



UBS Australian Small Companies Fund

June 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
Pinnacle Investment Management	Iluka
IGO	Steadfast Group
AUB	ARB Corporation
SeaLink Travel Group	Virgin Money
Nanosonics Limited	Seven Group

Active industry positions

Overweight	Underweight
Health Care Equipment & Services	Materials
Transportation	Real Estate
Food Beverage & Tobacco	Retailing
Insurance	Telecommunications Services
Media & Entertainment	Automobiles & Components

Investment performance

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	2.95	8.91	39.89	14.58	14.00	13.29
Benchmark**	3.08	8.50	33.23	8.59	11.23	6.74
Added Value	(0.13)	0.41	6.66	5.99	2.77	6.55

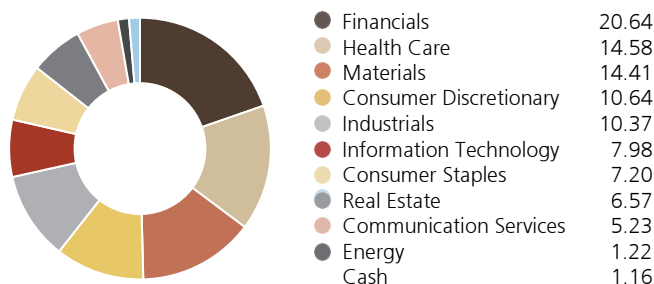
*Inception date: 31 March 2004. **S&P/ASX Small Ordinaries Accumulation Index. Performance figures are net of ongoing fees and expenses. The performance figures quoted are historical, calculated using end of month redemption prices, and do not allow for the effects of income tax or inflation. Total returns 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	\$134.2 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 (%)

Pinnacle Investment Management	4.99
AUB	4.78
IGO	4.14
SeaLink Travel Group	3.98
Nanosonics Limited	3.83

Portfolio review

After fees and expenses, the Portfolio increased by 2.95% during the month, underperforming its benchmark by 13 bps.

The largest contributors were Pinnacle Investment Management, AUB Group and Megaport. Pinnacle Investment Management announced strong inflows and performance across its affiliates, with FUM growing 20% to \$84.9bn from December 2020 to April 2021. AUB Group delivered an upbeat 3Q21 update, with premium rate rises averaging 5.9% for the period. Megaport outperformed after giving an investor briefing in which management highlighted the opportunity of its Megaport Virtual Edge (MVE) product through SD-WAN applications and growing sales partnerships, in particular through Cisco.

The largest detractors were Gold Road Resources, Collins Foods and Genworth Mortgage Insurance. Gold Road Resources declined as plant disruptions weighed on 2Q21 production and amid the lower gold price (-7%). Collins Foods despite its FY21 result exceeding high expectations, with earnings ahead of analyst forecasts as KFC Australia more than offset weakness in Europe. Genworth Mortgage Insurance underperformed in response to the Commonwealth Bank – Genworth's largest customer – announcing that it would put its lenders mortgage insurance contract out to tender, with the current contract expiring in December 2022.

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.

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 see significant value in certain sectors but believe others to be overvalued based on our earnings and cash flow expectations. We are currently most overweight stocks within the Health Care, Financials and Industrials sectors, while we are most underweight Materials, Real Estate and Consumer Discretionary stocks.

Client Services

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