UBS Microcap Fund

June 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.

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.

Active security positions

Overweight	Underweight
Mainstream	Iluka Resources
EROAD	Steadfast Group
Pacific Smiles	Pilbara Minerals
RPMGlobal	ARB Corporation
Alliance Aviation Services	Virgin Money

Active industry positions

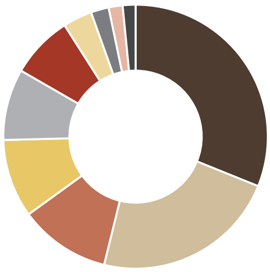
Overweight	Underweight
Software & Services	Materials
Capital Goods	Real Estate
Technology Hardware & Equipment	Consumer Services
Health Care Equipment & Services	Energy
Transportation	Food Beverage & Tobacco

Fund information

Inception date	12 August 2014
Fund size	$54.5 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 (%)



Information Technology	31.12
Industrials	22.71
Consumer Discretionary	11.16
Health Care	9.61
Financials	8.73
Materials	7.65
Cash	3.56
Real Estate	2.19
Consumer Staples	1.71
Communication Services	1.57

Investment performance

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	3.07	11.98	57.92	18.23	16.44	16.97
Benchmark**	3.08	8.50	33.23	8.59	11.23	9.63
Added Value	**(0.01)**	**3.48**	**24.69**	**9.64**	**5.21**	**7.34**

*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 3.07% during the month, underperforming its benchmark by 1 bp.

The largest contributors were RPM Global, Praemium and Intega. RPM Global provided a positive update on software sales for the Financial year with momentum building in what we believe is a very large market opportunity. The company also announced the purchase of ESG services provider Nitro Solutions. The creation of a focused ESG division within RPM combined with their software capability makes strategic sense as the global mining industry evolves. Praemium continued to rally with market speculation around possible corporate appeal following the announced strategic review of the international business and departure of the CEO. Intega also announced a strategic review with the board aiming to maximize shareholder value including exploring ownership options. M&A in the Microcap sector continues to increase and we believe this will be an ongoing theme through the 2H of 2021.

The largest detractors were Pentanet, Aerometrex and Envirosuite. Pentanet was subject to profit taking following strong share price growth this calendar year. A well supported $20m capital raising during the month should provide significant capacity to pursue network rollout and growth in their cloud gaming offering. Aerometrex delivered a disappointing trading update with Annualized recurring revenue forecast to be only slightly higher than the 31 March outcome. Increased competition has also been observed in the enterprise / large business sector. Envirosuite was weaker as the company digested a capital raising.

Market Review

Australian small caps shrugged off new COVID-19 outbreaks across the country to deliver strong returns in June.
The S&P/ASX Small Ordinaries Accumulation Index increased by 3.1% in the month to 30 June 2021, taking its 12-month return to 33.2%. The benchmark was in line with the broader ASX300 for the period and outperformed global indices, with the MSCI World Index returning 2.4%, despite all major cities going into lockdown at one point during the month in response to COVID-19 cases.

All but one sector increased in value during the period, led by Energy (+7.6%), Health Care (+7.0%), Information Technology (+5.3%) and Financials (+4.8%). Only Materials (-0.5%) declined, largely due to the -11.4% decline in the gold sector as the commodity fell 7% in the period to $US1,763/oz. Outside gold, resources stocks rallied amid higher commodity prices. Energy was supported by coal producers Whitehaven Coal (WHC, +23.2%) and New Hope Corporation (NHC, +18.9%), while mining was supported by lithium producer Pilbara Minerals (PLS, +17.4%) and mineral sands producer Iluka Resources (ILU, +18.5%).

Within Health Care, Pro Medicus (PME, +27.4%) outperformed after announcing a contract win and research partnership with US-based Mayo Clinic, while Megaport (MP1, +23.0%) supported Information Technology following an investor briefing that highlighted its strong opportunity in the SD-WAN market.

Outlook

The recovery in the Australian economy continues to exceed consensus expectations. Real GDP contracted 2.5% in calendar 2020, however strong sequential growth in 2H2020 and 1Q21 has seen our economy already exceed pre-pandemic 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 5.1% in May 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.

Client Services

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

Investors should consider the PDS and seek professional financial and taxation advice before deciding whether the product is appropriate for them and whether to acquire, or to continue to hold the investment. Your investment in the Fund does not represent deposits or other liabilities of UBS or any member company of the UBS Group including UBS Asset Management (Australia) Ltd (ABN 31 003 146 290) (AFS Licence No. 222605), the issuer of the Fund. Your investment is subject to investment risk, including possible delays in repayment and loss of income and capital invested. The repayment of capital or income is not guaranteed by any company in the UBS Group. Offers of interests in the Fund are contained in the Product Disclosure Statement dated 30 November 2020. The PDS is available from our website www.ubs.com/am-am-pds or by calling (03) 9046 4041.

The PDS for this fund is only available to persons receiving the PDS (electronically or otherwise) while physically in Australia, unless expressly authorised by us in writing. The offer does not constitute an offer or invitation in any place in which, or to any person to whom, it would be unlawful to make such an offer or invitation. This Fund (or the PDS) has not been registered under the laws of any jurisdiction outside Australia. The Fund may not be offered or sold in the United States of America or to 'U.S. Persons' (as defined in 'Regulation S' of the Securities Act of 1933, as amended).

UBS