

# Portfolio report

UBS Australian Share Fund

Asia Pacific Equity Indexed

Client report from 01.10.2023 to 31.12.2023



## Performance Comments

After fees and expenses, the Portfolio increased by 6.05% during the quarter, underperforming its benchmark by 231 bps.

The largest positive contributors were Link Administration (LNK), Northern Star (NST), and Vicinity Centre (VCX). Link Administration outperformed on a positive news flow trifecta – the stakeholder vote for the proposed scheme of LNK’s obligations from its Fund Solutions business was passed with an overwhelming majority, it renewed its largest Retirement and Shareholder Solutions business client until 2028 and subsequently a Board approved cash bid at \$2.26, a 33% premium to LNK’s previous close price. Northern Star was another outperformer as the gold price increased by ~11.9% during the quarter to close at US\$2067/oz. Vicinity Centre rebounded strongly during the period following a positive 1Q24 update as the retail mall landlord benefitted from the recovery of its CBD assets, improving occupancy, and accelerating leasing spreads.

The largest negative contributors were Woodside Energy, Fortescue Metals, and QBE. Our overweight position in the oil & gas producer has negatively impacted relative performance as the Brent oil price declined by ~16% in 4Q23, as well as near-term free cash generation concerns on the company’s Sangomar and Scarborough start-up projects. Our underweight to Fortescue Metals was a detractor during the period as the stock strengthened on the back of rising iron ore prices. QBE underperformed during the period over concerns on potential claims from cyclone Jasper and the prospect of interest rate cuts in the US in 2024.

<b>% Return (Net)</b>	<b>Fund<sup>1</sup></b>	<b>Benchmark*</b>	<b>Difference</b>
3 months	6.05	8.36	(2.31)
1 year	12.09	12.13	(0.04)
3 years	10.00	8.99	1.01
5 years	9.38	10.26	(0.88)
Calendar Year to Date	12.09	12.13	(0.04)
Since inception (07/92)	9.57	9.31	0.26

<sup>1</sup> 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
Link Administration	57.97	0.54	OW
Northern Star Resources	30.50	0.43	OW
Vicinity Centres	20.35	0.26	OW
Sandfire Resources	19.16	0.20	OW
Woolworths Group	(0.32)	0.18	UW
<b>Total of top 5 contributors</b>		<b>1.61</b>	
Iluka Resources	(14.06)	(0.34)	OW
Tabcorp Holdings	(11.17)	(0.38)	OW
QBE Insurance Group	(5.73)	(0.40)	OW
Fortescue Metals Group	38.72	(0.50)	UW
Woodside Energy Group	(14.88)	(0.58)	OW
<b>Total of top 5 detractors</b>		<b>(2.20)</b>	

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	
Media & Entertainment	4.61	Banks	(6.01)
Capital Goods	4.53	Pharmaceuticals, Biotechnology & Life Sciences	(4.81)
Utilities	3.90	Financial Services	(4.04)
Software & Services	2.66	Consumer Staples Distribution & Retail	(3.41)
Consumer Services	2.26	Consumer Discretionary Distribution & Retail	(0.87)

### Active Positions by Stock (%)

Top 5 Overweights		Top 5 Underweights	
ResMed	3.22	CSL	(4.46)
Reliance Worldwide	3.03	National Australia Bank	(4.14)
Vicinity	2.64	Macquarie	(2.84)
CAR	2.49	Wesfarmers	(2.79)
Lottery	2.47	Rio Tinto	(2.17)

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

## Market Review

The Australian Equities market concluded the year with a solid quarter performance, with Real Estate being the best-performing sector and Energy being the weakest performer.

The S&P/ASX 300 Accumulation Index reported a +8.4% return for the quarter, taking its 12-month return to +12.8%. Similarly, the S&P/ASX 200 Accumulation Index returned +8.4%, and globally, the MSCI World Index jumped by 11.1%.

Real Estate (+15.8%) recorded the most gain for the quarter, with all subsectors closing in positive territory. The sector performance was supported by the decline in bond yields, the Australian 10-year bond yield fell 52bps over the quarter. Goodman Group (GMG, +18.7%) was a key stock driver after the globally integrated property group released a robust 1Q24 update, emphasising significant data center capacity in its pipeline. Scentre Group (SCG, +21.5%) and GPT Group (GPT, +22.2%) also supported the sector return.

The Health Care (+13.3%) sector also rallied, with CSL (CSL, +14.3%) as a key driver of outperformance. The globally focused biotechnology company rebounded strongly during the quarter driven by consensus expectations of higher profit margins in the next year and a positive capital market day in October, where the exploration of generative AI in enhancing operations sparked investors' interest. Cochlear (COH, +17.0%) was another notable contributor.

In contrast, Energy (-9.0%) was one of the weaker-performing sectors for the quarter. The sector's performance was mainly driven by the drop in oil prices over the quarter following its September quarter highs. Petroleum exploration and production company, Woodside Energy (WDS, -14.9%) largely contributed to the underperformance after the Brent Crude oil dropped by ~16%, as well as concerns over near-term free cash flow generation for its Sangomar and Scarborough start-up projects.

## Outlook & Strategy

Financial market's finished 2023 on a particularly strong note with the ASX200 returning 7.3% in the month of December and REITs returning an astounding 10%. For those awaiting a bond rally a 2.9% gain in December provided most of the 4.9% annual return in the final month. Optimism was driven primarily by financial markets becoming increasingly convinced that central banks are now finished tightening monetary policy in the major developed economies and the prospect for easing in interest rates is starting to come into view.

Good news on inflation has also been met with signs of economic resilience in the US and Japan. Although Europe will likely record a technical recession into the conclusion of 2023, the strength of the recovery in Emerging Market industrial production bodes well for a recovery in European demand in 2024. 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 rather than universally poor. We continue to see China delivering on a more meaningful infrastructure package into 2024 and further encouraging credit expansion to the real economy which should underpin economic growth of around 5% in 2024. As such we expect China to begin to provide a more meaningful support to global economic growth next calendar year.

Turning to Australia's prospects 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 the concluding weeks of 2023, some additional factors are worth noting that support a more positive outlook into 2024.

1. Commodity prices are rising again. A falling USD and stronger global demand have 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 pressure for change, Stage 3 income tax cuts remain an election commitment of the ALP. The cut is equivalent to 1.1% of disposable income and skews to higher income households which under our analysis suggests over 50% of the tax cuts will be saved. Nevertheless, with the Federal Budget in surplus, the RBA rate cycle likely complete and an election looming in 2025 is likely that addition fiscal support will be announce 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 relatively 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, but there are also 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 most overweight stocks within the Information Technology, Communication Services, and Utilities sectors and are underweight Financials, Health Care 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](https://ubs.com)

