Macquarie Investment Management

Macquarie Asia New Stars No.1 Fund

Monthly report – 30 November 2020

Investment objective

Aims to capture the potential capital growth of small and mid-sized companies in Asia (excluding Japan), and to provide some income.

Key information

Fund details	
APIR code	MAQ0640AU
Inception date	27 May 2010
Fund size	$181.2m
Distribution frequency	Annually
Management fee*	1.20% pa
Minimum investment (Direct)	$20,000
Unit prices and spreads	**macquarie.com.au/unit_prices**

*Read the Product Disclosure Statement for more details on fees and costs.

Fund performance to 30 November 2020

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	5.85	5.75	6.98	-1.23
3 months (%)	9.95	9.63	11.46	-1.83
1 year (%)	6.60	5.36	13.66	-8.30
3 years (% pa)	3.24	2.03	2.88	-0.85
5 years (% pa)	2.63	1.40	5.87	-4.47
10 years (% pa)	9.10	6.76	5.67	1.09
Since inception (% pa)	11.45	8.75	6.49	2.26

Past performance is not a reliable indicator of future performance.

Total returns are calculated based on changes in net asset values and assumes the reinvestment of distributions.

Total net Fund returns are quoted after the deduction of fees and expenses. Due to individual circumstances, your net returns may differ from the net returns quoted above.

Prior to 2 October 2019, there was a performance fee charged to the Fund.

Benchmark is MSCI Asia ex Japan Small Cap Index (Unhedged in $A with net dividends reinvested).

Top 10 stocks

	%
China Yongda Automobiles Services	4.97
Hansol Chemical	4.69
WONIK IPS	4.15
Converge ICT Solutions	3.78
Vanguard International Semiconductor	3.37
IndusInd Bank	3.18
Taiwan FamilyMart	2.96
Samsung SDI	2.94
DB Insurance	2.88
DGB Financial	2.81

Sector breakdown

	%
Consumer Discretionary	25.31
Consumer Staples	6.04
Energy	1.67
Financials	15.57
Health Care	4.21
Industrials	4.28
Information Technology	25.71
Materials	5.96
Real Estate	1.22
Communication Services	6.15
Utilities	1.92
Cash	1.93

Geographical weighting

	%
China	17.18
Hong Kong	4.52
India	12.94
Indonesia	1.65
Malaysia	2.21
Pakistan	0.00
Philippines	7.45
Singapore	3.77
South Korea	24.12
Taiwan	24.22
Thailand	0.00
Cash	1.93

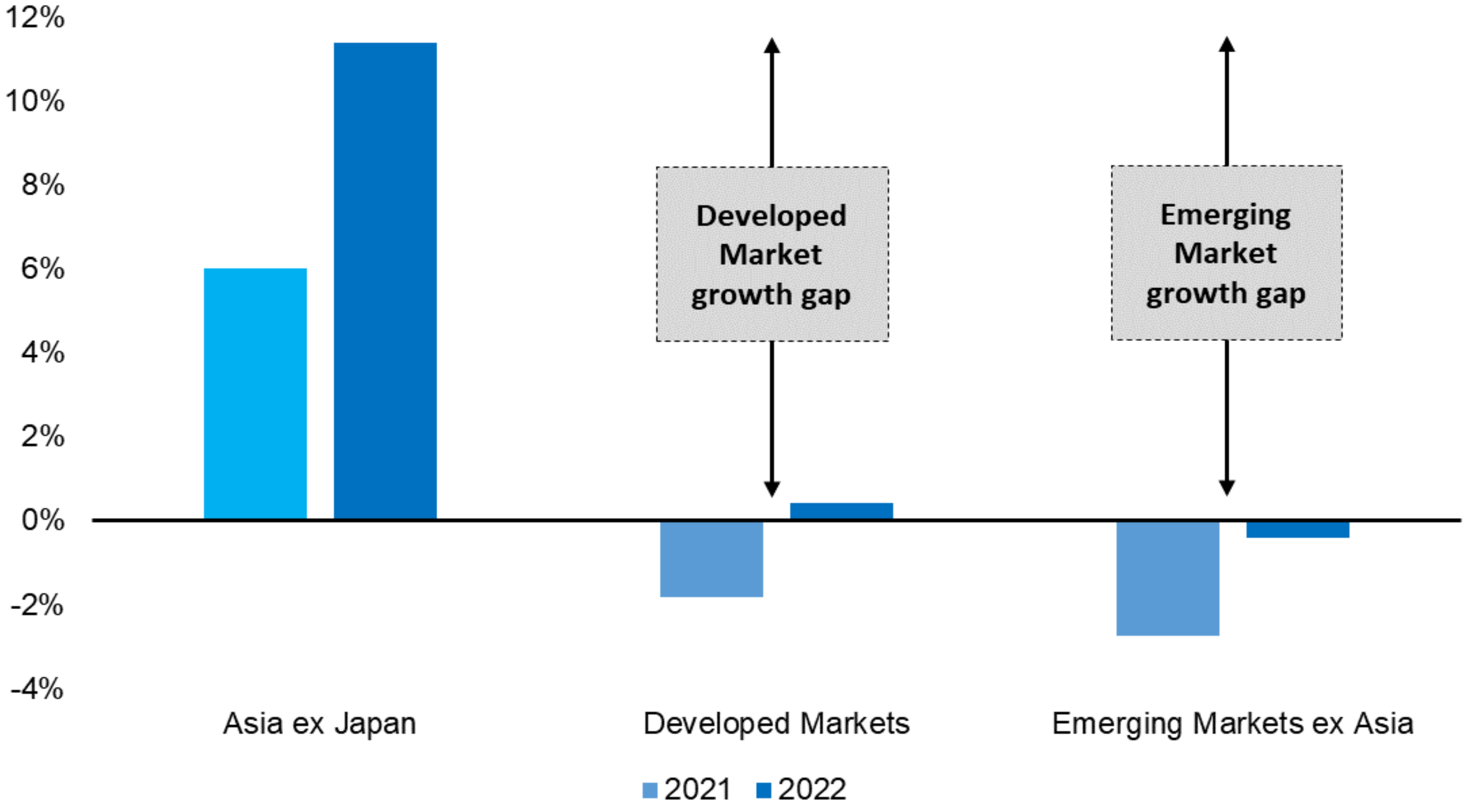
Fund highlights

- Global equities rallied strongly in November as the conclusion of the Presidential elections in the US and the positive vaccine news boosted sentiment. The efficacy of the vaccine trials in particular resulted in a broadening of the market's rally, with sectors most acutely hit by COVID-19 enjoying some relief.
- Asian small caps performed in line with this global rally to outperform their large cap peers. The increased scrutiny on internet giants in China, including the last minute cancelation of the Ant Financial IPO (set to be the largest in history at close to US$40bn), has made the market reassess the implications of regulation on China's large internet companies.
- The recovery environment remains supportive for Asian small caps and November's strong rally puts them ahead of the all-cap benchmark on a calendar year return basis. November also delivered 2020's second month of +10% returns (in USD) for Asian small caps, the last year this occurred was during the recovery from the GFC in 2009.
- The Fund benefitted from the rally to post strong absolute returns, with performance delivered from Indian Financials and our selective positioning in the memory value chain. Both are areas we have viewed as substantially undervalued since the market's lows in March.
- The drags on performance were mostly relative with no clear individual or collective stock positioning hampering performance. Our style generally steers us away from the most cyclical parts of the market and this relative underweight was the main culprit for the underperformance in this month's strong rally.
- Looking forward, we remain comfortable in our positioning and expect that as global investors increasingly look to Asia they will be seeking out the type of higher quality and attractively priced growth opportunities which our portfolios aim to capture.

Asia's emergence from the fog

In September we launched a series of insights - titled Asia's emergence from the fog – in which we are showcasing our views on some of the most compelling of the region's long-term opportunities. Global investors are increasingly recognising Asia's structurally resilient growth, as the chart below illustrates.

Real GDP change over 2019 forecast:

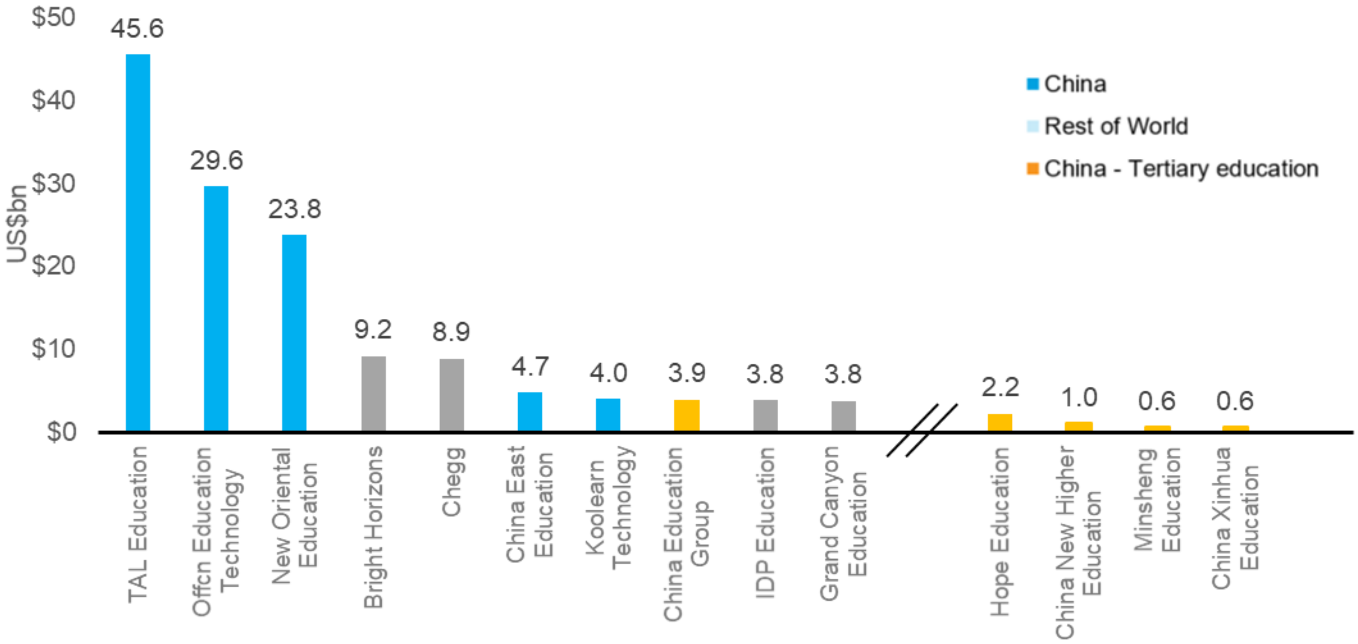


Source: Macquarie Investment Management, HSBC Research.

Within Asia we continue to see underappreciated opportunities across the region and this series intends to highlight a selection of these. The next in the series, and the topic we recap here, is private tertiary education providers in China.

The high natural demand for education in China is the foundation for the world's largest education firms. However, looking past these market darlings we see opportunity in the fundamental undervaluation of small and mid-cap operators in the tertiary education sector.

Listed education companies by market cap:



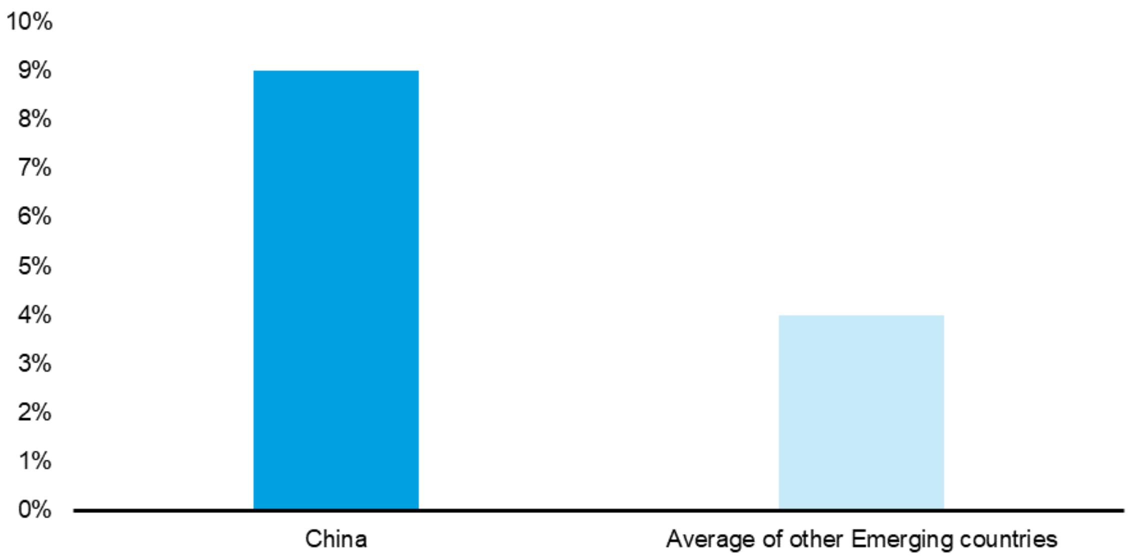
The companies shown are illustrative examples. This information is not a recommendation or advice, and should not be used for the purpose of making an investment decision in relation to the any stocks. Source: Bloomberg, Macquarie Investment Management, as at 30 September 2020.

China's private tertiary education providers (TEIs) are helping to fill the gap between the increasing demand for technical talent and the lack of vocational training from China's public TEIs.

To us, China's private tertiary education sector offers a compelling structural growth opportunity with the potential for organic and inorganic growth in closing this skills gap. The public sector is currently unable to keep pace with the high demand, leading both federal and local policy makers to support the growth of private TEIs.

One illustration of the level of demand is comparative household education spend, it is a stark difference when considering the generally lower average number of children per household in China.

Percentage of household spending on education:



Source: Consultancy.Asia, Macquarie.

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As we outline in the insight, many of China's private TEIs operate with an advantage and can be nimbler in dynamically shifting their offering to meet the needs of students. They generally have leaner cost structures and can selectively execute on synergistic, accretive acquisitions from a very large target space.

Please read the insight for our view on the prospects in front of China's private tertiary education providers: https://www.macquarieim.com/insights/closing-the-skills-gap

For more information speak to your financial adviser, call us on 1800 814 523, email mim.clientservice@macquarie.com or visit macquarie.com