectations for its energy markets division.

% Return (Net)	Fund¹	Benchmark*	Difference
3 months	7.75	7.81	(0.06)
1 years	16.57	21.69	(5.12)
3 years	7.59	8.12	(0.53)
5 years	7.09	8.29	(1.20)
Calendar Year to Date	9.93	12.30	(2.37)
Since inception (07/92)	9.66	9.47	0.19

¹ Performance figures are net of ongoing fees and expenses.

* S&P/ASX 300 Accumulation Index

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.

Stock Contributors & Detractors (%)

Company name	Return	Contribution	Over / underweight
Reliance Worldwide Corp. Ltd.	30.77	0.53	OW
i Limited	33.74	0.40	OW
Vicinity Centres	22.74	0.37	OW
Evolution Mining Limited	34.15	0.34	OW
ResMed Inc.	20.46	0.32	OW
Total of top 5 contributors		1.96	
Wisetech Global Ltd.	36.88	(0.23)	UW
QBE Insurance Group Limited	(3.49)	(0.24)	OW
Origin Energy Limited	(5.17)	(0.32)	OW
Woodside Energy Group Ltd	(7.00)	(0.49)	OW
Tabcorp Holdings Limited	(27.34)	(0.67)	OW
Total of top 5 detractors		(1.95)	

Note: Position at quarter-end, which may be different to the position during the quarter.

Portfolio Positioning

Active Positions by Industry Group (%)

Top 5 Overweights		Top 5 Underweights	
Capital Goods	4.10	Banks	(6.91)
Utilities	3.68	Equity Real Estate Investment Trusts (Reits)	(6.79)
Media & Entertainment	3.51	Pharmaceuticals, Biotechnology & Life Sciences	(3.13)
Materials	3.44	Consumer Staples Distribution & Retail	(3.11)
Real Estate Management & Development	2.22	Financial Services	(2.67)

Active Positions by Stock (%)

Top 5 Overweights		Top 5 Underweights	
Woodside Energy	2.92	National Australia Bank	(4.56)
ResMed	2.78	Macquarie	(3.26)
Reliance Worldwide	2.76	Wesfarmers	(3.16)
Transurban	2.57	CSL	(2.57)
Worley	2.51	Goodman	(2.56)

Note: Position at quarter-end, which may be different to the position during the quarter.

Market Review

The Australian equities market strengthened during the third quarter of 2024.

The S&P/ASX 300 Accumulation Index returned +7.8% for the quarter, taking its 12-month return to +21.7%. The S&P/ASX200 gained 7.8% for the quarter. Whilst globally, the MSCI World Index strengthened returning +6.0% for the quarter.

Financials (+8.3%) was the best performing sector during the period, as the lower than expected CPI results during the quarter reduced the likelihood of future rate hikes, with Commonwealth Bank (CBA, +8.2%), Westpac (WBC, +16.5%) and ANZ (ANZ, +7.9%) all contributing to outperformance.

Materials (+10.8%) was also a strongly performing sector during the quarter. Mining companies were the main source of outperformance as commodity prices rose in September following news of a Chinese stimulus package, with BHP (BHP, +10.8%), Rio Tinto (RIO, +11.2%) and Northern Star Resources (NST, +24.9%) all contributing strongly to performance.

In contrast, Energy (-6.2%) was the worst performing sector during the period as global oil prices fell during the quarter. Woodside Energy (WDS, -7.0%), Santos (STO, -5.9%) and Beach Energy (BPT, -17.1%) were all detractors during the period.

Outlook & Strategy

Last month we reiterated our non-consensus view that the US Federal Reserve would commence an easing cycle with a 50bps reduction and that a 100bps of easing before year end was likely. In the end the 50bps reduction carried out by the Federal Reserve in September was greeted with enthusiasm by risk markets as they quickly embedded an expectation of successive 50bps hikes. The federal Reserve Chairman Powell has since attempted to dampen that expectation and a strong labour market report for September has clearly challenged the need for aggressive near-term easing. Nevertheless, the case for two successive 25bp rate cuts over the remainder of 2024 remains both justified and is our base case.

The additional catalyst for the month of October has been renewed efforts by Chinese authorities to bolster the Chinese housing market via a combination of mortgage rate reductions, lower downpayment requirements and liquidity facilities. Equity markets have interpreted this package very favourably, however, we caution that the prospect of a material reacceleration in Chinese housing turnover, house prices and new housing construction is likely to be closer to 18 months away. While Chinese equities and related assets may continue to rally on the expectation that Chinese policy makers will continue to ease policy, our view is that Chinese authorities have little intention to rapidly reflate the housing market. The objective is to stabilise and reflate in a controlled manner. As such, we caution against expecting meaningful shifts in demand for Chinese construction activity growth for at least 12 months.

Elsewhere, moderate inflation and easing activity data in Europe suggest the easing cycle in the Euro Area will continue, and together with New Zealand and Canada, the risk is skewing to greater easing in the near term. In short, our central thesis of moderating inflation and easing policy sufficient to generate a reflationary environment remains well in place.

Locally, Australia continues to operate with economic growth at near stall speed. GDP increased just 0.2% qoq and 1.0% yoy in 2Q24 the weakest annual rate of economic growth in 32 years, excluding COVID. The Reserve Bank of Australia ('RBA') remains of the view that inflation is too high and economic growth had been too strong for the supply side of the economy to respond. It is particularly uncertain over the outlook for the household saving rate as the tax cuts are delivered and the risk that prior strong wealth gains translate to strong consumption growth. From our perspective it's pretty clear that when the saving rate is already near zero, the banks are not facilitating mass access to liquidity for households to consume prior wealth gains, the superannuation system remains in a state of net inflow and the recent rapid rise in the SG levy in addition to a further rise in 2025 essentially guarantees the saving rate will rise rather than fall in the period ahead. In concert with the observations that the buffer of liquid excess savings from the post-COVID period has now been completely depleted and a clear trend rise in the unemployment rate, it is likely that a bout of precautionary saving ensues in the months ahead. In the absence of easing along with the decision to rapidly slow population growth from 1 Jan 2025 via cutting student numbers, the risks to economic growth projections are skewed to the downside. We believe, the RBA will recognise that wage and inflation pressures have eased sufficiently by the end of 2024 and that they will commence a modest easing cycle at the December meeting.

Against this moderation in inflationary pressures we still expect economic growth to accelerate sequentially through 2H2024, albeit remaining well below 'potential' growth. The growth outlook should be supported by ongoing business investment and 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.

We expect economic growth to average 1.5% versus a consensus forecast of 1.2% in 2024, bond yields to finish the year at 4.0%, the \$A/\$US to reach 72c, and Australian equities to return 10-12%. We are overweight the Utilities, Materials and Communication Services sectors, and are underweight Financials, Real Estate and Consumer Staples.

For professional/institutional investors only. This document and its contents have not been reviewed by, delivered to or registered with any regulatory or other relevant authority in any jurisdiction. This document is for informational purposes and should not be construed as an offer or invitation to the public, direct or indirect, to buy or sell securities. This document is intended for limited distribution and only to the extent permitted under applicable laws in any jurisdiction. No representations are made with respect to the eligibility of any recipients of this document to acquire interests in securities under the laws of any jurisdiction

Using, copying, redistributing or republishing any part of this document without prior written permission from UBS Asset Management is prohibited. Any statements made regarding investment performance objectives, risk and/or return targets shall not constitute a representation or warranty that such objectives or expectations will be achieved or risks are fully disclosed. The information and opinions contained in this document is based upon information obtained from sources believed to be reliable and in good faith but no responsibility is accepted for any misrepresentation, errors or omissions. All such information and opinions are subject to change without notice. A number of comments in this document are based on current expectations and are considered "forward-looking statements". Actual future results may prove to be different from expectations and any unforeseen risk or event may arise in the future. The opinions expressed are a reflection of UBS Asset Management's judgment at the time this document is compiled and any obligation to update or alter forward-looking statements as a result of new information, future events, or otherwise is disclaimed

You are advised to exercise caution in relation to this document. The information in this document does not constitute advice and does not take into consideration your investment objectives, legal, financial or tax situation or particular needs in any other respect. Investors should be aware that past performance of investment is not necessarily indicative of future performance. Potential for profit is accompanied by possibility of loss. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

Source for all data and charts (if not indicated otherwise): UBS Asset Management. © UBS 2024. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved. This document is intended to provide general information only and has been provided by UBS Asset Management (Australia) Ltd (ABN 31 003 146 290) (AFS Licence No. 222605).

UBS Asset Management (Australia) Ltd

ubs.com

