UBS

UBS Australian Small Companies SIV Fund

May 2024

Fund description

The Fund is an actively managed fund investing in a portfolio of 30–90 Australian small company equity securities across a range of industry sectors, designed with the objective of meeting the Australian Department of Immigration and Border Protection's Significant Investor Visa ('SIV') requirements as a 'managed investment fund' investing in 'emerging companies investments'.

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 30–90 stocks in companies with a market capitalisation of generally less than $500m (at the time of initial purchase), which 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.

Fund information

Inception date	28 August 2015
Fund size	$ 67.6m
Management fee	0.85% pa
Performance fee*	Yes
Minimum initial investment	$ 500,000
Typical number of holdings	30 to 90
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.

Sector allocation (%)

Materials	20.8
Industrials	19.7
Health Care	14.6
Information Technology	14.5
Consumer Discretionary	6.5
Communication Services	5.9
Energy	5.8
Real Estate	1.6
Consumer Staples	1.5
Financials	0.0
Cash	9.1

Top 5 stocks

Name	Portfolio Weight (%)
RPMGlobal Holdings Ltd	4.80
Metals X Limited	4.78
Southern Cross Electrical Engineering Limited	4.50
Lycopodium Limited	3.95
Superloop Ltd.	3.64

Active security positions

Overweight	Underweight
RPMGlobal Holdings Ltd	Telix Pharmaceuticals Ltd.
Metals X Limited	Paladin Energy Ltd
Southern Cross Electrical Engineering Limited	Alumina Limited
Lycopodium Limited	CSR Limited
Superloop Ltd.	Sandfire Resources Ltd

Active industry positions

Overweight	Underweight
Capital Goods	Financial Services
Software & Services	Equity Real Estate Investment Trusts (REITs)
Health Care Equipment & Services	Consumer Discretionary Distribution & Retail
Pharmaceuticals Biotechnology & Life Sciences	Materials
Transportation	Real Estate

Investment performance

Fund	1 month %	3 months %	1 year %	2 years % pa	3 years % pa	5 years % pa	Since inception* % pa
Total return	2.45	11.93	18.88	2.18	1.38	10.13	8.43
Benchmark**	(0.05)	1.53	10.92	2.23	(0.08)	4.18	7.90
Added Value	**2.50**	**10.40**	**7.96**	**(0.05)**	**1.46**	**5.95**	**0.53**

* Inception date: 28 August 2015.
** 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 performance

After fees and expenses, the Portfolio increased by 2.45% during the month, outperforming its benchmark by 250 bps.

The largest positive contributors were Southern Cross Electrical Engineering, Botanix Pharmaceuticals and Global Data Centre. Southern Cross Electrical Engineering was awarded a $160m contract for the Collie battery energy storage system in Western Australia and subsequently upgraded guidance to achieve at least $48m in EBITDA over FY25. Botanix Pharmaceuticals traded higher as FDA approval for their novel drug Sofdra neared, with commercial activities accelerating for launch. Global Data Centre confirmed the divestment of their holding in European data centre Etix Everywhere for $175m which was 52% higher than their carrying value of $115m.

The largest negative contributors were Telix Pharmaceuticals (not held), Autosports Group and MaxiParts. Radiopharmaceutical company Telix Pharmaceuticals (not held) outperformed after releasing positive drug trial results. Premium car dealership Autosports Group traded lower on competitor downgrades. Trucking and trailer parts supplier MaxiParts downgraded their guidance seeing a slowdown in transport activity on the East Coast in recent months and increased pricing pressure with ongoing cost inflation.

Market review

The Australian small caps market was close to flat for the month of May.

The S&P/ASX Small Ordinaries Index returned -0.1% for the month, taking its 12-month return to +10.9%. As a comparison, the broader S&P/ASX 300 Accumulation Index generated a +0.9% return, and globally, the MSCI World Index returned +4.2%.

Healthcare (+6.4%) was the strongest performing sector with Telix Pharmaceuticals (TLX, +20.6%) leading the gains. The biopharmaceutical company saw its share price increase following positive drug trial results. Other notable contributors were Neuren Pharmaceuticals (NEU, +12.7%), Polynovo (PNV, +9.8%) and Mesoblast (MSB, +12.1%).

Energy (+4.6%) was also a strongly performing sector during the period as commodity prices rose during the month. Paladin Energy (PDN, +14.0%) was the largest contributor while New Hope Corporation (NHC, +9.2%) and Deep Yellow (DYL, +13.1%) also rose during the month.

In contrast, Consumer Discretionary (-4.8%) was the sector with the largest fall during the month with Bapcor (BAP, -26.5%) driving underperformance. The automotive parts retailer saw its share price fall following a weak trading update which included a 2H profit downgrade. Eagers Automotive (APE, -19.9%) was also a significant negative contributor following weak 1H results. Other detractors included Super Retail Group (SUL, -10.8%) and Tabcorp (TAH, -16.3%).

Market outlook

Global equity markets have clearly had a very strong rally from the October lows and, in the first half of calendar year 2024 developed market equities have returned 11.2%. Despite the sharp reappraisal of risk in April our expectations of a bounce back in May and June were realised as investors became less focussed on spillover risks from Gaza and the growth and inflation data both turned more supportive of major economy interest rate reduction.

After the stronger inflation data in 1Q and the sharp shift in interest rate expectations that attended the data, more recent data and communication from the US Federal Reserve supports the bigger picture view that inflation will continue to moderate and the easing cycle for US interest rates is still likely to commence in 2024. Specifically, core-PCE was better behaved than the CPI data and the subsequent data on producer prices, import prices and key labour market measures suggest little threat to the overarching theme that inflation is more likely to moderate than accelerate through the remainder of 2024.

Indeed, interest rate easing commenced with the Swiss National Bank in March, which was followed by Sweden's Riksbank in May and the Bank of Canada and ECD both cutting on June 6. The Bank of England and Norges are also likely to ease in 3Q. We continue to expect the Fed to ease in September and December this year.

Turning to Australia's prospects, a weak finish for economic growth in 2023 – expanding just 0.3%qoq, the start of 2024 was similarly unimpressive, expanding by just 0.1%qoq and 1.1%yoy. This completed four consecutive quarters of contracting GDP per capita, declining 1.3%yoy. Our view that Australia would avoid a technical recession appears to have been met and we continue to suggest that the economy will likely accelerate sequentially through 2024 with the improving global backdrop acting as a tailwind. No one should be disputing that the past 12 months likely felt like a recession for many Australians. A per capita recession and a negative income shock for those with high debt and young families has cascaded into weak discretionary spending as high interest rates coalesced with surging insurance, utilities, rates, education and food prices. Indeed, 2Q2024 has continued to be a subdued operating environment with retail sales, building approvals and consumer confidence all printing below market expectations. The RBA is caught between a relatively weak economy and persistent wage growth and consumer inflation, nevertheless, the bank should be buoyed by signs that the decline in productivity appears to have passed and wage pressures appear to have peaked. With respect to the latter, the 3.75% increase in awards, compared to the 5.75% in 2023, will help expedite an easing in wage pressures through 2H2024.

Australia, like many of its developed nation peers, also printed above consensus inflation in 1Q. However, we believe the upside surprise in Australia's CPI overstates the real-time price pressures. Much of the upside came via government administered prices, which tend to reflect where inflation was in the prior year rather than current cost pressures, and the prevalence of residual seasonality in inflation pressures at the start of the calendar year. Traded goods prices are trending lower and once administered prices are removed, private sector services prices expanded at a relatively subdued 0.7% qoq in 1Q. We remain of the view that underlying inflation will finish 2024 inside the RBA's target band of 2-3% and the RBA will commence a modest easing cycle for interest rates in 4Q 2024.

Against this moderation in inflationary pressure, we expect economic growth to accelerate sequentially through 2024. We expect the upswing in global industrial production to provide a tailwind for Australian economic growth. Rising capex intentions in concert with investment backlogs should support business investment growth and the consumer outlook should be supported by a recovery in real household income growth driven by ongoing wage growth, income tax cuts, cost of living support delivered in the Budget and the commencement of the rate easing cycle later in 2024.

As a consequence, we are relatively optimistic on the outlook for the Australian economy and constructive on the equity market outlook for 2024. We expect economic growth to average 2.0% v a consensus forecast of 1.4%, bond yields to finish the year at 4.5%, the $A/$US to reach 72c, and Australian equities to return 10% in in large caps and 15% in small caps. We are most overweight stocks in the Financials, Industrials and Health Care sectors and are underweight Energy, Consumer Discretionary and Materials.

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