Portfolio report

UBS International Bond Fund
Global Aggregate Bond
Client report from 01.01.2024 to 31.03.2024

Summary

as at 31-Mar-24

After fees and expenses, the portfolio decreased by 0.36% over the quarter, underperforming its benchmark by 0.05%.

% Return (Net)	Fund[1]	Benchmark*	Difference
3 months	(0.36)	(0.31)	(0.05)
1 year	2.08	2.53	(0.45)
3 years	(2.65)	(2.38)	(0.27)
5 years	(0.28)	(0.13)	(0.15)
10 years	2.12	2.32	(0.20)
Calendar Year to Date	(0.36)	(0.31)	(0.05)
Since inception (09/93)	5.12	6.12	(1.00)

[1] Performance figures are net of ongoing fees and expenses.

* 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

Performance Attribution

The fund underperformed its benchmark on a net-of-fee basis (-5bps) over the quarter. Absolute performance was negative (36bps).

Within duration management overweight duration in the US, New Zealand and eurozone was a detractor from benchmark relative performance as yields rose while underweight in Japan was a small contributor. In corporate credit overweight to EUR corporates was the main contributor as spreads tightened while exposure to USD corporates also helped.

Positioning

During the quarter we pivoted from underweight to small overweight duration positioning. This was as a result of adding duration in the US and covering some underweight in Japan. Within individual credit sectors we added exposure primarily through new issues across financials and industrials sectors.

Fixed Income Analytics

as at 31-Mar-24

Yield Curve Distribution

	Fund	Benchmark	Mod Duration- Fund	Mod Duration - Benchmark
0-1	4.65%	1.44%	0.03	0.01
1-3	16.37%	23.79%	0.29	0.44
3-5	21.80%	19.63%	0.90	0.72
5-7	13.48%	13.57%	0.79	0.73
7-10	18.90%	20.00%	1.42	1.45
10+	24.81%	21.58%	3.23	3.21
Total	**100.00%**	**100.00%**	**6.67**	**6.56**

Sector Diversification

	Fund	Benchmark	Mod Duration - Fund	Mod Duration - Benchmark
Treasuries	30.92%	53.77%	2.96	3.93
Gov- Related	18.57%	10.84%	0.90	0.54
Semi Govt	0.48%	2.92%	0.02	0.22
Corporate	34.39%	18.62%	1.88	1.10
Asset Backed	16.10%	13.85%	0.76	0.78
Cash, Money Markets & Other	-0.45%	0.00%	0.14	0.00
Total	**100.00%**	**100.00%**	**6.67**	**6.56**

Credit Rating

	Fund	Benchmark	Mod Duration - Fund	Mod Duration - Benchmark
AAA	12.92%	11.90%	0.66	0.71
AA	31.67%	42.13%	2.42	2.75
A	29.06%	31.56%	1.93	2.23
BBB	22.69%	14.39%	1.39	0.86
HY	4.03%	0.02%	0.13	0.00
NR	0.31%	0.00%	0.15	0.00
Cash, Money Markets & Other	-0.68%	0.00%	0.00	0.00
Total	**100.00%**	**100.00%**	**6.67**	**6.56**

Market review

First quarter of 2024 saw significant pull back in exuberant market pricing for rate cut expectations during the year. To put it into context 2023 finished with the market anticipating as much as double the pace communicated by the December Fed dot plot with expectations eventually converging. This was driven by an upswing in global economic activity with US economy continuing to outperform and eurozone enjoying some optimism driven by services and manufacturing sector revival. As a result strong gains in fixed income seen across November and December 2023 failed to carry over as bond yields rose. US Treasury 2 Year Yield rose 37bps to 4.62% while 10 Year rose 32 bps to 4.20% and in Eurozone 2 Year German Bund Yield rose 45bps to 2.85% while 10 Year Yield rose 27bps to 2.30%. As a result Corporate Credit outperformed Government Bonds with High Yield outperforming Investment Grade as spreads grinded tighter. Among central banks there was some differentiation with the US Fed, ECB and BoE holding policy rates steady, while the SNB surprised the market with 25bps policy rate cut and BoJ hiked from -0.1 to 0.1% signalling an end to negative rate environment.

Outlook and strategy

After the sharp rally in November and December, it is natural for yield to back up slightly at the beginning of 2024 especially after the US reported a strong Q4 growth and payroll employment growth across Q1. We are still leaning towards bullish duration view as we see a high probability that monetary tightening cycle will become a major drag on growth as households and corporate have to roll their mortgage and debt into new debt at much higher interest rates. We believe risk reward for fixed income has shifted in a more positive direction outside of Japan as real bond yields have risen to sufficiently high level with prospect for rate cuts.

We continue to believe corporate bonds are attractive from both an income/carry, and total return perspective. Overall, corporate fundamentals remain stable as low unemployment and strong wages have offset tightening financial conditions.

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