UBS

UBS Asset Management
All data as at 30 April 2021

UBS Australian Small Companies Fund

April 2021

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
IGO	Metcash
SeaLink Travel	Steadfast
Pinnacle Investment Management	Harvey Norman
CSR	Seven Group Holdings
AUB	Iluka Resource

Active industry positions

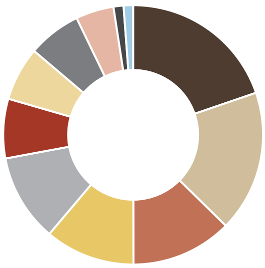
Overweight	Underweight
Health Care Equipment & Services	Real Estate
Transportation	Retailing
Food Beverage & Tobacco	Materials
Insurance	Food & Staples Retailing
Banks	Software & Services

Fund information

Inception date	31 March 2004
Fund size	$120.7 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 (%)



Financials	19.74
Materials	17.62
Health Care	12.59
Industrials	11.20
Consumer Discretionary	10.92
Consumer Staples	7.41
Real Estate	6.71
Communication Services	6.64
Information Technology	4.73
Cash	1.25
Energy	1.18

Top 5 stocks (%)

CSR	5.03
Vocus Group	4.98
SeaLink Travel Group	4.78
Pinnacle Investment Management	4.52
IGO	4.49

Investment performance

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	5.61	9.22	50.63	14.99	14.84	13.23
Benchmark**	4.98	7.44	39.78	9.10	11.10	6.60
Added Value	**0.63**	**1.78**	**10.85**	**5.89**	**3.74**	**6.63**

*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.

Portfolio review

After fees and expenses, the Portfolio increased by 5.61% during the month, outperforming its benchmark by +63 bps.

The largest positive contributors were IGO Limited, Pinnacle Investment Management and Lynas Rare Earths (not held). IGO announced the sale of its 30% stake in the Tropicana gold mine to Regis Resources (RRL) for $903mn and delivered a solid 3Q21 production result, with the Nova mine's production and costs broadly in line with consensus estimates. Investors remained focused on its Greenbushes lithium acquisition, which is expected to finalized by May-end. Pinnacle reported March 2021 FUM of $76.8bn, up 9% in the last 3 months, and 3Q21 net inflows of $3.9bn. Lynas partially retraced strong outperformance from prior periods over a potentially higher supply outlook for one of its commodities, with a Chinese competitor planning to double output over the next three years.

The largest negative contributors were Virtus Health, Southern Cross Media and Galaxy Resources (not held). Virtus Health underperformed without any materially negative news. Southern Cross Media continued to underperform following Nine Entertainment's (NEC) decision not to extend its regional television affiliation agreement beyond June. Galaxy Resources announced a $4bn merger with Orocobre (ORE), with the latter buying the former in an all-stock deal. The merger would create the fifth largest lithium producer globally.

Market Review

Australian small caps outperformed large cap peers in April as Tech, Financials and miners supported returns.

The S&P/ASX Small Ordinaries Accumulation Index returned +5.0% for the month, taking its 12-month return to +30.7%. The index outperformed the broader ASX300, which returned +3.7% during the period.

Gold (+15.0%) and Information Technology (+10.10%) were the top performing sectors as the 'reflation trade' partially reversed, with the Australian 10-year bond yield falling 10 bps to 1.69%. Within the former, De Grey Mining (DEG, +48.2%) and Chalice Mining (CHN, +32.9%) released promising drilling results. Within tech, top performers included Megaport (MP1, +29.7%), Life360 (360, +20.2%), Data#3 (DTL, +19.8%) and EML Payments (EML, +16.5%).

Elsewhere, lithium miners rallied heavily, led by Galaxy Resources (GXY, +55.3%) and Orocobre (ORE, +41.8%) as the two companies announced a $4bn merger during the period. Within Financials (+7.3%), health insurer NIB Holdings (NHF, +18.2%) impressed the market with lower claims than expected and insurance brokers Steadfast (SDF, +9.5%) and AUB Group (AUB, +5.9%) continued to benefit from premium rate rises.

Conversely, Energy (-2.9%) and Consumer Staples (-1.2%) weighed on the benchmark. In the former, coal miners Whitehaven Coal (WHC, -27.5%) and New Hope Corporation (NHC, -15.5%) declined over production issues and ongoing negative sentiment towards thermal coal. In the latter, China-exposed companies Blackmores (BKL, -10.2%) and Bubs Australia (BUB, -10.9%) were the worst performers.

Outlook

The recovery in the Australian economy continues to exceed consensus expectations. The Australian economy contracted 2.5% in calendar 2020, however strong sequential growth in 2H2020 and positive momentum in early 2021 will see economic activity in 1Q2021 exceed pre-COVID levels.

The strength of the economic recovery is particularly evident via record levels for business conditions, business confidence and the strength in employment growth. The level of employment already exceeds pre-COVID levels, and after peaking at 7.5% in July 2020 the unemployment rate has declined sharply to 5.6% in March 2021.

Although wage rates remain subdued, the recovery in labour market income has been sufficient to offset the gradual withdrawal of temporary fiscal support. Moreover, the accumulation of $125bn in excess household saving, in concert with strong asset price gains, leaves the consumer uniquely positioned to underpin economic growth in 2021-2022. Dwelling investment is set to provide solid support for economic growth over the next 18 months following a surge in demand for new housing construction, partly in response to the Government's Homebuilder subsidy. We expect the global economy to expand 6.5% and the Australian economy to expand 6% in 2021.

We continue to expect US inflation to surprise on the upside over the remainder of 2021 and for policy makers to resist pressure to normalise interest rates. This may see bond yields continue to rise at a moderate rate in coming months, however, we are cognisant that global business surveys will likely peak around mid-2021 which may limit the adjustment in bond yields, at least until the Federal Reserve signals it is preparing to taper its asset purchases. We do not expect this to happen until late 2021 at the earliest.

The A$/US$ should continue to be well supported by global reflationary forces, including robust commodity price trends. We continue to expect the A$/US$ to appreciate to the 81-83c range by the end of calendar 2021.

Client Services

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