UBS Asset Management

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All data as at 30 November 2021

UBS Yarra Australian Small Companies Fund

November 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	Allkem Limited
Pinnacle Investment Management	Steadfast Group
Megaport	ARB Corporation
Nanosonics Limited	NOVONIX
IGO	Iluka

Active industry positions

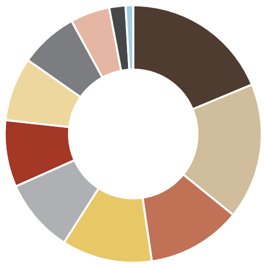
Overweight	Underweight
Transportation	Real Estate
Health Care Equipment & Services	Retailing
Media & Entertainment	Energy
Food Beverage & Tobacco	Materials
Insurance	Technology Hardware & Equipment

Fund information

Inception date	31 March 2004
Fund size	$ 139.7 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 (%)



Materials	18.73
Financials	17.09
Industrials	11.86
Health Care	11.36
Consumer Discretionary	9.29
Communication Services	8.38
Information Technology	8.00
Real Estate	7.31
Consumer Staples	4.96
[Cash]	2.04
Energy	0.96

Top 5 stocks (%)

AUB	4.39
Megaport	4.25
Pinnacle Investment Management	4.24
TPG Telecom	3.67
Nanosonics Limited	3.48

Investment performance

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	(1.32)	(2.18)	23.94	18.80	15.06	13.30
Benchmark**	(0.31)	(1.54)	18.44	13.53	11.64	6.81
Added Value	**(1.01)**	**(0.64)**	**5.50**	**5.27**	**3.42**	**6.49**

*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.

Portfolio review

After fees and expenses, the Portfolio declined by 1.32% during the month, underperforming its benchmark by 101 bps.

The largest positive contributors were Megaport, IGO Limited and PEXA. Megaport continued to outperform as its 1Q21 update in the prior month highlighted the business's strong growth outlook and the high-quality nature of its revenues. The business reached $100mn in annualized recurring revenue – ahead of expectations – supported by new port adds and with most committed to terms of longer than one year. IGO outperformed alongside the lithium price, with Spodumene rising to US$2,310/t (versus 2020 levels of US$429/t). PEXA reaffirmed prospectus FY22 forecasts at an AGM update, with risks to the upside due to stronger-than-expected volumes (up 40% y/y to 1.36mn billable transactions).

The largest negative contributors were Novonix (not held), Chalice Mining (not held) and Kelsian. Novonix outperformed without any material news but, as a synthetic graphite producer, is a beneficiary to the growing demand for EVs. Chalice Mining released a maiden resource which highlighted the significant scale of the palladium deposit at its Julimar project, more than doubling its expected mine life. Kelsian underperformed after it missed out on winning a new services contract in Sydney, which followed other unsuccessful tenders in prior months.

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.

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

Client Services

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