

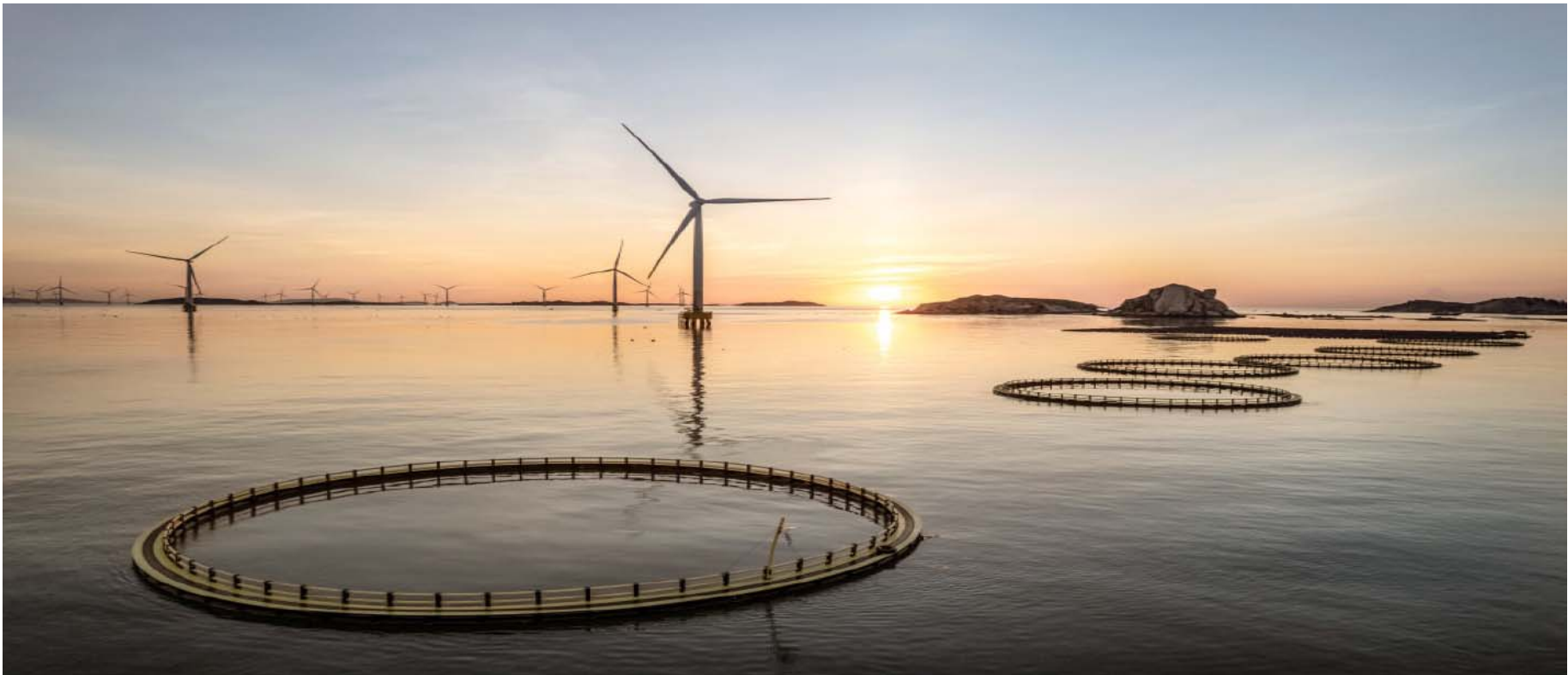


Portfolio report

UBS Diversified Fixed Income

Australian Diversified

Client report from 01.10.2024 to 31.12.2024



Summary

as at 31-Dec-24

Performance

After fees and expenses, the portfolio decreased by 1.05% over the quarter, underperforming the benchmark which decreased by 0.74%.

% Return (Net)	Fund¹	Benchmark*	Difference
3 months	(1.05)	(0.74)	(0.31)
1 year	2.61	2.59	0.02
3 years	(1.30)	(1.33)	0.03
5 years	(0.50)	(0.31)	(0.19)
10 years	1.61	1.92	(0.31)
Calendar Year to Date	2.61	2.59	0.02
Since inception (01/97)	4.90	5.28	(0.38)

¹Performance figures are net of ongoing fees and expenses.

* 50% Ausbond Composite Bond Index 0+ years; 50% Barclays Global Aggregate Index (\$A hedged)

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.

Performance review

Interest rate positioning detracted from relative performance over the fourth quarter. Gains from an underweight position in Japanese rates and our curve-steepening bias across Australia, Germany and the US were offset by long duration positions across developed markets, particularly in the UK. The outcome of the US Presidential election was a defining moment for markets in the fourth quarter. Shifts in sentiment brought about by the Republican victories served to offset the positive market momentum generated by the continued stream of policy rate cuts from global central banks (excluding the Reserve Bank of Australia).

Within credit management, the portfolio's overweight position across Australian corporates also contributed positively to performance given the extra yield ("carry") on offer and as Australian credit spreads tightened modestly over the quarter.

Attribution

	3 Months %	1 Year %	3 Years %	5 Years %
Asset Allocation	(0.24)	(0.42)	(0.09)	(0.19)
Security Selection	0.07	1.01	0.66	0.55
Added Value	(0.17)	0.59	0.57	0.36

*Totals may not add due to rounding and is before fees.

Underlying fund performance

	Fund %	Benchmark %
Cash	1.18	1.12
Australian Bond Fund	(0.29)	(0.26)
Income Solution Fund	1.23	1.08
International Bond Fund	(1.07)	(1.22)

Note: Performance is before fees.

Portfolio positioning

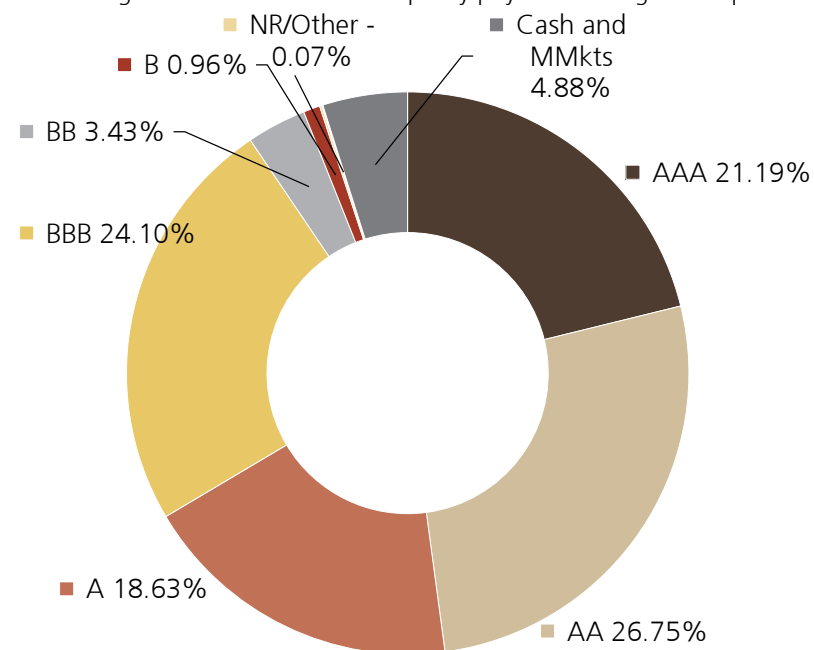
Underlying fund allocation	3Q24 %	4Q24 %
Cash	1.9	1.8
Australian Bond Fund	48	49
International Bond Fund (hedged to \$A)	44	43
Income Solution Fund	6	6
Directly Held Securities	0.7	0.7
Total*	100	100

*Totals may not add due to rounding.

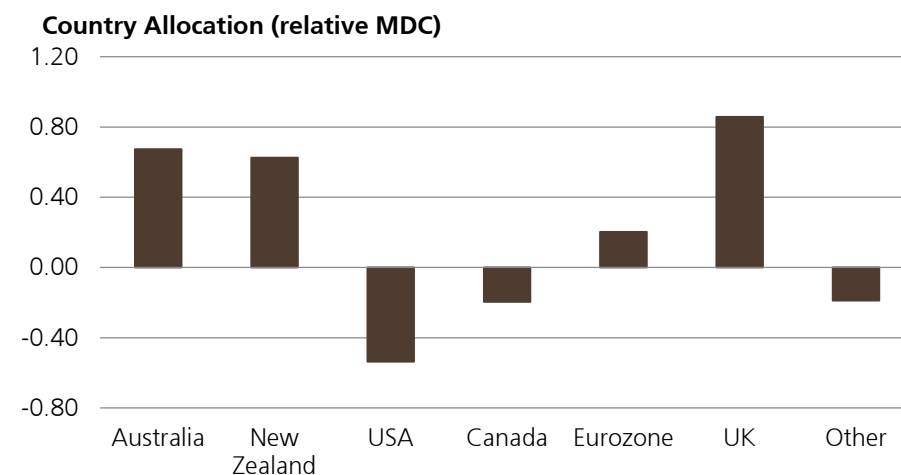
Underlying allocation (by region)	3Q24 %	4Q24 %
Australia	50	51
International	50	49

*Totals may not add due to rounding.

The following chart sets out the credit quality physical holdings as at quarter end.



The following chart sets out the relative (Fund vs. benchmark) modified duration allocation by market as at quarter end.



Market review

Economic

- Australian sovereign bond yields rose over the quarter.
- Australian credit spreads tightened modestly over the quarter.
- The RBA maintained the cash rate target at 435bps.

Global Economies

In Q4, we observed some significant developments in the fixed income market. One of the most notable was the much higher US Treasury yield levels, driven by Trump's victory in the US election, which raised expectations for fiscal deficits and stickier inflation. This led to negative performance in most investment grade markets due to the treasury sell-off, while high yield markets held up relatively well. This resilience was supported by credit spread tightening as risk sentiment turned positive, a trend also evident in the equities market. The US presidential election was a key event, resulting in a Red Sweep where Republicans gained the majority in both chambers of Congress. In China, the National People's Congress concluded after the US election, unveiling a substantial USD 1.4 trillion program aimed at resolving the local government debt crisis. Additionally, the Chinese finance minister has promised more fiscal policy support for the next year, though further details were not provided. Yields on 5-year and 10-year US government bonds rose by 82 and 79 basis points, respectively. German 10-year Bunds also saw a rise, albeit to a smaller extent, trading 24 basis points higher. Meanwhile, yields on the UK 10-year Gilts increased by 57 basis points. On the credit side, US investment grade credits underperformed their European counterparts, experiencing both less credit spread compression and larger rates sell-off. This trend was also observed in US and Euro high yield markets. Within emerging markets, both sovereigns and corporates generated negative returns.

Market review

Australian Economy

The Australian 3-year Government bond yield rose 28bp to end the quarter at 3.82% while the 10-year Government bond yield rose 39bp to end the quarter at 4.36%. Australian 10-year Government bonds did however strongly outperform US equivalents with the spread ending the year at -14bp from +20bp the previous quarter. Credit spreads continued to tighten with the spread on the Bloomberg AusBond Credit 0+ index ending December at 84bps from 95bp at the end of September. The Bloomberg AusBond Composite 0+ year Index returned -0.26% in the quarter to be up 2.93% over the year.

The RBA kept the official cash rate target unchanged at 4.35% over the quarter. After maintaining a balanced tone for some time and emphasising ongoing vigilance on inflation, the RBA finished the year by shifting to a clear easing bias at its December meeting. The Board indicated that they are now gaining confidence that inflation is moving sustainably to target while removing the language suggesting that the next move could just as likely be a hike as a cut. Governor

Bullock subsequently confirmed that this shift in communication was deliberate and reflected the recently released data. The bond market rallied on this pivot to reflect increased odds of a February cash rate cut.

In terms of economic data, the disinflation trend continues to head in the right direction with trimmed mean inflation coming in at 0.8% q/q in Q3. This continues the recent trend for quarterly underlying inflation to ease sequentially by 0.1%pt per quarter. Meanwhile, the Q3 national accounts released in December continued to paint a gloomy view of the economy with the 0.8% annual GDP growth at its lowest ebb since 1991 outside of COVID while the private sector actually contracted. On the more positive side was continued resilience in the labor market with the unemployment rate actually dropping from 4.1% to 3.9% over the quarter. Similar to the GDP details, most of the employment growth continues to come from the public sector or other non-market sectors such as health and social care.

Outlook and strategy

We enter 2025 with Australian bonds looking like one of the best buying opportunities in the G10 space. The RBA is poised to break its rate-cutting duck and in our view should outperform lowly expectations, whereas the global easing cycle is showing signs of becoming more uneven amid divergent economic performance across regions.

In line with our expectations, the details of recent inflation releases have been encouraging, showing disinflation goes beyond the impact of government subsidies. Price increases in slow-moving and weighty items in the CPI basket related to housing have turned down and the last three quarterly trimmed mean readings have moderated sequentially by 0.1%pts per quarter to 0.8% q/q in Q3. Early signs are that underlying inflation is easing even more quickly in Q4, likely surprising the RBA to the downside and returning to the 2-3% target band on a six-month annualised basis. Meanwhile, Q3 GDP painted a somewhat dismal picture of the private sector with consumption growth failing to pick up meaningfully despite the stage 3 tax cuts. Any growth in GDP or employment remains heavily skewed to the public sector.

We continue to favour long duration strategies with Australian bond yields looking elevated against our conviction that monetary policy is heavily restricting private sector growth and inflation is trending back to target. The RBA finished 2024 by laying the groundwork for an easing cycle which we have for some time thought could start as early as February and total at least 100bps of cuts. As the cutting cycle comes into clearer view we would expect three-year bond yields to trade back down towards 3-3.5% (currently 3.94%).

The fundamental backdrop remains supportive for investment grade credit with recession risk seeming to have lessened and with central banks reducing cash rates. While spreads are tight, all-in yields are close to decade highs providing an attractive prospective total return while continuing to drive strong inflows to the asset class. Australia remains one of our favoured credit markets given the higher average credit quality and shorter duration nature of the market.

UBS Asset Management

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

