

UBS Australian Small Companies Fund

November 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
Nanosonics	Technology One
AUB Group	NIB Holdings
BWP Trust	Chorus
Pinnacle Investment Management Group	Seven Group Holdings
Auckland International Airport	Perseus Mining

Active industry positions

Overweight	Underweight
Transportation	Materials
Health Care Equipment & Services	Retailing
Diversified Financials	Energy
Insurance	Real Estate
Media & Entertainment	Pharmaceuticals Biotechnology & Life Sciences

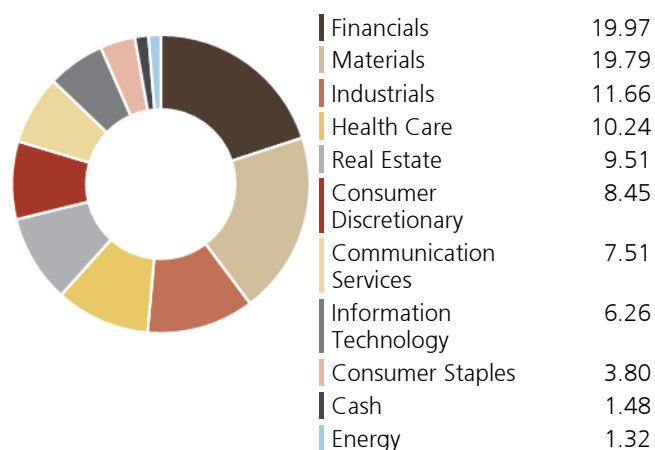
Fund information[^]

Inception date	31 March 2004
Fund size	\$ 115.0m
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 UBS Yarra Australian Small Companies Fund has been renamed the UBS Australian Small Companies Fund, effective as at 9 November 2022.

* 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	4.37
BWP Trust	4.28
Nanosonics	4.17
Auckland International Airport	4.02
Pinnacle Investment Management Group	3.92

Investment performance

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	6.15	(0.13)	(11.25)	6.25	8.63	11.82
Benchmark**	4.92	(0.81)	(14.03)	2.57	4.36	5.58
Added Value	1.23	0.68	2.78	3.68	4.27	6.24

* 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 increased by 6.15% during the month, outperforming its benchmark by 123 bps.

The largest positive contributors were Sandfire Resources, Gold Road Resources and 29Metals. Sandfire Resources undertook a \$200m Entitlement Offer during the period, with the raising viewed as being an important de-risking event towards addressing its balance sheet concerns. Gold Road Resources also delivered positive performance in November, with the backdrop of the gold price rising 8% to US\$1,768/oz at month end, and 29 Metals benefited from copper prices increasing 9% over the month to reach US\$3.73/lb.

The largest negative contributors were Collins Food, Select Harvests and Infomedia. Collins Food underperformed during the month after delivering a 1H23 result in line with expectations but guided to higher-than-expected cost inflation which the company believes is likely to persist. Select Harvests also underperformed following a weaker than expected result and with the global almond price remaining stubbornly weak, reflecting the industry challenges in clearing excess inventory built through COVID. Infomedia released a downgrade to FY23 revenue guidance at their AGM reflecting implementation delays which we regard as temporary issues that are expected to normalise in the medium term. The growth outlook still remains positive for its global software product set, supplemented by productivity opportunities under the new management team and the ability to use its net cash balance sheet to make accretive acquisitions.

Market review

Australian equities delivered another month of strong performance, gaining a further 6.6% in November following the 6.0% recovery in October.

The S&P/ASX Small Ordinaries Index returned +4.9% for the month, taking its 12-month return to -14.0%. The broader ASX300 also produced positive gains of 6.5% for the month, as did global indices (MSCI World Index +7.0%).

Materials (+16.3%) was the strongest performing sector in November, with notable returns reflected across the Metals and Mining constituents namely Bellevue Gold (BGL, +48.7%), Sandfire Resources Limited (SFR, +45.2%) and Champion Iron (CIA, +39.0%) being some of the key highlights for the month.

Within Financials (+5.1%), Insurance provided positive returns through the likes of AUB Group (AUB, +11.6%) and NIB Holdings (NHF, +9.5%), as did the small-to-medium enterprise lender Judo Capital Holding (JDO, +18.4%) which reflected superior returns in contrast to the performance of the Big Four banks for the month.

The worst performing sector was Consumer Staples (-1.3%) with Costa Group Holdings (CGC, +3.9%) being largely outweighed by Elders (ELD, -18.4%) and Select Harvests (SHV,

-17.3%), resulting in agricultural products being the largest contributor to negative sector performance.

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 markets anticipating the end of the Fed tightening cycle may be at hand, financial conditions have eased considerably in the US as credit spreads narrowed, the equity market rallied strongly in October and November and the US\$ declined.

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 the first three quarters of 2022, 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 \$260bn 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.

In 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. Following the December rate hike of 25bps we believe the RBA is now very close to the finish of the tightening cycle. Officially we expect a final 15bps hike in February. Indeed, we believe the RBA inflation forecasts will likely be downgraded slightly in February 2023 which will be used to put a full stop to the current rate tightening cycle. The A\$/US\$ has finally started to appreciate, after a long period of relative weakness. With Australia's external accounts remaining in excellent health, our expectation that Australia's economic growth will be more robust than its peers 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 mid-2023.

Client Services

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