

# UBS Australian Small Companies

Quarterly Investment Option Update

30 September 2018

## Aim and Strategy

To provide a total return (after management costs) in excess of the S&P/ASX Small Ordinaries Accumulation Index when measured over rolling five year periods. The investment option aims to provide investors with capital growth and income from a portfolio of small company shares that we believe are being undervalued by the market, based on our assessment of the company's future cash flows.

The portfolio comprises of securities listed on recognised exchanges in Australia and New Zealand, or those we reasonably expect to list within six months. The portfolio may also invest indirectly in listed Australian and New Zealand securities through investments in other relevant UBS managed funds. The portfolio may invest in financial derivatives to gain exposure to the Australian share market or to manage investment risk. Normally the portfolio will hold between 30 and 60 stocks in companies and sub funds with the majority of investments to be made in securities not in the S&P/ASX 100 index.

## Investment Option Performance

To view the latest investment performances for each product please visit [amp.com.au](http://amp.com.au)

## Investment Option Overview

Investment category	Australian Shares
Suggested investment timeframe	7 years
Relative risk rating	7 / Very High
Investment style	Small Capitalisation Shares

Asset Allocation	Benchmark (%)	Actual (%)
Australian & NZ Shares	90-100	92.51
Cash	0-10	7.49

Sector Allocation	%
Energy	8.87
Materials	18.07
Industrials	9.05
Consumer Discretionary	17.51
Consumer Staples	3.32
Health Care	8.34
Financials	9.50
Information Technology	13.86
Telecommunication Services	0.18
Utilities	0.12
Real Estate	3.68

Top Holdings	%
Technology One	5.38
Bapcor	5.15
NextDC	4.92
Beach Energy	4.58
Mineral Resources	4.28
Worleyparsons	3.90
Collins Foods	3.69
Summerset	3.65
Domino Pizza	3.39
Reece Australia	3.21

## Portfolio Summary

- Small cap stocks outperformed their larger cap counterparts over the quarter
- The Australian economy is generally performing well despite mixed data on retail sales and Australian housing.
- The S&P/ASX Small Ordinaries Index trades at a valuation premium to the S&P/ASX 100 (16.8x vs 15.2x)

## Investment Option Commentary

The largest positive contributors to portfolio performance during the September quarter were Technology One, Starpharma, Bapcor and Beach Energy. Tech One rebounded strongly after it held a briefing to explain its progress on migrating its platform to cloud from desktop and clarifying the impact of new software related accounting standards. Starpharma reported initial trial results from its collaboration with AstraZenica using and AstraZenica drug combined with the Starpharma delivery system. The results were very encouraging. Bapcor released a consistently strong FY18 result. The market was also encouraged by the ongoing growth opportunities facing the company. Beach Energy was strong on the back of very strong oil prices and the consequent rapid pay down of Lattice acquisition debt.

The main relative detractors during the September quarter were Next DC, Metals X, St Barbara and Regis Resources. Next DC's FY18 result was not well received as its sales in 2H18 were below expectations. The share price had also been strong into the result which exacerbated the impact of the below expectations 2HFY18 result. Metals X announced a capital raising during the quarter to accelerate the ramp up of the Nifty mine which gas underperformed. St Barbara and Regis underperformed on a weaker gold price. Both have been very strong performers over the last 12 months.

## Outlook

The S&P/ASX Small Ordinaries Index finished September 2018 priced at PER of 16.8x, a premium to the S&P/ASX 100 at 15.2x. The Small Ordinaries index (-0.45%) outperformed the ASX 100 (-1.3%).

The Australian economy is generally performing well despite mixed data on retail sales and Australian housing. Inflation remains low and employment growth is strong. Official interest rates are on hold for at least the next 12 months although recent wholesale funding costs have risen in the US. There is now a risk however that credit is reduced as implementations from the Hayne Royal commission begin to be implemented even prior to the release of the findings. House prices are already declining in many parts of the country and car sales are now very weak.

Global growth remains synchronised with European and US economies on sustained growth paths. The risks around the growing US – Chinese trade dispute seem to be escalating which could be a risk to global growth. Most of the global macro risks remain similar including elevated consumer debt and a wind back of global quantitative easing.

Australian small companies remain an attractive asset class, offering long term investors unique opportunities for excess returns in a low growth, highly indebted world. UBS prefer well managed, growing and quality-biased businesses with high returns on capital and lower debt levels. Many of these businesses also have enduring structural tailwinds that should deliver our investors good returns over our typical five year investment horizon.

## Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP0469AU*
AMP Flexible Super - Retirement account	AMP1329AU*
AMP Flexible Super - Super account	AMP1458AU*
AMP Growth Bond	AMP1194AU*
CustomSuper	AMP0469AU*
Flexible Lifetime - Allocated Pension	AMP1094AU*
Flexible Lifetime - Term Pension	AMP1095AU*
Flexible Lifetime Investment	AMP0019AU*
Flexible Lifetime Investment (Series 2)	AMP1398AU*

\* Closed to new members

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