



# UBS Australian Small Companies Fund

November 2020

## Fund description

The Fund is an actively managed fund investing in a portfolio of 30–60 Australian small company equity securities across a range of industry sectors.

## Investment strategy

The Portfolio Manager's overarching strategy is to identify those small company shares that are believed to be undervalued by the market. Normally the Fund will hold between 30–60 stocks in companies. Companies are selected for inclusion in the portfolio after a rigorous investment process.

## Investment return objective

The Fund aims to outperform (after management costs) the S&P/ASX Small Ordinaries Accumulation Index over rolling five year periods.

## Active security positions

Overweight	Underweight
SeaLink Travel	IDP Education
Vocus	Reece
Nanosonics	Chorus
CSR	Steadfast
Pinnacle Investments	Lynas Rare Earths

## Active industry positions

Overweight	Underweight
Health Care Equipment & Services	Retailing
Transportation	Real Estate
Food Beverage & Tobacco	Materials
Insurance	Capital Goods
Diversified Financials	Pharmaceuticals Biotechnology & Life Sciences

## Investment performance

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	9.04	10.02	9.07	11.19	12.56	12.69
Benchmark**	10.27	7.66	5.98	6.72	10.69	6.15
<b>Added Value</b>	<b>(1.23)</b>	<b>2.36</b>	<b>3.09</b>	<b>4.47</b>	<b>1.87</b>	<b>6.54</b>

\*Inception date: 31 March 2004. \*\*S&P/ASX Small Ordinaries Accumulation Index.

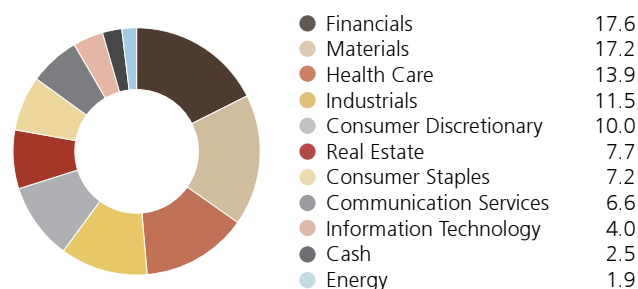
Performance figures are net of ongoing fees and expenses. The performance figures quoted are historical, calculated using end of month redemption prices, and do not allow for the effects of income tax or inflation. Total returns assume the reinvestment of all distributions. Performance can be volatile and future returns can vary from past returns.

## Fund information

Inception date	31 March 2004
Fund size	\$95.9 m
Management fee	0.85% pa
Performance fee*	Yes
Minimum initial investment	\$10,000 (via mFund and online application \$5,000)
Typical number of holdings	30 to 60
Distributions	Quarterly
Buy/sell spread	+/- 0.45%
APIR code	UBS0004AU
mFund code	UAM01

\* The performance fee equals 20% of the amount by which the Fund outperforms the S&P/ASX Small Ordinaries Accumulation Index.

## Fund positioning (%)



## Top 5 stocks (%)

Vocus	4.8
CSR	4.5
SeaLink Travel	4.4
Nanosonics	4.3
Healus	4.2

## Portfolio review

After fees and expenses, the portfolio increased by 9.04% over the month, underperforming its benchmark by 123bps. Positive contributors were Nanosonics, SeaLink Travel and Pinnacle Investment Management. Nanosonics' trading update revealed that both the consumables and hardware sales rebounded FY21 to date versus the COVID-impacted months of FY20, up 25% and 16% respectively. SeaLink Travel outperformed as easing restrictions domestically and positive vaccine news supported the outlook for its tourism division. Pinnacle Investment Management outperformed amid strong market returns and after providing an update late in the prior month. FUM increased +5% to \$61.7bn and 90% of affiliates outperformed their benchmarks in the five years to 30 Sep 2020, indicating higher performance fees.

Negative contributors were Saracen Minerals, Elders and Select Harvests. Saracen Minerals underperformed as the gold price declined 6% to \$US1,763 per ounce. Elders partially retraced strong recent outperformance despite delivering a better-than-expected FY20 result, with EBIT 8% ahead of consensus. Select Harvests underperformed as persistently weak almond prices overshadowed an FY20 result ahead of expectations, with NPAT falling 53% (y/y) to \$25mn.

## Market Review

Australian small caps rose alongside global markets in November, driven by positive vaccine news and a decisive US election outcome.

The S&P/ASX Small Ordinaries Accumulation Index rose 10.3% in November, taking its 12-month return to +6.0%. The monthly return was in line with the broader market, with the ASX 300 returning 10.2%. Markets surged globally after three major COVID-19 vaccine candidates were announced as highly effective in extensive trials, and after Joe Biden was declared the winner of the US Presidential Election.

Sectors which were hit hardest by COVID-19 rallied sharply. Energy (+19.3%) was the strongest performer as Brent Crude lifted 27% to \$US47.5 per barrel and coal prices rallied, led by Whitehaven Coal (WHC, +24.4%), New Hope Corporation (NHC, +22.9%), Karoon Energy (KAR, +30.3%) and Carnavon Petroleum (+17.4%).

Other strong performers included Mortgage Finance (+30.7%), Consumer Finance (+19.2%), Retail REITs (+14.8%), Transportation (+11.8%) and Consumer Services (+18.9%), with travel services companies including Webjet (WEB, +65.3%) and Flight Centre (FLT, +52.0%) rebounding.

Conversely, sectors which proved resilient during the downturn – Gold (-8.4%), Consumer Staples (+5.4%) and Information Technology (+3.2%) – underperformed. At a stock level, the worst performers included Kogan (KGN, -20.4%), Saracen Minerals (SAR, -16.5%), Codan (CDA, -10.1%) and Elders (ELD, -5.4%).

## Outlook

The recovery phase for the Australian economy is now well underway. Despite the concerning trends for new COVID-19 cases in the US and Western Europe, global economic data has continued to show solid improvement through Q3 and into Q4 2020. The contrast with Australia could not be greater. COVID cases in Australia have reverted to their June lows and the gradual reopening in Victoria means that 100% of Australia is now in recovery mode. Economic recovery is occurring even faster than our relatively optimistic forecasts and economic growth now looks set to contract by less than 3% in 2020 before expanding by a forecast 5.5% in 2021.

The driving force of the recovery into 2021 will be consumption growth. The combination of the highest household saving ratio since the mid-1970 in concert with resilient asset prices, declining unemployment, rising hours worked and improving consumer confidence is expected to underpin a 7.0% rise in consumption growth in 2021.

A secondary force assisting the recovery is the upswing in new housing approvals, new housing orders, and housing finance approvals. Despite a sharp drop in net migration and earlier concerns over house price declines, sentiment regarding housing has been buoyed by record low interest rates, a shift in responsible lending onus back to the borrower and large government incentives for construction.

Looking beyond the US election, we expect additional expected fiscal stimulus in the US, additional expected QE in major offshore markets and a new QE program in Australia will leave a pro-growth fiscal and financial conditions environment for Australian economic growth and earnings growth.

Smaller companies have been particularly impacted by the Government directed restrictions. The challenges of 1H20 of operational survival, liquidity and capital management have given way to which companies will be capable of capturing the operational leverage through the recovery phase and which companies have pricing power to withstand the disinflationary threats of global excess capacity. Within the small companies' sphere, the risks vs reward within such a macro backdrop is somewhat binary. Active management has perhaps never been more important in navigating the minefield.

We see significant value in certain sectors but believe others to be overvalued based on our earnings and cash flow expectations. We are most overweight stocks within the Health Care, Financials and Industrials sectors, but are underweight Consumer Discretionary, Real Estate and Materials.

## Client Services

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