

UBS Yarra Australian Small Companies Fund

September 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 |
|--------------------------------|------------------|
| AUB | Orocobre Limited |
| IGO | Steadfast Group |
| Pinnacle Investment Management | Iluka |
| Nanosonics Limited | ARB Corporation |
| SeaLink Travel Group | Zip Co |

Active industry positions

| Overweight | Underweight |
|----------------------------------|---------------|
| Transportation | Real Estate |
| Health Care Equipment & Services | Materials |
| Food Beverage & Tobacco | Capital Goods |
| Media & Entertainment | Energy |
| Insurance | Retailing |

Investment performance

| Fund | 1 month % | 3 months % | 1 year % | 3 years % pa | 5 years % pa | Since inception* % pa |
|--------------------|-------------|-------------|-------------|--------------|--------------|-----------------------|
| Total return | (1.02) | 6.65 | 37.26 | 16.18 | 13.75 | 13.51 |
| Benchmark** | (2.14) | 3.44 | 30.41 | 9.42 | 10.17 | 6.84 |
| Added Value | 1.12 | 3.21 | 6.85 | 6.76 | 3.58 | 6.67 |

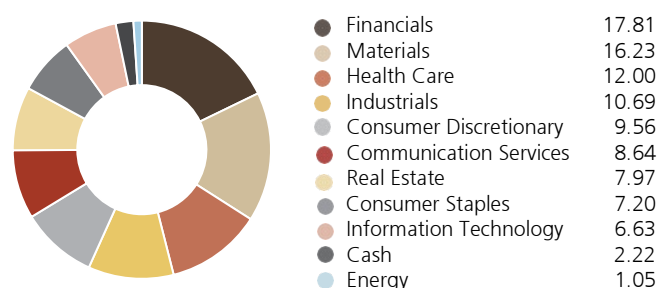
*Inception date: 31 March 2004. **S&P/ASX Small Ordinaries Accumulation Index. Performance figures are net of ongoing fees and expenses. The performance figures quoted are historical, calculated using end of month redemption prices, and do not allow for the effects of income tax or inflation. Total returns 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 | \$ 143.2 m |
| Management fee | 0.85% pa |
| Performance fee* | Yes |
| Minimum initial investment | \$50,000 |
| Typical number of holdings | 30 to 60 |
| Distributions | Quarterly |
| Buy/sell spread | +/- 0.45% |
| APIR code | UBS0004AU |

* 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 (%)

| | |
|--------------------------------|------|
| AUB | 4.58 |
| Pinnacle Investment Management | 4.38 |
| Nanosonics Limited | 3.99 |
| SeaLink Travel Group | 3.78 |
| IGO | 3.67 |

Portfolio review

After fees and expenses, the Portfolio decreased by 1.02% during the month, outperforming its benchmark by 112 bps.

The top positive contributors were Flight Centre Travel, TPG Telecom and Medical Developments International. Flight Centre outperformed as Australian vaccination rates accelerated, pulling forward the timeline for the resumption of domestic and international travel. TPG Telecom outperformed as a re-opening beneficiary in response to accelerating vaccination rates; tourists and migrants make up a large portion of its Mobile business. Medical Developments International provided its outlook in its annual report, anticipating strong sales growth for FY22 as its European expansion accelerates.

The top negative contributors were Virtus Health, Whitehaven Coal (not held) and Beach Energy (not held). Virtus Health retraced prior outperformance without any materially negative news during the period. Whitehaven Coal and Beach Energy outperformed alongside higher oil, gas and coal prices, with Brent Crude rising 8% to \$US79/bbl and thermal coal rising 25% to \$US218/t in response to the emerging energy crisis in Europe and China.

Market Review

Australian equities declined in September as supply disruptions and higher energy prices raised concerns about higher inflation and lower economic growth.

The S&P/ASX Small Ordinaries Accumulation Index declined by 2.1% in the month, taking its 12-month return to +30.9%. In comparison, the broader ASX returned -1.9% and the MSCI Global Index returned -3.6% in local currency terms. Equity valuations reversed some of their recent gains in September as the inflation theme re-emerged and concerns mounted about faster tapering of QE, with the Australian 10-year bond yield rising 33 bps to 1.49%.

Energy (+15.7%) was the top performer during the period, as the emerging gas crisis in the EU/UK and China saw widespread gains across broader commodity complex, with Brent Crude rising 8% to \$US80 per barrel and thermal coal up 25% to \$US218/t. At a stock level, the top performers included Whitehaven Coal (WHC, +27.7%) and Beach Energy (BPT, +42.4%).

Elsewhere, travel services stocks rebounded during the period as Australia draws closer to re-opening the economy. Flight Centre (FLT, +30.8%) and Webjet (WEB, +11.4%) were among the top performers.

Conversely, Gold (-11.2%) was among the worst performers during the period, weighed down by ongoing USD strength. The worst performers included Regis Resources (RRL, -17.5%) and De Grey Mining (DEG, -19.6%).

Outlook

the Australian economy contract in 3Q21, albeit it has been notable how well both business surveys and employment indicators have held up in Q3, suggesting a modest contraction than might have been expected several months ago.

We continue to believe the interruption to economic growth from renewed lockdowns will be an aberration within an improving trend. Indeed, the fundamentals that will drive the economic recovery remain in place. The recovery in labour market income has been sufficient to offset the gradual withdrawal of temporary fiscal support. Moreover, the accumulation of an estimated \$185bn 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 6 months as previously approved housing moves through the construction phase, and a broader-based lift in business investment expectations is an important step in ensuring a sustained economic recovery. We expect the global economy to expand 6% and the Australian economy to expand 4.5% in 2021, a downward revision from our pre-lockdown forecast of 6%. We expect another strong year of economic growth in 2022 of 4.0%.

Nevertheless, there are some areas that are cause for concern. For over 12 months we have warned about rising US inflation pressures and rising inflation expectations. However, supply chain constraints and energy shortages in the Northern Hemisphere risk inflation pressures becoming more widespread and more entrenched. With the peak in global business surveys having passed, cost inflation continuing to escalate and the Federal Reserve signalling increased willingness to taper its purchases, we expect bond yields will move higher through the remainder of 2021. We expect US 10-year yields to approach 1.80% by the end of 2021, providing some ongoing challenges for risk assets in Q4.

The A\$/US\$ has recently been buffeted by concerns of a peak in global industrial growth indicators, slowing China economic momentum and recent declines in iron ore prices. Nevertheless, Australia's external accounts are in their best position since the early 1970s and despite some moderation in commodity prices the A\$/US\$ should remain supported by global reflationary forces through 2021-22. We expect the A\$/US\$ to finish the year in the 76-78c range, and remain around that level through 1H22.

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

Client Services

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