



UBS Australian Small Companies Fund

May 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	Harvey Norman
Pinnacle Investment Management	Metcash
AUB	Steadfast Group
SeaLink Travel Group	Virgin Money
Vocus Group	Iluka Resource

Active industry positions

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

Investment performance

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	0.17	6.84	36.97	13.75	13.60	13.17
Benchmark**	0.27	6.09	26.73	7.88	10.27	6.58
Added Value	(0.10)	0.75	10.24	5.87	3.33	6.59

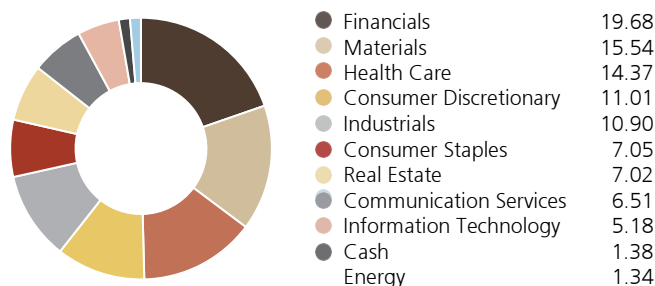
*Inception date: 31 March 2004. **S&P/ASX Small Ordinaries Accumulation Index. Performance figures are net of ongoing fees and expenses. The performance figures quoted are historical, calculated using end of month redemption prices, and do not allow for the effects of income tax or inflation. Total returns 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	\$127.9 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 Group	4.56
Pinnacle Investment Management	4.49
AUB	4.31
IGO	4.30
SeaLink Travel Group	4.27

Portfolio review

After fees and expenses, the Portfolio rose by 0.17% during the month, underperforming its benchmark by 10 bps.

The largest positive contributors were Gold Road Resources, EML Payments (not held) and Collins Foods. Gold Road Resources outperformed alongside the gold price, with the commodity rising 7.5% to \$US1,900/oz during the period. EML Payments declined sharply after an Irish regulatory body raised concerns about its PFS Card Services business. The concerns relate to the business's Anti-Money Laundering / Counter Terrorism Financing risk and control frameworks and governance. Collins Foods outperformed without any material news.

The largest negative contributors were Nanosonics, Chalice Mining (not held) and AUB Group. Nanosonics underperformed without any materially negative news during the period. Chalice Mining outperformed after announcing a significant palladium discovery at its Julimar project in Western Australia, with new drilling results revealing a larger-than-expected deposit and extending the mine life. AUB Group delivered a better-than-expected 3Q21 update, with premium rate rises of 5.9% at the top end of its estimate for 2H21 and strong performances across its broking networks from a revenue and margin perspective.

Market Review

Australian equities rose modestly in May as Gold, REIT and Energy stocks more than offset weakness across Information Technology and Consumer Staples.

The S&P/ASX Small Ordinaries Accumulation Index rose 0.3% during the month, taking its 12-month return to 26.7%. The benchmark underperformed the broader ASX300, which returned 2.3% as the major banks provided support on the back of the federal government's big spending federal budget – with \$96bn of stimulus announced over 5 years – and Australia's strengthening housing market.

Gold (+12.6%) outperformed alongside the commodity, up 7.5% during the period to \$US1,900/oz. At a stock level the largest contributors included Perseus Mining (PRU, +18.4%), Gold Road Resources (GOR, +20.7%) and Silver Lake Resources (SLR, +15.2%).

Elsewhere, REITs (+2.6%) were supported by Unibail-Rodamco-Westfield (URW, +7.2%), Ingenia Communities Group (INA, +5.7%) and Waypoint REIT (WPR, +4.0%), while Energy (+8.1%) was buoyed by coal producers Whitehaven Coal (WHC, +23.0%) and New Hope Corporation (NHC, +24.9%) as coal prices rallied.

Conversely, within Information Technology (-5.4%) EML Payments (EML, -41.9%) faced pressure after an Irish regulatory body raised concerns about its PFS Card Services business, while Nuix (NXL, -33.1%) announced its 2nd downgrade in two months following its IPO in December 2020.

Consumer Staples (-4.3%) was weighed down largely by Costa Group (CGC, -27.0%). The horticultural company announced 1H21 earnings would only be marginally above the previous year, despite cycling a weak 1H20 and reporting significant growth in 2H20.

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.

We are most overweight stocks within the Financials, Health Care and Industrials sectors, and are underweight Consumer Discretionary, Real Estate and Materials.

Client Services

Telephone: (03) 9046 4041 Freecall: 1800 572 018 Email: ubs@unitregistry.com.au www.ubs.com/am-australia

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