

# UBS Yarra Australian Small Companies Fund

September 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
BWP Trust	New Hope Corporation
Pilbara Minerals	Technology One
Pinnacle Investment Management Group	Chorus
Auckland International Airport	Liontown Resources

## Active industry positions

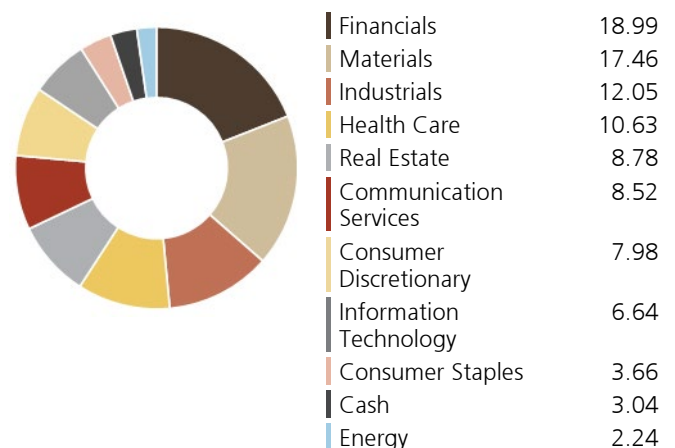
Overweight	Underweight
Transportation	Materials
Health Care Equipment & Services	Retailing
Insurance	Energy
Diversified Financials	Real Estate
Media & Entertainment	Commercial & Professional Services

## Fund information

Inception date	31 March 2004
Fund size	\$ 106.7 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 (%)



## Top 5 stocks (%)

AUB Group	4.31
BWP Trust	4.13
Pinnacle Investment Management Group	3.86
Auckland International Airport	3.64
TPG Telecom	3.39

## Investment performance

Fund	1 month %	3 months %	1 year % pa	3 years % pa	5 years % pa	Since inception* % pa
Total return	(8.23)	1.78	(19.39)	4.63	8.99	11.43
Benchmark**	(11.20)	(0.47)	(22.56)	(0.80)	4.07	5.00
<b>Added Value</b>	<b>2.97</b>	<b>2.25</b>	<b>3.17</b>	<b>5.43</b>	<b>4.92</b>	<b>6.43</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 8.23% during the month, outperforming its benchmark by 223 bps.

The largest contributors were Pilbara Minerals, AVZ Minerals (not held) and 29Metals. Pilbara outperformed during the period with continued lithium price strength ahead of consensus forecasts. The company is progressing a downstream lithium hydroxide strategy with partner POSCO and assessing the potential to produce a value-added lithium/salts product. AVZ Minerals contributed during the period following several months of suspension due to ongoing litigation surrounding the ownership of the company's key asset, a pre-production lithium site in the DRC (Congo). 29Metals was an outperformer during the period as copper prices stabilized after a period of weakness.

The largest negative contributors were New Hope, Pinnacle Investment Management and Flight Centre Travel. New Hope was a key detractor for the portfolio during the period as coal prices continued to trade at significantly inflated levels. Despite delivering a FY22 result ahead of expectations, Pinnacle underperformed during the period largely due to lower equity markets. Flight Centre underperformed during the period given concerns that potential global economic headwinds could negatively impact the demand outlook, with the FY22 result in line with the upgraded guidance.

### Market review

Australian small caps declined sharply during September with all sectors ending the month in the red.

The S&P/ASX Small Ordinaries Accumulation Index returned -11.2% for the month, taking its 12-month return to -22.6%. In comparison, the broader ASX300 declined -6.3% for the month and, globally, the MSCI World Index fell by 15.7%.

The worst performing sectors were Materials (-14.3%) and Information Technology (-12.4%). In the former, pre-production miners leveraged to the EV thematic plummeted, led by Australian Strategic Materials (ASM, -31.8%), Aurelia Metals (AMI, -25.9%) and RED 5 Limited (RED, -25.5%) In the latter, unprofitable technology companies were noticeable underperformers, in particular Novonix (NVX, -27.3%).

Elsewhere, Real Estate (-12.2%) also experienced widespread declines as the macro-outlook deteriorated. The largest falls came from Centuria Capital (CIP, -16.4%), Arena REIT (ARF, -19.7%) and Cromwell Properties (CMW, -14.5%).

### 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 signalling 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 have come via both significantly higher cash rates, higher government bond yields and wider corporate bond spreads. We expect that the RBA cash rate will finish the year at 3.10%, which we expect will mark the peak for the RBA, well below market expectations of a 4.0% peak in 2H23. The A\$/US\$ has been particularly weak in recent weeks, albeit on a TWI basis the A\$ has been broadly stable. With Australia's external accounts are in their best position since the early 1970s and the prospect the US\$ uptrend will peak as the Fed pivots from its aggressive hiking strategy we expect the A\$/US\$ will appreciate to the mid-70s by end-2023.

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

## 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)

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