

UBS Yarra Microcap Fund

November 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
Alliance Aviation Services	Allkem Limited
Janison Education Group	Steadfast Group
Praemium	ARB Corporation
Pacific Smiles Group	NOVONIX
Ridley Corporation	Iluka Resources

Active industry positions

Overweight	Underweight
Software & Services	Real Estate
Capital Goods	Materials
Health Care Equipment & Services	Diversified Financials
Consumer Durables & Apparel	Consumer Services
Food Beverage & Tobacco	Energy

Investment Strategy

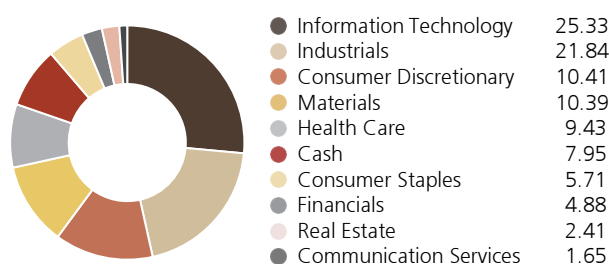
The Portfolio Manager's overarching strategy is to identify those Microcap shares that are believed to be undervalued by the market, based on an assessment of the companies' future cash flows. Normally the Fund will hold between 35–65 stocks in companies with a market capitalisation of generally less 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	\$ 74.2 m
Management fee	1.20% pa
Performance fee*	Yes
Minimum initial investment	\$500,000
Typical number of holdings	35 to 65
Distributions	Semi-annually
Buy/sell spread	+/- 0.70%
APIR code	UBS0057AU

* 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	0.32	4.31	35.51	25.30	17.03	17.56
Benchmark**	(0.31)	(1.54)	18.44	13.53	11.64	9.65
Added Value	0.63	5.85	17.07	11.77	5.39	7.91

*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 performance

Positive contributors in November included Janison Education, Supply Network and Praemium. Janison Education was higher following a positive broker initiation. The company also announced the acquisition of Academic Assessment Services, a leader in educational tests and testing services to over 200 of the top 1,200 Australian independent schools. While the stock has performed well, we believe significant market opportunity exists as assessments across education bodies, governments and corporations seek scalable, secure digital solutions. Supply Network, a provider of aftermarket parts for bus and truck fleets, provided a positive update at its AGM highlighting 1H22 guidance of \$95m revenue and \$9.5m profit after tax. In the full year the company delivered \$162m revenue and \$13.8m in profit after tax. Significant further growth potential exists, with a long runway of new branch locations and a changing environment as we see increased electric and fuel cell powered vehicles. Praemium rose on a non-binding approach from listed Netwealth (NWL) equating at the time to a 29% premium to the previous PPS closing price. The company has rejected the offer as inadequate however we expect further interest in the business and look for news around the potential sale of the international operations as another catalyst for the stock.

Negative contributors for the month were Novonix (not held), Atomos and Chalice Mining (not held). The EV thematic continued to perform well generally during the month with battery technology business Novonix the standout, rising 60% during November. Post month-end it was announced the stock will be entering the ASX 200 index. Atomos was weaker following its AGM. Despite providing upbeat commentary around full year financial targets and supply chain concerns, the stock remains under pressure. The much-awaited maiden mineral resource from Chalice mining's Gonneville deposit didn't disappoint investors. Described by the company as Australia's largest Nickel sulphide discovery in over 20 years and the largest Platinum group element discovery in history, it provides the foundations for a world class green metals project.

Market Review

Australian equities proved more resilient than the wider equities market in November as a new, potentially more transmissible COVID variant emerged.

The S&P/ASX Small Ordinaries Accumulation Index declined 0.3% during the month, outperforming the broader ASX300's -0.5% return and taking its 12-month return to +18.4%. Globally, equities declined late in the period (MSCI World Index -1.4% for November) as the COVID variant, labelled Omicron, drove uncertainty around the growth outlook. Further, persistent inflation in the US continued to stoke concerns about faster tapering and US interest rate rises.

At a sector level, Metals & Mining (+5.8%) provided the most support to the benchmark as commodity prices continued to rise. Miners leveraged to the growing demand for EVs were among the top performers, including Nickel Mines (NIC, +35.9%) and Australian Strategic Materials (ASM, +25.5%). Gold (+6.2%) also outperformed amid the more volatile environment.

Information Technology (+5.6%) also delivered a strong return despite the outlook for higher interest rates. However, this was largely due to new benchmark position Novonix (NVX, +61.5%), a synthetic graphite producer which is leveraged to the positive outlook for lithium batteries. Elsewhere performance was more mixed, with large falls from Tyro Payments (TYR, -28.7%), Nearmap (NEA, -27.6%) and Appen (APX, -10.8%).

Elsewhere, Energy (-5.6%) and Consumer Discretionary (-4.4%) were the worst performing sectors. Brent Crude (-15.1%) weighed on the former, while travel services companies Webjet (WEB -13.4%), Flight Centre (FLT, -11.2%) and Corporate Travel Management (CTD, -9.7%) weighed on the latter.

Outlook

We expect the Australian economy to continue to rebound in the short-term, following a better-than-expected contraction in 1Q21 amid COVID-related lockdowns in Melbourne and Sydney.

Notwithstanding the ongoing risk from new variants such as Omicron, we believe 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 six 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. 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 announcing its decision to taper its bond 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.

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