

# UBS Yarra Australian Small Companies Fund

July 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
Nanosonics	Shopping Centres Australasia Property Group RE
BWP Trusta	Technology One
Pinnacle Investment	Chorus
TPG Telecom	Beach Energy

## Active industry positions

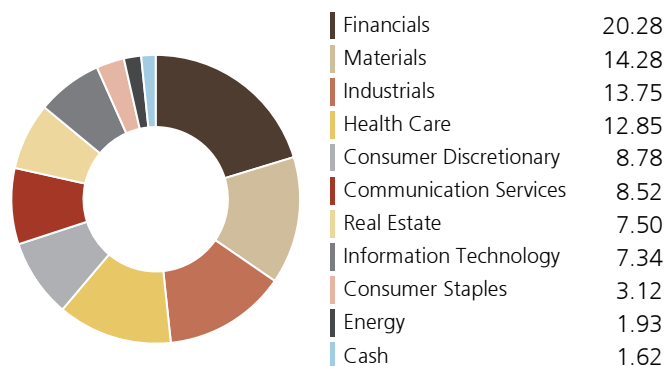
Overweight	Underweight
Health Care Equipment & Services	Materials
Transportation	Real Estate
Insurance	Retailing
Diversified Financials	Energy
Media & Entertainment	Commercial & Professional Services

## Fund information

Inception date	31 March 2004
Fund size	\$ 123.3 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	4.97
BWP Trust	4.66
Nanosonics	4.41
TPG Telecom	4.32
Pinnacle Investment Management	4.27

## Investment performance

Fund	1 month %	3 months %	1 year % pa	3 years % pa	5 years % pa	Since inception* % pa
Total return	10.72	(7.98)	(7.21)	8.21	12.25	12.05
Benchmark**	11.43	(9.94)	(10.93)	2.54	7.30	5.70
<b>Added Value</b>	<b>(0.71)</b>	<b>1.96</b>	<b>3.72</b>	<b>5.67</b>	<b>4.95</b>	<b>6.35</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 increased by 10.72% during the month, underperforming its benchmark by 72 bps.

The largest contributors were Megaport, Pinnacle Investment Management and Nanosonics. Megaport outperformed after reporting stronger than expected June quarter sales and, pleasingly, its first EBITDA positive quarter. Pinnacle rallied on the back of stronger equity markets and after reporting higher than expected performance fees. Nanosonics outperformed after delivering a positive update in relation to its transitioning of the GE distribution arrangement.

The largest negative contributors were Atlas Arteria, Infomedia and Cooper Energy. Atlas Arteria underperformed following an announcement from IFM that they were not in a position to make a bid at this time. IFM retains an approximately 15% stake in the company and has reserved the option to revisit a bid at a future stage. After strong outperformance in prior months, Infomedia held its value but did not participate in the broader market rally. Cooper Energy underperformed following an equity raising to fund the acquisition of the Orbst gas plant from APA, with the market remaining concerned around near-term production challenges.

## Market review

Australian equities rallied sharply during July, following the 9% decline in June, as market expectations increased that interest rates have peaked.

The S&P/ASX Small Ordinaries Accumulation Index returned +10.7% for the month, taking its 12-month return to -10.9%. In comparison, the broader ASX300 gained 5.9% for the month and global indices were positive.

Within Healthcare (+14.3%), previously constrained growth rates had been interrupted by COVID and access to hospitals, however, access is now resuming and higher risk, pre-profit companies such as Telix Pharmaceuticals (TLX, +63.1%) and Mesoblast (MSB, +53.3%) found support.

Within Financials (+18.3%), Zip Co (ZIP, +158%), Pinnacle Investment Management (PNI, +42.4%) and Australian Ethical Investment (AEF, +40.1%) outperformed.

Conversely, the worst performing sector was Consumer Staples (-2.7%) which was dragged lower by Australian Agricultural Company (AAC, -14.3%), Elders (ELD, -10.4%) and Costa (CGC, -10.1%), companies which had previously been safe haven stocks and have negative correlations with inflation.

## 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.

Indeed, 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, and although we do expect economic activity to slow in FY23 we do not expect a recession in Australia 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 \$150bn of excess savings (approximately 7% of GDP) relative to pre-COVID levels. Although we expect the impact of higher interest rates and higher living expenses to 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 the key commodities crucial to the global energy transition – including copper, lithium and iron ore – 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. While we expect that the RBA Cash Rate will finish the year at less than 2.5%, below market expectations of 3.0%, the A\$ risk continues to skew 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, improving China economic data and the prospect the US\$ uptrend will peak as the Fed pivots from its aggressive hiking strategy. We expect the A\$ will finish 2022 at around 76 cents.

## 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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