

Investment objective

Aims to outperform the S&P/ASX Small Ordinaries Accumulation Index (**Index**) over the medium to long term (before fees). It aims to provide capital growth and some income.

Key information

Fund details

APIR code	MAQ0454AU
Inception date	6 July 2006
Fund size	\$140.2m
Distribution frequency	Quarterly
Management fee*	0.60% pa
Performance fee*	15% of outperformance of the Fund (after management fee and expenses) above return of the Index, subject to a 'high watermark'.
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 31 December 2020

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	3.67	3.61	2.76	0.85
3 months (%)	13.49	13.29	13.83	-0.54
1 year (%)	15.85	14.85	9.21	5.64
3 years (% pa)	13.25	11.89	6.57	5.32
5 years (% pa)	18.61	17.10	10.45	6.65
Since inception (% pa)	11.45	9.96	3.64	6.32

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.

The management fee was reduced to 0.60% pa from 18 December 2017.

Top 3 stock attribution (alphabetical)

American Pacific Borates Ltd

IDP Education Limited

Nuix Ltd

Italics denote underweight

Bottom 3 stock attribution (alphabetical)

Appen

Pilbara Minerals Ltd

Reece Australia Limited

Italics denote underweight

Top 5 overweight positions (alphabetical)

Beach Energy Limited

Charter Hall Group

Mineral Resources

Saracen Mineral Holdings Limited

Uniti Group Ltd

Macquarie Australian Small Companies Fund

Monthly report – 31 December 2020

Fund highlights

The Fund finished the month up 3.61% (post fees), outperforming the benchmark by 0.86%.

The largest contributors to relative performance for the month included overweight positions in Nuix (NXL), American Pacific Borates (ABR) and an underweight position in IDP Education (IEL).

Forensic software company Nuix (NXL) performed strongly following its IPO on 4th December at a price of \$5.31 per share, raising approximately \$950m. Nuix specialises in intelligence software for extracting information from unstructured data.

The greatest detractors from relative performance included overweight positions in Appen (APX), Reece Limited (REH), and an underweight position in Pilbara Minerals (PLS).

Lithium miner Pilbara Minerals (PLS) outperformed after announcing that it had entered into an agreement to acquire Altura Lithium Operations (ALO) for US\$175m. ALO's operation directly neighbours PLS' flagship Pilgangoora Project, and PLS management noted that the close proximity and similar open-pit mining methods provides an opportunity to realise tangible synergies over time.

As at 31 December 2020, the largest overweight positions in the Fund were Beach Energy (BPT), Saracen Minerals (SAR), and Mineral Resources (MIN).

Market overview

The ASX Small Ordinaries Accumulation Index rose 2.76% during December, outperforming the ASX 200 Accumulation Index, which rose 1.21%.

Following very strong performance in November, the Australian market continued to rise during December, albeit at a more moderate pace. Mining companies were the key driver of returns in Australia during December, with a subsector return of approximately 11%, led by the iron ore majors with Fortescue a clear standout (FMG, +29%). Iron ore prices jumped after Brazilian miner Vale cut its production guidance. The Australian market weakened slightly towards the end of the month, following the detection of a COVID-19 cluster in Sydney's Northern Beaches. The spike in cases in NSW led to a number of social distancing restrictions being implemented ahead of the holiday period, and other states imposed border closures whilst NSW worked towards stemming further spread.

Globally, COVID-19 infection rates and deaths reached new records again across the US, UK and Europe. The vaccine rollout began in the US and UK, however the US fell short of its end of year vaccination target as the distribution process proved slower than expected. Domestically, one interesting feature we observed during December was a more typical market reaction to 'bad news'. A number of companies released negative updates during the month that were punished by sharp falls in share prices. Examples include QBE Insurance (QBE, -15%), A2 Milk (A2M, -17%), Appen (APX, -22%), AGL Energy (AGL, -11%), Service Stream (SSM, -20%) and Integrated Research (IRI, -18%). Prior to December, investors had been relatively accepting that 2020 was exceptionally difficult from an operational perspective and tended to 'look through' bad news, instead focussing on a brighter future. In Australia, Information Technology (+9.5%) was the best performing major sector, and the Utilities sector (-5.4%) was the weakest performer.

Global bond yields remain at ultra-low levels, with US 10yr government bond yields rising 7 basis points to 0.92% at the end of December. Australian 10yr government bond yields rose 7 basis points to 0.97%.

Global commodity prices rose materially in December, with iron ore up 17.2% and gold up 7.7%. The Brent oil price rose 8.7% to US\$51.72/bbl, driven by a weakening US dollar and increased demand expectations with further progress on the vaccine distribution being made.

The AUD rose 3.5c during December to US\$0.77. In the domestic economy, the RBA maintained the cash rate at 0.15%.

Outlook

Positive news regarding additional stimulus, as well as the approval and early stage distribution of COVID-19 vaccines, continued to drive global markets higher in December. As 2020 comes to a close, the recovery in the Australian market appears to be continuing however particular attention will be paid by investors to COVID new case data and the implications for economic activity. With the February reporting season now closing in, investors will also be watching closely to determine whether the market's forgiveness around negative announcements seen throughout 2020 will extend into the new year.

Macquarie Australian Small Companies Fund

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

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