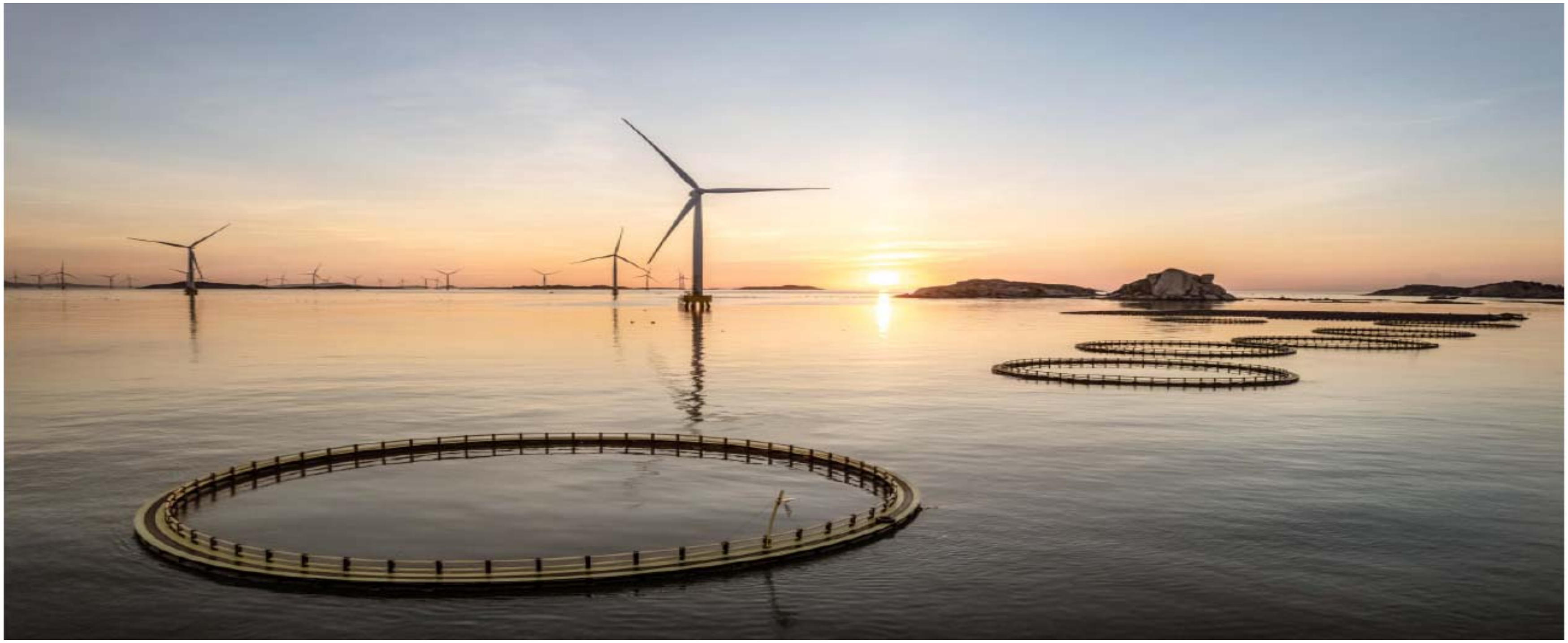
Portfolio report

UBS Short-Term Fixed Income Fund
Australian Enhanced Cash
Client report from 01.10.2024 to 31.12.2024



Summary
as at 31-Dec-24

Performance

After fees and expenses, the portfolio returned 1.22% over the quarter, outperforming the Bloomberg AusBond Bank Bill Index, which returned 1.12%.

% Return (Net)	Fund[1]	Benchmark*	Difference
3 months	1.22	1.12	0.10
1 year	5.07	4.47	0.60
3 years	3.55	3.19	0.36
5 years	2.31	1.98	0.33
10 years	2.33	1.95	0.38
Calendar Year to Date	5.07	4.47	0.60
Since inception (04/93)	4.41	4.25	0.16

[1] Performance figures are net of ongoing fees and expenses.
* Bloomberg AusBond Bank Bill 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.

Implicit and pooled cost Asset Management Regulatory

Performance review

The Bank Bill curve flattened further this quarter. The 3-month BBSW lifted by 2bps to end at 4.42%, while 6-month fell 14bps to finish on it's low of 4.49%. As expected, the RBA kept the cash rate unchanged at 4.35%, maintain its focused stance on inflation, not ruling any move in or out over the forward period. The quarterly inflation number printed lower than expected, coming in at 0.8% for the quarter against an expectation of 1.0%. Conversely, the employment number released during the quarter was much stronger than expected, the December print for the unemployment rate falling to 3.9% from 4.1%, against expectations of a lift to 4.2%.

The fund returned 1.27% (before fees) against 1.12% for the index in Q4 2024. The portfolio's outperformance was produced predominantly from extra yield ("carry") in our corporate holdings in an environment of credit spreads tightening. Duration positioning was a mildly positive contributor to the fund's performance.

Fixed Income analytics

as at 31-Dec-24

Portfolio Positioning

	30-Sep-24	31-Dec-24
Portfolio Modified Duration	0.37	0.36
Benchmark Modified Duration	0.12	0.13
Portfolio Average Rating	AA-	AA-
Benchmark Average Rating	AAA	AAA
Portfolio Yield to Maturity	4.58%	4.64%
Benchmark Yield to Maturity	4.36%	4.36%
Portfolio Average Term to Maturity	1.00	0.96
Portfolio Average Coupon	3.00%	3.39%
Benchmark Average Coupon	0.00%	0.00%
Portfolio Spread Duration	1.11	1.07
Benchmark Spread Duration	0.00	0.00

Fixed Income analytics

as at 31-Dec-24

Yield Curve Distribution

	Portfolio	Benchmark	Difference
0-1 years	54.18%	0.00%	54.18%
1-2 years	24.81%	0.00%	24.81%
2-3 years	13.03%	0.00%	13.03%
3-4 years	3.75%	0.00%	3.75%
4-5 years	4.23%	0.00%	4.23%
5-6 years	0.00%	0.00%	0.00%
6-7 years	0.00%	0.00%	0.00%
7-8 years	0.00%	0.00%	0.00%
8-9 years	0.00%	0.00%	0.00%
9-10 years	0.00%	0.00%	0.00%
10+ years	0.00%	0.00%	0.00%
N/A	0.00%	100.00%	-100.00%
Total	**100.00%**	**100.00%**	

Yield Curve Distribution

	Modified Duration Contribution		
	Portfolio	**Benchmark**	**Difference**
0-1 years	0.11	0.00	0.11
1-2 years	0.09	0.00	0.09
2-3 years	0.14	0.00	0.14
3-4 years	-0.02	0.00	(0.02)
4-5 years	0.04	0.00	0.04
5-6 years	0.00	0.00	0.00
6-7 years	0.00	0.00	0.00
7-8 years	0.00	0.00	0.00
8-9 years	0.00	0.00	0.00
9-10 years	0.00	0.00	0.00
10+ years	0.00	0.00	0.00
N/A	0.00	0.13	-0.13
Total	**0.36**	**0.13**	**0.23**

Fixed Income analytics

as at 31-Dec-24

Sector Diversification

Sector	Portfolio	Benchmark	Difference
Commonwealth*	0.00%	0.00%	0.00%
Semi-govt	0.00%	0.00%	0.00%
Gov- Related	0.88%	0.00%	0.88%
Corporate	57.61%	0.00%	57.61%
Asset Backed	6.08%	0.00%	6.08%
Cash, Money Market & Other*	35.43%	100.00%	-64.57%
Total	**100.00%**	**100.00%**	

* Effective exposure may include derivatives

Sector Diversification

	Modified Duration Contribution		
Sector	**Portfolio**	**Benchmark**	**Difference**
Commonwealth*	-0.12	0.00	-0.12
Semi-govt	0.00	0.00	0.00
Gov- Related	0.01	0.00	0.01
Corporate*	0.40	0.00	0.40
Asset Backed	0.01	0.00	0.01
Cash, Money Market & Other*	0.06	0.13	-0.07
Total	**0.36**	**0.13**	**0.23**

* Effective exposure may include derivatives

Fixed Income analytics

as at 31-Dec-24

Credit Diversification

Credit Rating	Portfolio	Benchmark	Difference
AAA	10.82%	0.00%	10.82%
AA+	0.00%	0.00%	0.00%
AA	2.37%	0.00%	2.37%
AA-	23.53%	0.00%	23.53%
A+	6.04%	0.00%	6.04%
A	10.88%	0.00%	10.88%
A-	8.26%	0.00%	8.26%
BBB+	3.49%	0.00%	3.49%
BBB	3.02%	0.00%	3.02%
BBB-	0.00%	0.00%	0.00%
HY	0.00%	0.00%	0.00%
NR	0.00%	0.00%	0.00%
A1+/A1 - Cash, Money Market & Other	31.58%	100.00%	-68.42%
Total	**100.00%**	**100.00%**	

Credit Diversification

	Modified Duration Contribution		
Credit Rating	**Portfolio**	**Benchmark**	**Difference**
AAA	0.02	0.00	0.02
AA+	0.00	0.00	0.00
AA	0.02	0.00	0.02
AA-	0.16	0.00	0.16
A+	0.04	0.00	0.04
A	0.10	0.00	0.10
A-	0.04	0.00	0.04
BBB+	0.01	0.00	0.01
BBB	0.02	0.00	0.02
BBB-	0.00	0.00	0.00
HY	0.00	0.00	0.00
NR	0.00	0.00	0.00
A1+/A1 - Cash, Money Market & Other	-0.05	0.13	-0.19
Total	**0.36**	**0.13**	**0.23**

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.

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