



# UBS Microcap Fund

April 2021

## 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
Mainstream	Metcash
EROAD	Steadfast
Alliance Aviation Services	Harvey Norman
Intega	Vocus
RPMGlobal	Seven Group Holdings

## Active industry positions

Overweight	Underweight
Software & Services	Materials
Capital Goods	Real Estate
Technology Hardware & Equipment	Consumer Services
Commercial & Professional Services	Insurance
Health Care Equipment & Services	Retailing

## Investment Strategy

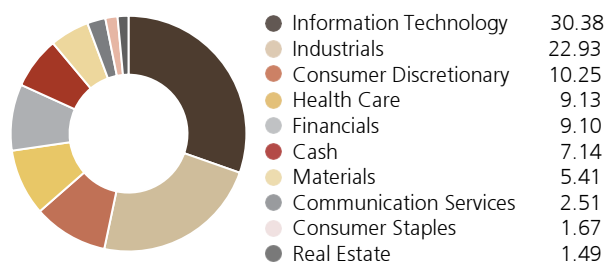
The Portfolio Manager's overarching strategy is to identify those Microcap shares that are believed to be undervalued by the market, based on an assessment of the companies' future cash flows. Normally the Fund will hold between 35–65 stocks in companies with a market capitalisation of generally less 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	\$49.9 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 (%)



## Investment performance

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	8.86	12.70	69.88	19.73	16.21	16.94
Benchmark**	4.98	7.44	39.78	9.10	11.10	9.35
<b>Added Value</b>	<b>3.88</b>	<b>5.26</b>	<b>30.10</b>	<b>10.63</b>	<b>5.11</b>	<b>7.59</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.

## Portfolio review

After fees and expenses, the Portfolio increased by 8.86% during the month, outperforming its benchmark by +388 bps.

The largest positive contributors for the Month of April included Mainstream, Pentanet and ERoad. Following an initial bid in March for Mainstream from Vistra priced at \$1.13, April saw US-based SS&C Technologies launch an offer at \$2.00 per share. Further interest in the business saw Apex Group enter the fray, with the current bid now at \$2.60 and both Apex and SS&C continuing to battle for control. Pentanet, an emerging Perth Internet Service Provider, was successful in securing a 15-year license for high band 5G spectrum covering Greater Perth. This will allow the company to accelerate the deployment of their network. A quarterly update was also provided during the month, with net new subscribers increasing 21% (q/q) and a strong initial uptake on the GeForce NOW offering, a premier cloud based streaming service. ERoad was higher following the signing of a new Australian enterprise customer and a pleasing 3Q update.

The largest negative contributors included Ridley, Galaxy Resources (not held) and Supply Network. Ridley was weaker on no significant news, but did announce the appointment of Richard Betts (ex-Pact Group) as CFO. Galaxy Resources announced a \$4bn merger with Orocobre (ORE), with the latter acquiring the former in an all-stock deal. The merger, if it proceeds, will create the fifth largest lithium producer globally. Supply Network drifted on no significant news.

## 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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