

UBS Yarra Australian Small Companies Fund

April 2022

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.

Target market

The Target Market Determination (TMD) for the Fund sets out the class of consumers for whom the product, including its key attributes, would likely be consistent with their likely objectives, financial situation and needs. To access to the TMD and other Fund documentation visit our [website](#).

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 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 Group Limited	Whitehaven Coal Limited
Kelsian Group Limited	Shopping Centres Australasia Property Group RE Ltd.
BWP Trust	Uniti Group Ltd.
Auckland International Airport Limited	Charter Hall Long WALE REIT
Flight Centre Travel Group Limited	NIB Holdings Ltd

Active industry positions

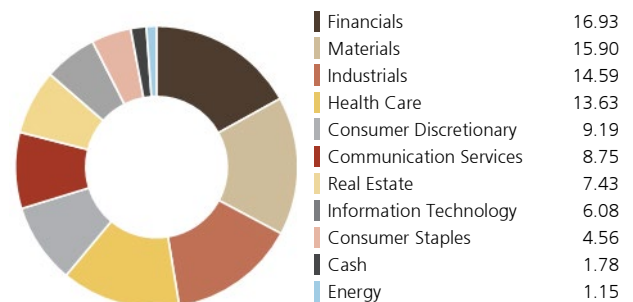
Overweight	Underweight
Health Care Equipment & Services	Materials
Transportation	Real Estate
Insurance	Energy
Media & Entertainment	Retailing
Diversified Financials	Commercial & Professional Services

Fund information

Inception date	31 March 2004
Fund size	\$ 144.7 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%

* 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 (%)

Flight Centre Travel Group Limited	4.24
AUB Group Limited	4.21
BWP Trust	4.16
Kelsian Group Limited	3.91
Auckland International Airport Limited	3.72

Investment performance

Fund	1 month %	3 months %	1 year % pa	3 years % pa	5 years % pa	Since inception* % pa
Total return	(0.99)	1.58	4.80	14.06	14.59	12.74
Benchmark**	(1.50)	3.68	2.91	7.63	9.62	6.39
Added Value	0.51	(2.10)	1.89	6.43	4.97	6.35

*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 0.99% during the month, outperforming its benchmark by 51 bps.

The largest contributors were Select Harvests, Kelsian and Flight Centre Travel. Select Harvests outperformed as conditions for the current Californian almond crop deteriorated, signalling a positive outlook for prices. Kelsian was seen as a defensive hedge against inflation, with its bus contracts indexed to CPI, and as tourism conditions returned to normal across Australia. Flight Centre outperformed as remaining international COVID restrictions were removed, allowing travel conditions to normalise.

The largest negative contributors were Megaport, Whitehaven Coal (not held) and Netwealth. Megaport delivered a weaker-than-expected 3Q22 update. Revenue grew 5% to \$27.9mn for the quarter sequentially, slower than analyst forecasts, following its strategy to increase emphasis on indirect sales. Whitehaven outperformed in response to higher coal prices (thermal +26%) as demand for the commodity increased in response to the ongoing global energy crisis. Netwealth announced a weaker-than-expected 3Q22 update. Management reported net inflows of \$2.6bn for the period, weaker than analyst forecasts for \$3.3bn.

Market review

Australian small caps declined alongside the global equities market during April amid concerns over higher inflation and lower economic growth.

The S&P/ASX Small Ordinaries Accumulation Index returned -1.5% for the month, taking its 12-month return to +2.9%. In comparison, the broader ASX300 declined 0.8% for the month while global indices recorded significantly larger falls, with the MSCI World Index down 6.9%. Locally, a higher inflation print sent the Australian 10-year bond yield up 30 bps to 3.12% and equities valuations lower, with the ASX300 forward P/E from 16 to 15 times.

At a sector level, Energy (+9.1%), Consumer Staples (+7.5%) and Real Estate (+0.4%) supported the benchmark, offsetting falls from the remaining sectors. Notably, Whitehaven Coal (WHC, +18.6%) and New Hope Corporation (NHC, +12.1%) surged as the thermal coal price rose another +26% amid the ongoing the global energy crisis. Elsewhere, stronger wheat prices in response to the Russia/Ukraine war (both traditionally large wheat exporters) saw GrainCorp (GNC, +21.2%) upgrade FY22 earnings for the second time in two months.

Conversely, Information Technology (-12.5%) and Financials (-4.3%) weighed on the index. In the former, large falls came from EML Payments (EML, -46.8%), Megaport (MP1, -37.6%), Life360 (360, -31.7%) and Tyro Payments (TYR, -28.7%). In the latter, BNPL provider Zip Co. (Z1P, -26.3%) and fund

managers Australian Ethical Investments (AEF, -28.9%) and Platinum Asset Management (PTM, -14.9%) recorded the largest declines.

Outlook

Geopolitical events and surging commodity prices have taken centre stage in 2022, shaking risk sentiment and challenging consensus' optimistic forecast for global growth. From our perspective, although for the past six months our forecasts for global growth in 2022 have been below consensus, we believe a series of downgrades will soon be evident for global earnings growth in most major markets. Surging commodity prices and ongoing supply shortages have resulted in further upside to the inflation outlook and risks forcing the hand of central banks in coming months to try to contain rising inflation expectations. The reality for 2022 is likely to be a world of higher inflation, slower growth and higher financing costs awaits.

Australia does have some key natural advantages in such a climate. The most notable is that Australia's export dominance of iron ore, coal, LNG, gold, wheat and base metals contribute close to 80% of Australia's exports and each of these commodities have seen strong price rises in early 2022 which will likely translate into a large positive national income boost even if spot prices retreat in coming weeks. Indeed, Australia presents as a safe haven market which is far from the conflict in Europe, an exporter of in demand raw materials and given its own undershooting of its inflation target since 2015 it has ample room to adjust policy settings at a gradual pace.

Australia also has the benefit of recovering underlying household income growth, \$230bn in 'excess saving', strong corporate profit growth, robust capex expectations in concert and improving government finances which suggests Australian economic growth in 2022 will remain more robust than its developed economy peer group. In both CY2022 and CY2023 we expect the Australian economy to expand at an above 'potential' rate of 3%. While this is slower than the 4% pace recorded in 2021 it is still sufficient to see further employment growth gains and we expect the unemployment rate will soon fall below 4% and below the RBA's estimate of non-accelerating inflation rate of unemployment (NAIRU) and further wage pressure will become evident into mid-2022. We expect the RBA will still take its time to assess the outlook for inflation and most likely will commence increasing interest rates in 4Q2022 with a 35bp hike. We expect a further four 25bp rate hikes in 2023 and we believe the consumer is well placed to absorb the initial interest rate rises.

While the RBA may well prove to be later than most other developed nations in tightening policy, tighter financial conditions in 2022 are likely to come via a stronger currency. The A\$/US\$ has in recent months been buffeted by concerns of a peak in global industrial growth indicators and slowing China economic momentum. Nevertheless, Australia's external accounts are in their best position since the early 1970s and surging commodity prices in early 2022 is providing an incentive for the A\$/US\$ to commence an appreciation cycle well before the RBA joins alongside other central banks in tightening interest rates later this year. We expect the A\$ will finish 2022 at around 76 cents, albeit the risk to this forecast is on the upside.

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

Client Services

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