



UBS Microcap Fund

May 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 | Harvey Norman |
| EROAD | Metcash |
| Alliance Aviation Services | Steadfast Group |
| Pacific Smiles | Virgin Money |
| RPMGlobal | Vocus Group |

Active industry positions

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

Investment Strategy

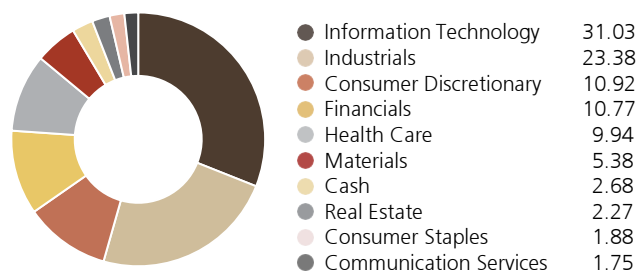
The Portfolio Manager's overarching strategy is to identify those Microcap shares that are believed to be undervalued by the market, based on an assessment of the companies' future cash flows. Normally the Fund will hold between 35–65 stocks in companies with a market capitalisation of generally less 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 | \$49.8 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 | (0.20) | 12.58 | 55.05 | 18.29 | 15.73 | 16.68 |
| Benchmark** | 0.27 | 6.09 | 26.73 | 7.88 | 10.27 | 9.27 |
| Added Value | (0.47) | 6.49 | 28.32 | 10.41 | 5.46 | 7.41 |

*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 declined by 0.20% during the month, underperforming its benchmark by 47 bps.

The largest positive contributors were Praemium, Somnomed and Laserbond. The departure of the Praemium CEO and announcement of a strategic review into its offshore operations saw investors focus on the potential to unlock value in the business. Somnomed was higher despite no material updates, though COVID-19 vaccination progress in key European and North American markets provides confidence on improving demand trends. Laserbond announced a license agreement with a North American manufacturer of high performance products and equipment, providing validation of Laserbond's technology. Following this announcement, we expect further deals over the medium term.

The largest negative contributors were EML Payments, Pentanet and Pacific Smiles. EML Payments declined sharply after an Irish regulatory body raised concerns about its PFS Card Services business relating to its Anti-Money Laundering / Counter Terrorism Financing risk and control frameworks and governance. Pentanet declined following a period of strong outperformance despite an absence of news. Pacific Smiles was lower as a 25% shareholder sold down approximately 10% of the company. While done at a discount, this will improve trading liquidity and we remain positive on the medium term prospects for the business.

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.

Client Services

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