

# UBS Yarra Microcap Fund

December 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 of 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
Monash IVF Group	Iluka Resources
Ridley Corporation	ARB Corporation
Alliance Aviation Services	Technology One
Praemium	Seven Group Holdings
Janison Education Group	Shopping Centres Australasia Property Group

## Active industry positions

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

## Investment Strategy

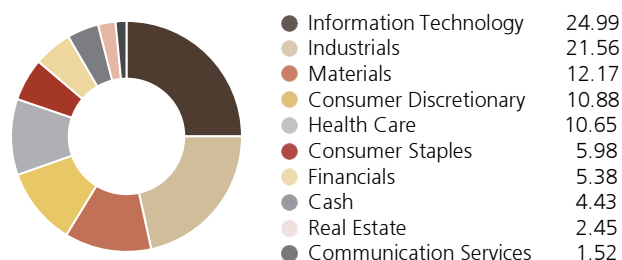
The Portfolio Manager's overarching strategy is to identify those Microcap shares that are believed to be undervalued by the market, based on an assessment of the companies' future cash flows. Normally the Fund will hold between 35–65 stocks in companies with a market capitalisation of generally less 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	\$ 75.0 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	1.83	6.73	34.00	27.98	17.15	17.63
Benchmark**	1.41	2.03	16.90	15.70	11.17	9.75
<b>Added Value</b>	<b>0.42</b>	<b>4.70</b>	<b>17.10</b>	<b>12.28</b>	<b>5.98</b>	<b>7.88</b>

\*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

After fees and expenses, the Portfolio increased by 1.83% during the month, outperforming its benchmark by 42 bps.

Positive contributors for December included Mincor Resources, Monash IVF and Novonix (not held). Mincor was stronger after moving nearer a production restart. First development ore has been intersected earlier than planned and we remain positive on the long-term price outlook and the potential for industry consolidation in the WA nickel sector. Monash IVF rose on the back of a bid for listed peer Virtus from private equity firm BGH Capital. The implied valuation and corporate interest in the sector are supportive of our MVF position. Novonix (not held) rose as Electric Vehicle exposed stocks continued to perform strongly through December.

Negative contributors included Urbanise, Jayride and Janison Education. Urbanise was weaker following the surprise announcement of a change in CEO. The change reflected the board's disappointment with the rate of revenue growth following increased investment in sales and marketing, implementation and product development. Jayride was weaker following uncertainty around the omicron variant and the potential impact on global travel. Janison Education was weaker following a recent period of strong outperformance.

## Market Review

Australian equities small caps rose in December as strong performances from cyclicals outweighed declines from high P/E stocks.

The S&P/ASX Small Ordinaries Accumulation Index increased by 1.4% during the month, taking its 2021 return to +16.9%. The local index underperformed global indices, with the MSCI World Index returning 4.0% during the month even as a new 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.

Notwithstanding the outlook for higher rates, Real Estate (+7.4%) was the top performing sector. Specialised (+9.7%) and Retail (+7.1%) were the best returning industries, led by Waypoint REIT (WPR, +11.7%) and HomeCo Daily Needs (HDN, +17.6%).

Metals & Mining (+3.1%) also generated a solid return as the Steel industry (+13.0%) and copper miner Sandfire Resources (SFR, +9.5%) more than offset a mixed performance from Diversifieds (-1.1%). Gold (+3.0%) also outperformed amid the more volatile environment.

Conversely, Information Technology (-5.2%) and Financials (-1.4%) underperformed as the prospect of higher interest rates depressed valuations for companies with long-dated cash flows. The worst performers included Novonix (NVX, -23.1%), Megaport (MP1, -13.0%) and ZIP Co (Z1P, -16.3%).

## 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 any 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 have expanded 6% in 2021 and the Australian economy 4.5%. 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, providing some ongoing challenges for risk assets.

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 we expect the A\$/US\$ to remain supported by global reflationary forces through 2022.

## Client Services

Telephone: (03) 9046 4041

Freecall: 1800 572 018

Email: [ubs@unitregistry.com.au](mailto:ubs@unitregistry.com.au)

[www.ubs.com/am-australia](http://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](http://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).

This document may not be reproduced or copies circulated without prior authority from UBS Asset Management (Australia) Ltd.

Yarra Funds Management Limited (ABN 63 005 885 567, AFSL 230 251) is the issuer and responsible entity of the range of registered managed investment schemes described on this presentation ('Funds'). The information provided contains general financial product advice only. The advice has been prepared without taking into account your personal objectives, financial situation or particular needs. Therefore, before acting on any advice, you should consider the appropriateness of the advice in light of your own or your client's objectives, financial situation or needs. Prior to investing in (or continue to invest in) any of the Funds, you should obtain and consider the product disclosure statement ('PDS') for the relevant Fund by contacting our Investor Services team on 1800 034 494 or from our website at [www.yarracm.com/pdsupdates/](http://www.yarracm.com/pdsupdates/). The information set out has been prepared in good faith and while Yarra Funds Management Limited and its related bodies corporate (together, the "Yarra Capital Management Group") reasonably believe the information and opinions to be current, accurate, or reasonably held at the time of publication, to the maximum extent permitted by law, the Yarra Capital Management Group: (a) makes no warranty as to the content's accuracy or reliability; and (b) accepts no liability for any direct or indirect loss or damage arising from any errors, omissions, or information that is not up to date.

Yarra Funds Management Limited manages each of the Funds and will receive fees as set out in each PDS. To the extent that any content set out in this presentation discusses market activity, macroeconomic views, industry or sector trends, such statements should be construed as general advice only. Any references to specific securities are not intended to be a recommendation to buy, sell, or hold such securities. Holdings may change by the time you receive this report. Future portfolio holdings may not be profitable. Past performance is not an indication of, and does not guarantee, future performance. Information about the Funds, including the relevant PDSs, should not be construed as an offer to any jurisdiction other than in Australia. With the exception of some Funds that may be offered in New Zealand from time to time (as disclosed in the relevant PDS), we will not accept applications from any person who is not resident in Australia or New Zealand. The Funds are not intended to be sold to any US Persons as defined in Regulation S of the US federal securities laws and have not been registered under the U.S. Securities Act of 1933, as amended.

References to indices, benchmarks or other measures of relative market performance over a specified period of time are provided for your information only and do not imply that the portfolio will achieve similar results. The index composition may not reflect the manner in which a portfolio is constructed. Portfolio characteristics take into account risk and return features which will distinguish them from those of the benchmark.

