

UBS Australian Small Companies

Quarterly Investment Option Update

31 March 2019

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

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	98.33
Cash	0-10	1.67

Sector Allocation	%
Health Care	16.93
Consumer Discretionary	13.79
Materials	12.21
Industrials	10.74
Communication Services	10.09
Financials	9.22
Consumer Staples	8.63
Real Estate	6.50
Information Technology	5.92
Energy	4.18
Utilities	0.11

Top Holdings	%
Technology One Ltd	5.87%
Beach Energy Ltd	5.69%
NEXTDC Ltd	5.52%
Collins Foods Ltd	4.94%
Mineral Resources Ltd	4.90%
Bapcor Ltd	4.54%
Synlait Milk Ltd	4.21%
Steadfast Group Ltd	3.90%
Lynas Corp Ltd	3.84%
Ingenia Communities Group	3.71%

Portfolio Summary

- Small cap stocks outperformed their larger cap counterparts over the quarter
- Australian small caps delivered their best March quarter performance in seven years, led by strong double-digit returns from Information Technology and Energy.
- The market's strong return was driven by earnings multiple expansion, with the Small Ordinaries 12-month forward P/E rising from 14.4 to 16.2 times.

Investment Option Commentary

The top positive contributors for the quarter were Jumbo Interactive, Nanosonics and Nearmap. All three delivered better-than-expected 1H19 results. For Jumbo, strong jackpot activity drove a 66% increase in total transaction value (TTV) and a 55% rise in revenue. Operating leverage was also apparent, with EBITDA growth of 112%. Nanosonics increased sales of its medical disinfection devices by 36% as it grew its installed base of units to 19,310. Nearmap's average annualised contract revenue (ACV), operational leverage, lower churn rates and faster-than-expected traction in the US impressed the market.

The largest negative contributors were Eclipx, Elders and Afterpay (not held). Eclipx issued a profit warning and its suitor, McMillan Shakespeare, subsequently walked away from its merger offer. Elders downgraded EBIT by 10% versus consensus to \$72-75mn due to a dry summer crop and lower wool volumes. Afterpay delivered a better-than-expected 1H19 result which showed strong merchant sales and customer growth, particularly in the US where it recently launched its service.

Outlook

The S&P/ASX Small Ordinaries Accumulation Index currently trades on a forward price-earnings multiple of 16.2 times. While this is slightly above long-term averages, it remains an attractive market relative to alternatives given the medium to longer term earnings growth potential.

UBS believe fundamentals including employment, population and GDP growth point to a robust Australian economy, tempered by moderating growth, falling house prices and soft consumer confidence. Nevertheless, the outlook for small cap earnings appears robust, supported by select Resources and Industrials.

Global macroeconomic risks persist, however, and require careful monitoring. UBS remains alert to economic and geopolitical risks, including rising interest rates in the US, slowing global economic growth, the impact of tariffs and China's real rate of growth.

UBS sees significant value in certain sectors but believe others to be overvalued based on their earnings and cash flow expectations. UBS are currently most overweight stocks within the Health Care, Communication Services and Industrials sectors, while they are most underweight Materials, Real Estate and Information Technology.

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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