

# UBS Yarra Australian Small Companies Fund

August 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	NIB Holdings
Pinnacle Investment Management Group	Technology One
Pilbara Minerals	Liontown Resources
BWP Trust	Chorus
Nanosonics	Shopping Centres Australasia Property Group

## Active industry positions

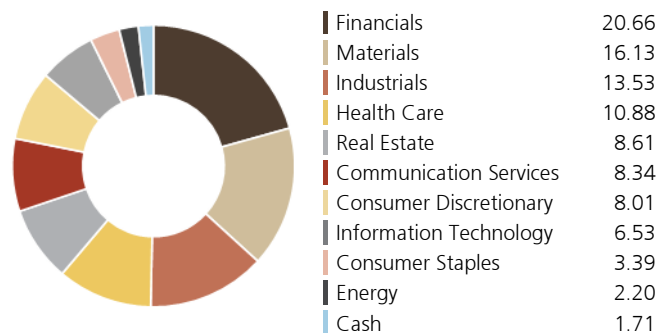
Overweight	Underweight
Transportation	Materials
Health Care Equipment & Services	Real Estate
Insurance	Retailing
Diversified Financials	Energy
Media & Entertainment	Commercial & Professional Services

## Fund information

Inception date	31 March 2004
Fund size	\$ 113.3 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 Group	5.24
Pinnacle Investment Management Group	4.44
BWP Trust	4.12
Auckland International Airport	3.62
Nanosonics	3.59

## Investment performance

Fund	1 month %	3 months %	1 year % pa	3 years % pa	5 years % pa	Since inception* % pa
Total return	0.18	(2.12)	(13.06)	8.87	11.62	12.00
Benchmark**	0.58	(2.59)	(14.66)	4.09	6.85	5.70
<b>Added Value</b>	<b>(0.40)</b>	<b>0.47</b>	<b>1.60</b>	<b>4.78</b>	<b>4.77</b>	<b>6.30</b>

\*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 0.18% during the month, underperforming its benchmark by 40 bps.

The largest contributors were Pilbara Minerals, Monadelphous and Austbrokers. Pilbara outperformed with continued lithium price strength ahead of consensus forecasts. Monadelphous outperformed during the period after reporting a stronger than expected June quarter result across revenue and EBITDA growth. Austbrokers outperformed as the company guided to continued strong organic growth.

The largest detractors were Megaport, TPG Telecom and Nanosonics. Megaport underperformed reflecting a weaker technology sector, while TPG Telecom underperformed following a slightly disappointing result which missed market expectations at the EBITDA level. Nanosonics underperformed due to slightly higher FY23 cost guidance compared to consensus and following strong outperformance in the prior months.

### Market review

Australian equities gained 1.2% during August reflecting a stronger than expected reporting season with 1.4 times more beats than misses compared to consensus earnings expectations.

The S&P/ASX Small Ordinaries Index returned 0.6% for the month, taking its 12-month return to -14.7%. In comparison, the broader ASX300 gained 1.2% for the month while global indices were negative (MSCI World Index -3.4%).

Within Energy (+6.5%), the Aussie energy sector has lifted strongly on the back of elevated energy prices (oil, gas and coal), led by Cooper Energy (COE, +20.0%), Karoon Energy (KAR, +15.0%) and Paladin Energy (PDN, +14.9%).

Materials was a strong performer (+4.3%) led by 29Metals (29M, +33.1%), Sayona Mining (SYA, +51.3%), Liontown Resources (LTR, +31.4%), commodities exposed over the medium to long term to an increased uptake in electric vehicles and renewable energy generation were the strong performers.

Conversely, the worst performing sector was Real Estate (-4.9%), Centuria Capital (CNI, -11.8%), Arena REIT (ARF, -12.7%) and GDI Property (GDI, -7.7%), as companies downgraded dividend outlooks due to the rising cost of debt impacting cash flow growth.

### Outlook

Financial markets have now embraced the risk of recession in the US and Europe over the past quarter, and the gap between our more pessimistic forecasts for the global economy and the consensus has narrowed. Indeed, with the Fed signaling that financial conditions are close to neutral, we are edging closer to the point where the pace of monetary tightening will slow, providing some scope for risk markets to recover some lost ground.

The period of excess inflation is starting to recede, with prior surges in commodity prices retreating, an easing in supply constraints, and signs of slowing demand likely to compress elevated sales margins. As central banks continue to await firmer signs that inflation expectations have stabilised and for labour demand to ease, financial markets are faced with the positive news of less restrictive monetary policy and the negative news of likely weaker company earnings.

In a world of heightened concerns of recession in major developed economies, subdued economic activity in China and ongoing conflict between Russia and the Ukraine which has contributed to commodity shortages, high inflation and rising interest rates, the Australian economy presents as a relative safe haven.

Australia's economic data has remained robust in 1H2022, although we do expect economic activity to slow significantly in 2023 to average just 1.5%. While a local recession is possible in 2023, we believe Australia should be able to avoid a technical recession due to three key reasons:

1. Australia has been a net beneficiary of global commodity shortages. This surge in commodity prices saw Australia's export prices in A\$ terms move to their highest levels since the 1880s in 1H2022. The consequence has been strong national income growth, profits growth and an improving underlying fiscal position.
2. The household sector continues to hold a significant buffer of over \$160bn of excess savings relative to pre-COVID levels. Although we expect the impact of higher interest rates and higher living expenses will curtail consumer spending, we do expect the combination of rising wage growth and a run down in the level of savings to continue to support consumption spending.
3. Low levels of spare productive capacity, strong profit and low corporate debt have contributed to robust capital investment intentions.

Over the medium term we believe a recovery in net immigration levels into Australia and Australia's exposure to key commodities crucial to the global energy transition will provide a solid underpin for future economic growth.

While the RBA has been later than most other developed nations in tightening policy, tighter financial conditions in 2022 are likely to come via both significantly higher cash rates and a stronger currency. We expect that the RBA cash rate will finish the year at 2.85%, below market expectations of 3.25%, and view A\$ as risks skewed to the upside. Australia's external accounts are in their best position since the early 1970s, providing an incentive for the A\$/US\$ to commence an appreciation cycle, together with the attractive carry on offer and the prospect the US\$ uptrend will peak as the Fed pivots from its aggressive hiking strategy. We expect the A\$ will finish 2022-23 at around 76 cents.

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

## Client Services

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