



# UBS Microcap Fund

November 2020

## Fund description

The Fund is an actively managed fund investing in a portfolio of 35 to 65 predominantly Australian Microcap equity securities across a range on industry sectors.

## 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       |
|----------------------------|-------------------|
| EROAD                      | Mineral Resources |
| RPMGlobal Holdings         | IDP Education     |
| Alliance Aviation Services | Reece             |
| Codan                      | Chorus            |
| 3P Learning                | Steadfast Group   |

## Active industry positions

| Overweight                         | Underweight                |
|------------------------------------|----------------------------|
| Software & Services                | Materials                  |
| Capital Goods                      | Real Estate                |
| Technology Hardware & Equipment    | Diversified Financials     |
| Commercial & Professional Services | Consumer Services          |
| Health Care Equipment & Services   | Telecommunication Services |

## Top 5 stocks (%)

|                            |     |
|----------------------------|-----|
| EROAD                      | 3.6 |
| Codan                      | 3.4 |
| RPMGlobal Holdings         | 3.2 |
| Alliance Aviation Services | 3.1 |
| 3P Learning                | 2.7 |

## Investment performance

| Fund               | 1 month %     | 3 months %  | 1 year %    | 3 years % pa | 5 years % pa | Since inception* % pa |
|--------------------|---------------|-------------|-------------|--------------|--------------|-----------------------|
| Total return       | 6.86          | 8.90        | 8.39        | 13.18        | 13.74        | 14.94                 |
| Benchmark**        | 10.27         | 7.66        | 5.98        | 6.72         | 10.69        | 8.32                  |
| <b>Added Value</b> | <b>(3.41)</b> | <b>1.24</b> | <b>2.41</b> | <b>6.46</b>  | <b>3.05</b>  | <b>6.62</b>           |

\*Inception date: 12 August 2014. \*\*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.

## Investment Strategy

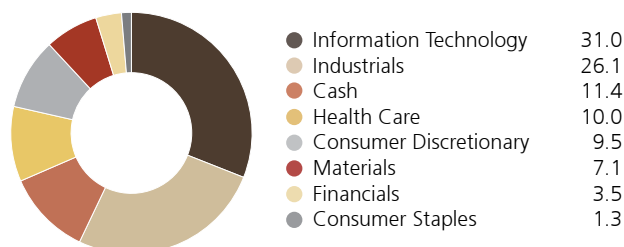
The Portfolio Manager's overarching strategy is to identify those Microcap shares that are believed to be undervalued by the market, based on an assessment of the companies' future cash flows. Normally the Fund will hold between 35–65 stocks in companies with a market capitalisation of generally less than \$250m at the time of initial purchase. The Portfolio Manager searches for businesses that have exposure to growing markets or are benefiting from changes in market structure and are in a rapid growth phase of their life cycle.

## Fund information

|                            |   |
|----------------------------|---|
| Inception date             | 12 August 2014                                      |
| Fund size                  | \$33.1 m  |
| Management fee             | 1.20% pa  |
| Performance fee*           | Yes   |
| Minimum initial investment | \$10,000 (via mFund and online application \$5,000) |
| Typical number of holdings | 35 to 65  |
| Distributions              | Semi-annually                                       |
| Buy/sell spread            | +/- 0.70%   |
| APIR code                  | UBS0057AU   |
| mFund code                 | UAM02   |

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

## Fund positioning (%)



## Portfolio review

After fees and expenses, the portfolio increased by 6.86% over the month, underperforming its benchmark by 341bps.

Positive contributors were Envirosuite, EML Payments and Monash IVF. Envirosuite provided a positive AGM update, with its pipeline continuing to grow and continued customer conversion across all key segments. EML Payments was higher as COVID vaccine news provided confidence in the outlook for malls and the gift card segment. Monash IVF provided a positive AGM update highlighting strong growth and an improved market share.

Negative contributors were Supply Network, Codan and NEXTDC. Despite a strong AGM update, Supply Network underperformed following recent strong outperformance. Q1 revenues have increased 12% (y/y) and the company has pulled forward its FY22 revenue target to FY21. Codan was sold down on its perceived leverage to the gold price (which sold off). While NEXTDC was lower on rotation from growth to value during the month, the long term demand driver of digitization remains very much in place.

## 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 Carnarvon 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.

While the current uncertainty will pass, there will be structural changes to the economy and consumer behavior. This creates significant opportunity for those dynamic and innovative companies within our investable universe to thrive in a post-COVID world. Active management has perhaps never been more important in navigating the minefield.

## Client Services

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